

Law for the Tax Provisions related to Petroleum Activities in accordance with Law 132 dated 24/08/2010 (Unofficial Translation)

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Chapter One

General Terms

Section One

Scope of Application of the Law

Article One: Scope of Application of the Law

Right Holders and Operators, as defined in Law No. 132 dated 24/8/2010 (Offshore Petroleum Resources Law), are subject to the provisions of this Law along with, and except for the provisions exclusively related to these companies, other taxpayers including Contractors, Subcontractors, and Operators not being Right Holders as defined in Article 66 of Law No. 132/2010 and the employees as stipulated in Article 11 of this Law.

Provisions of the applicable tax laws are applied on all taxpayers referred to in the first paragraph regarding the activities they perform on Lebanese territories and maritime Waters as defined in Law No. 132 dated 24/8/2010 (Offshore Petroleum Resources Law) in all that do not conflict with the provisions of this Law.

Section Two

Definitions

Article Two: Definitions

Definitions used in Law No. 132/2010 and in Law No. 44 dated 11/11/2008 (Tax Procedures Law) are to be adopted in the context of application of the provisions of this Law along with those used in the applicable laws and regulations governing Petroleum Activities in Lebanon in addition to the following definitions:

“Affiliated Company”: is a company that controls the legal person to which it is directly or indirectly related to, or that is subject, whether directly or indirectly, to the Control of this latter, or that is subject with the latter, whether directly or indirectly, to the Control of a third company.

“Associate Company”: is the company in which a legal person has a significant influence over and cannot be considered as an Affiliated Company or a business partner to that legal person.

“Related Parties”: A related party is considered any natural or legal person related to any other natural or legal person subject to the provisions of this Law and that with respect to the following persons:

1. Any person or person's family members that are close to the legal person who is subject to this Law, in case the following conditions are met:
 - A. In case this person controls or jointly controls the legal person subject to this Law;
 - B. In case this person is a member of the key management personnel of the legal person subject to this Law or of its Parent Company.
2. Any legal person related to the legal person subject to the provisions of this Law in case the following conditions are met:
 - A. In case the legal person and the legal person subject to the provisions of this law are members of the same Group (this includes the Parent Companies, Affiliated Companies and Associate Companies);
 - B. In case the legal person is an associate of the legal person subject to the provisions of this Law or is in a joint venture with the legal person subject to the provisions of this Law;
 - C. If the legal person is controlled or jointly controlled by the person identified in paragraph 1;
 - D. If the natural person, as identified in paragraph 1-A, is a member of the key management personnel of the legal person or its Parent Company.

“Control”: The Control of a company means the ownership of a majority of the voting rights of the said company or the power to appoint the majority of the board of directors or similar management body.

“Parent Company”: is the company that owns sufficient voting shares in another company to control the management and the operations through the influence or election of its board of directors whereby the second company is considered a subsidiary of the parent company.

“Agent”: the legal or natural person residing in Lebanon that can be both dependent and independent of the company it’s representing but has, in both cases, sufficient authority to carry out activities that result in rights or liabilities to the said company.

“Contractor”: the natural or legal person that is contracted by the Right Holders or the Operators to carry out any of the Petroleum Activities related to or resulting from the Exploration and Production Agreements.

“Subcontractor”: the natural or legal person who supports the Contractor in carrying out any part of the Petroleum Activities resulting from the related Exploration and Production Agreements or any related activities.

“Resident”: A Resident in Lebanon is considered:

1. Every natural or legal person carrying out the execution of operations or services in Lebanon for more than 183 days in a continuous or intermittent manner during any twelve consecutive months.
2. Every legal person established under the applicable laws of Lebanon.
3. Every natural person that:
 - Has a place to practice the profession in Lebanon;
 - An employee or laborer for any natural or legal person;
 - Has been in Lebanon for more than 183 days, in a continuous or intermittent manner, during any 12 consecutive months, or has had at his disposal a permanent domicile in Lebanon that represents his place of residence or his family’s usual place of residence.

The following are excluded from the 183 days’ period that the natural person spends in Lebanon in case he is present:

- A. Exclusively for the purpose of traveling from one country to another;
- B. Exclusively for undergoing medical treatment.

“Permanent Establishment”:

1. A Permanent Establishment is considered as every fixed place of business in Lebanon through which economic activity is wholly or partially carried out within the Lebanese territories and maritime Waters as defined in Law No. 132 dated 24/8/2010 (Offshore Petroleum Resources Law).
2. The term “Permanent Establishment” specially includes the following:
 - A. A place of management;
 - B. A branch;
 - C. An office;
 - D. A factory;
 - E. A workshop;
 - F. A farm or any cultivated lands;
 - G. A mine, an oil or gas well, a quarry or any other place of Exploration or extraction of natural resources.
 - H. A building site or construction or assembly or installation or supervisory activity related to it but only if its activities continue for a period or periods amounting to a total of more than 183 days during any 12 consecutive months.

“Escrow Account”: is the bank account established by a Right Holder to cover the cost of planning, preparation and implementation of a plan for cessation of Petroleum Activities and decommissioning of Facilities.

“Arm’s Length”: a principle based upon which the evaluation of the transactions that occur between Affiliated companies and Related Parties is performed as if they were completed between unrelated companies and under free competitive conditions.

“Ring Fencing”: is the principle that does not allow for an offsetting between taxable income derived from a particular Exploration and Production Agreement and the deductible charges incurred in another Exploration and Production Agreement.

“Capital Expenditures”: for tax purposes, Capital Expenditures means the funds paid for the acquisition of new Fixed Assets or performing improvements that extend the life or increase the productivity of existing Fixed Assets which are capitalized and depreciated in accordance with the applicable laws.

“Exploration Costs”: for tax purposes, Exploration Costs means all the direct and indirect costs attributable to the Exploration and appraisal activities that are conducted throughout the Exploration Phase and incurred by Right Holders and Operators throughout the Exploration and Appraisal phase during the Petroleum Exploration, including the following:

- Surveys and studies for Exploration purposes;
- Core hole drilling and water well drilling as part of Exploration operations;
- Labor, materials and services used in drilling wells with the object of finding new Reservoirs or for the purpose of appraising the extent of Reservoirs already discovered provided such wells are not completed as Production wells;
- Facilities used solely in support of Exploration together with purchased geological and geophysical information;
- Expenditures supporting Petroleum Activities related to the Exploration Phase;
- General and Administrative Expenses allocated to Exploration;
- Interest due on debt and loans incurred during the Exploration Phase.

“Development Costs”: for tax purposes, Development Costs means all expenditures incurred during the Development process of the Petroleum Activities, including the following:

- Costs related to appraisal activities conducted during the Development Phase;
- Drilling wells which are completed as Production wells and wells for purposes of Production from a Reservoir already discovered regardless of whether these wells are dry or producing;
- Completing Wells by way of installation of casing or equipment or otherwise after a Well has been drilled for the purpose of bringing the Well into use as a Production Well.

- Intangible drilling costs such as labor, consumable Material and services having no salvage value which are incurred in drilling and deepening of Wells for Production purposes;
- Geological and geophysical information acquired in connection with Development operations;
- The costs of sites, Facilities, and appurtenant equipment used in Production;
- Engineering and design studies for Facilities;
- Expenditures in support of Petroleum Activities related to the Development Phase;
- General and Administrative Expenses allocated to Development;
- Interest due on debt and loans incurred during the Development Phase.

“Operating Costs”: for tax purposes, Operating Costs means all expenditures incurred for conducting Petroleum Activities that are not included in Exploration Costs and Development Costs, including the following:

- Operating, servicing, maintaining and repairing wells for Production and all Facilities completed during Development and Production;
- Planning, producing, controlling, measuring and testing the flow of Petroleum and collecting, gathering, treating, storing and transporting the Petroleum from the Reservoir to the point of delivery as stipulated by the Development and Production plan approved by the Council of Ministers;
- Costs of Escrow account;
- Expenditures in support of Petroleum Activities related to the Production phase;
- General and Administrative Expenses not allocated to the Exploration Costs or Development Costs;
- Interest due on debt and loans incurred during the Production phase.

“General and Administrative Expenses”: for tax purposes, General and Administrative Expenses means:

- Main offices, field offices and administrative costs that are incurred within the Lebanese territories and maritime Waters that include supervisory, management and accounting activities, and employees and laborers’ services;
- General administrative costs paid to non-resident Affiliated Companies for the management of the Petroleum Activities’ services that include information technology services, supervision and guidance, financial management services, legal and accounting services, and the employees and laborers’ related services.

“Recoverable Costs”: are the costs incurred by Right Holders and Operators during the execution of the Petroleum Activities, to the extent allowed by the Exploration and Production Agreement.

“Full Cost Method of Accounting”: is the accounting method that allows capitalization of Exploration Costs and Development Costs regardless of the commerciality of the Discovery.

“Fixed Assets”: tangible or intangible assets with an expected useful life of more than one year, presented in the statement of financial position of the Right Holder or the Operator or the Contractor or the Subcontractor.

“Tax Evasion”: Tax Evasion means every activity that results in the reduction or cancellation of taxes or deferring its entitlements’ date or an unlawful increase in the deductible or refundable tax amount.

Tax Evasion results from:

- 1) Every act carried out by the taxpayer with the purpose of concealing revenue;
- 2) Every act carried out by the taxpayer with the purpose of creating virtual expenses;
- 3) Every act carried out by the taxpayer with the purpose of concealing actual act or agreement in order to reduce the tax due in principle on the actual transaction;
- 4) Every transaction carried out by the taxpayer, which, although legal in the form, is essentially intended to evade the payment of the tax due in principle or to obtain unlawful tax deductions.

The transactions described in items 3 and 4 above are considered as the result of Tax Evasion when their value exceeds or falls below 10% of the fair market value of the transaction as they were made between independent persons and under full competitive terms compared with similar transactions at the date of the tax related activity.

“Thin Capitalization”: The company is considered to be in a Thin Capitalization state when its debt exceeds the value of its private equity capital.

For the purpose of applying this principle, the amounts invested by the Parent Company in its branch, as well as non-interest bearing loans granted by the Parent Company to an Affiliated Company or a branch, are considered part of private equity capital.

Chapter Two

Taxation System of Petroleum Activities

Section One

Income Tax on Petroleum Activities

Article Three: Basis of Calculating the Taxable Result

For purposes of calculating the taxable result, Right Holders and Operators must comply with the following:

1. Adoption of the Ring Fencing principle by Exploration and Production Agreement.
2. Adoption of the Full Cost basis of accounting in a manner that does not contradict with the provisions stipulated in the context of this Law.
3. Separation of costs and allocation of costs in accordance with the purpose for which these costs are incurred where all Exploration and Development Costs are considered as Capital Expenditures and Operating Costs are considered as operational expenditures. With regards to General and Administrative Expenses, the General and Administrative Expenses are regularly allocated to Exploration Costs, Development Costs and Operating Costs.
4. Adoption of the accrual basis of accounting in recording the accounting entries provided that this principle is also applied to other taxpayers being Contractors, Subcontractors and Operators other than the Right Holders.
5. Application of the ceilings set out in the paragraph related to deductible and non-deductible expenses on the costs and expenses before allocating the costs and expenses to Capital Expenditures and Operating Expenses.

Article Four: Calculation of Taxable Result

For the purposes of calculating the taxable income, Crude Oil and Petroleum other than Crude Oil are valued in accordance with the valuation method determined in the law 132/2010 and its implementation provisions.

The taxable result of a defined financial year for Right Holders and Operators is the total revenues derived from Petroleum Activities covered by the law 132/2010 after deducting all the allowable costs and expenses required in the performance of activities in that year provided that allowable costs and expenses satisfy the following conditions:

- The allowable costs and expenses are necessary for the purpose of realizing the revenues;
- The allowable costs and expenses are actual costs and supported by documentation;

- The allowable costs and expenses do not increase the value of Fixed Assets used in the Petroleum Activities.

The following proceeds and revenues are included in calculation of results:

- The revenues generated from the sale or transfer of any benefit from the extracted Petroleum in accordance with the conditions stipulated in Article 40 of Law number 132/2010 and its implementation provisions.
- The revenues derived from providing services.
- The revenues generated by Petroleum Right Holders and Operators when they partially or fully farmed out their rights from the Exploration and Production Agreement.
- The proceeds resulting from the use of the Facilities and intellectual properties.
- The proceeds from insurance.
- The gain on the difference of exchange.
- The proceeds resulting from the distribution of excess funds from the Escrow Account.
- The interest income.
- The amounts collected from suppliers and manufacturers or their Agents resulting from compensation for impurities in materials and equipment.
- The gain resulting from the disposal of fixed tangible assets, intangible assets and financial assets.
- The other exceptional income and debt waivers from creditors and shareholders.
- The rebates that are granted subsequently and are considered as revenues.

Subject to the principles stipulated in Article 3 of this Law, the following costs and expenses are included in the calculation of the deductible expenses:

- Operating costs, as defined in Article 2 of this Law, including:
 1. The amounts paid as salaries and wages to employees and laborers, the benefits and other allowances that employees and laborers earn, representation allowances and the amounts paid as an end of service indemnity in accordance with the limits set by a decision issued by The Minister of Finance.
 2. The contributions and expenses of the national social security fund, and end of service indemnity funds and medical insurance costs paid in favour of the employees and laborers.
 3. The costs of the Escrow Account.
 4. The General and Administrative Expenses provided that the ceiling for the general administrative costs paid to the Resident and non-resident Affiliated entities in Lebanon

is 0.5% of the total annual Exploration, Development and Operating Costs as defined in Article 2 of this Law.

5. The interests and expenses paid related to the debts and loans arranged for conducting business in accordance with the Arm's Length Principle.
- The depreciation and amortisation of the tangible and intangible assets including the Capital Expenditures which include the Exploration and Development costs accounted for based on fixed rates of the asset's historical cost without adding the differences resulting from the revaluation operations. The principles of calculating these depreciation and amortisation and their application shall be determined by a joint decision issued by The Minister of Finance and the Minister of Energy and Water.
 - The fees collected by the State as stipulated in Law number 132/2010.
 - The costs of insurance.
 - The costs of training employees, laborers and public sector employees as mentioned in the legal provisions.
 - All the taxes and fees imposed on the taxpayer except for the taxes stipulated in the first and second sections of the second chapter of this Law and of the Legislative Decree number 144 dated 12/6/1959 and its amendments (Income Tax Law).
 - The losses of raw material and the losses resulting from destruction, damage or write-off of the assets, which are approved by the Petroleum Administration.
 - The losses resulting from the disposal of assets subject to depreciation or amortization during the tax year.
 - The bad debts losses that are proven to be actually impaired after taking the necessary measures to collect them provided that the details of application of this clause shall be determined based on a decree issued upon a joint proposal by the Minister of Finance and the Minister of Energy and Water.
 - The loss resulting from amounts paid to third parties as indemnification under the condition that these losses are proven by documentation.
 - The negative difference of exchange.
 - The provisions accrued to cover bad debt losses at bankruptcy declaration or to cover employees' termination and work emergencies' compensations.

The following are not considered as allowable tax-deductible expenses:

- Capital interest.
- Losses that affect the taxpayer due to the activities of institutions, branches, agencies, offices or others, located outside of Lebanon whether it is its Affiliate or Parent despite whether the affiliation is limited to supervision.
- Costs and expenses incurred abroad by the taxpayer on behalf of institutions, branches, agencies, offices or others, whether the taxpayer is its affiliate or its Parent.
- Interest due on debt and loans granted to the Right Holders and Operators in both of the following cases:
 - a. Interest due on the portion of loans and debt which exceeds one and a half times (150%) the related equity in the case of thin capitalization.
 - b. Interests due on the portion of loans and debt which exceeds 60% (sixty percent) of the Recoverable Costs balance that is approved by the Petroleum Administration.

The interests that are not tax allowable are calculated according to the above-mentioned two cases and the greater amount will be added back to the taxable result.

The details of implementation of this clause shall be determined by a decree issued based on a proposal by The Minister of Finance.

- Costs paid on a date earlier than the signature date of the Exploration and Production Agreements.
- Taxes stipulated in Sections 1 and 2 of the second chapter of this Law and in the Legislative Decree No 144 dated on 12/6/1959 and its amendments (Income Tax Law) as well as taxes and fees paid or due to a foreign country on income generated in Lebanon or for any other reason, as well as all types of fines.

Article Five: Deficit Carryforward

Right Holders and Operators can carry forward the deficit that occurred in a specific year to the subsequent years, provided that this deficit is recovered from the total realised profits in any of the subsequent years and the deficit or profit balance will remain subject to the legal provisions stipulated in this Law.

In case the taxpayer decides to waive all or part of his share in the Exploration and Production Agreement, then the assignee taxpayer is entitled to provide the assigned taxpayer with the option to benefit from part of the carryforward losses proportionally to the portion waived. Consequently, the assigned taxpayer has the right to offset the portion of carryforward losses from their future profits. In this case, the assignee taxpayer cannot benefit anymore from offsetting these losses against the profits generated in the subsequent years.

The details of implementation of this clause shall be determined by a decree based on a proposal by The Minister of Finance.

Article Six: Exceptions

Investments in financial instruments are not in the scope of this Law, including hedging and derivatives, and are subject to the provisions of Legislative Decree no 144 dated on 12/6/1959 and its amendments (Income Tax Law).

The details of implementation of this clause shall be determined through a decision issued by The Minister of Finance

Article Seven: Tax Rate

Right Holders and Operators are subject to a tax rate of 20% of the taxable result calculated in accordance with Article 4 of this Law.

Article Eight: Tax Revenue from Petroleum Activities

The destination of the income taxes imposed on the Right Holders and Operators shall be determined in the Law of establishing a sovereign wealth fund when issued.

Article Nine: Income from Movable Capital

1. A pre-qualified company, which has already been granted a Petroleum right that is related to the Exploration and Production Agreement in accordance with Article 12 of the Law 132/2010 (Offshore Petroleum Resources Law) and seeks to assign an Affiliated Company to sign the Exploration and Production Agreement (the Signing Affiliate), can establish the Signing Affiliate in Lebanon provided that the Signing Affiliate is subject to the provisions stipulated in the tender protocol of the licensing round.
2. The Signing Affiliate must be a joint stock company whose object permits the conduct of Petroleum Activities.
3. The Lebanese company established according to this Article, is exempted from Articles 78 and 144 of the provisions of the Code of Commerce in respect of the nationality of the shareholders and the nationality of the board of directors.
4. The exception mentioned in the preceding paragraph, in respect of Articles 78 and 144 of the Code of Commerce, is disregarded in the case that the company covered by the exception is no longer a Right Holder. The company is given six months to resolve its issues.
5. Right Holders and Operators must inform the Tax Administration about any direct or indirect, partial or full transfer of their shares or other rights within one month from its date of occurrence.
6. Gains resulting from the transfer of shares of the Right Holders and Operators are subject to movable capital tax and the gains resulting from the transfer of shares of companies that own direct or indirect contributions in the Right Holders and Operators are subject to movable

capital tax based on the share of investment in non-movable properties or Petroleum rights in Lebanon from the total investment in the company whose shares are being transferred.

The details of implementation of this clause shall be determined by a decree based on a proposal by The Minister of Finance.

7. Profits mentioned above are subject to the same commercial profits tax rate as stipulated in this Law.
8. Right Holders and Operators must declare any transfer of shares as discussed in paragraph six above and must pay the tax due on the seller within one month of its date of occurrence.
9. Right Holders, Operators, and taxpayers referred to in the first Article of this Law are still subject to the provisions of chapter three of the Income Tax Law and its amendments.
10. Amendments that are applied by the Tax Administration to the taxable result, and that directly or indirectly benefit the shareholders or Related Parties, or resulting from Tax Evasion stipulated in Article two of this Law are subject to the movable capital tax.

Article Ten: Withholding Tax at Source

1. Right Holders, Operators, Operators who are not Right Holders, Contractors and subcontractors must Quarterly declare the amounts due to non-residents and pay Quarterly any due tax within a period of 20 days from the end of each Gregorian Quarter based on the following:
 - a. Amounts that are due for buying materials:
 - Amounts that are due for buying material that will be installed inside Lebanon, the installation costs are taxed based on 15% profit and 20% tax in case separated. However, if the installation costs were not separable, the total purchase costs will be subject to tax including the installation costs based on 15% profit and 20% tax.
 - Amounts that are due for buying material delivered outside of Lebanon and do not include installation expenses; hence, no tax is charged.
 - b. Amounts that are due for providing services performed inside or outside Lebanon to the mentioned individuals, are taxed based on 50% profit and 20% tax.
 - c. As for the amounts due as interests, and even if related to the purchasing activity, these amounts are taxed at a rate of 10% over their full value based on the provisions of chapter three of the Income Tax Law.
2. Taxpayers that are referred to above must withhold tax unless the person whom they are dealing with and who works through a Permanent Establishment or is a Resident in Lebanon is registered with the Tax Administration.

As for the person who is a Resident in a country that has a double tax treaty with Lebanon, these taxpayers must withhold the mentioned tax on the amounts due to them, provided that

the person requests the refund of the withheld tax based on a request submitted to the Tax Administration.

The details of implementation of this clause shall be determined through a decision issued by The Minister of Finance.

Section Two

Income Tax on Salaries and Wages

Article Eleven: Income Tax on Salaries and Wages

Income Tax on Salaries and Wages is applied on employees' salaries, wages, indemnity benefits, public and private pensions and lifetime benefits received by employees and laborers employed by individuals working in the Petroleum industry or these individuals' providers of services and materials, taking place on the Lebanese territories and maritime Waters according to the precise definition of these Waters in the Law No 132 dated on 24/8/2010 (Offshore Petroleum Resources Law).

The following is not subject to Income tax on salaries and Wages:

- a. Pension salaries due according to legal provisions or a permanent comprehensive system for all employees and laborers approved by the Ministry of Labor.
- b. Service termination indemnity due in accordance with the laws applicable in Lebanon.
- c. Lifetime benefits and temporary compensations due to the victims of work accidents.

Article Twelve: Deductible Benefits and Amounts

The following benefits and amounts are deducted from the taxable income on employees' salaries and wages:

- a. Amounts due to the pension fund, medical insurance fund and similar amounts supported by legal documents for employees and laborers not subject to the provisions of the Lebanese Social Security Law.
- b. Compensations due for representation allowances.
- c. Transportation and relocation allowances including travel expenses for business related trips.
- d. Meal and clothing allowances due to performing the work.
- e. Education grants, birth grants, marriage or death of a family member grants, provided that these grants fall under a comprehensive permanent system for all employees and laborers that is approved by the Ministry of Labor.

- f. Amounts due in respect of the employee or laborer's training, regardless of the location of the training, and when the purpose of this training is to enhance and develop the employee and laborer's technical skills in the performance of assigned duties in Lebanon.
- g. Amounts due in respect of obtaining visas, work permits and residence cards in Lebanon for the foreign employee or laborer and their family members in addition to the travel expenses from and to Lebanon related to the start or cease of employment in Lebanon.

The details for implementation of this article shall be determined through a decision issued by The Minister of Finance.

Article Thirteen: Payment of the Tax Imposed on the Employees and Laborers' Income

1. The brackets and rates stipulated in Title II of Legislative Decree No 144 dated 12/06/1959 (Income Tax Law) are applied on the income earned by the employee or laborer after considering the deductions stipulated in the previous Article.
2. The employers must abide by all the obligations stipulated in Title 2 of Legislative Decree No 144 dated on 12/6/1959 (Income Tax Law).
3. All rights and obligations of non-resident employers stipulated in Title 2 of the Income Tax Law are transferred to the Resident employee or laborer, and particularly, rights and obligations related to the submission of declarations and paying tax.
4. The Resident employer, who contracts a non-resident party to perform work or services in Lebanon executed by non-resident individuals, must declare and pay the tax imposed on these non-resident individuals' salaries.

The details of implementation of this clause shall be determined through a decision issued by The Minister of Finance.

Section Three

Indirect taxes

Article Fourteen: Stamp Duty

All agreements signed by Right Holders and Operators are subject to a proportional stamp duty rate according to the provisions of Legislative Decree No 67 dated 5/8/1967 and its amendments (Stamp Duty), except for the Exploration and Production Agreements that are subject to a fixed stamp duty amounting to five million Lebanese Pounds for each copy.

The provisions of Legislative Decree No 67 dated 5/8/1967 and its amendments (Stamp Duty) remain valid on these agreements provided that these provisions do not contradict with this Law.

Section Four

Built Property Tax

Article Fifteen: Built Property Tax

Constructions, installations and fixations used to carry out Petroleum Activities in the maritime Waters, in accordance with the definition of these Waters in Law No 132 dated 24/08/2010 (Offshore Petroleum Resources Law), are exempted from the built property tax.

Section Five

Value Added Tax

Article Sixteen: Application of Value Added Tax

1. The delivery of goods or the provision of services that are subject to tax or exempted from tax with the right of deductions, that occur within the Lebanese territories or maritime Waters in accordance with the definition of these Waters in Law No. 132 dated 24/08/2010 (Offshore Petroleum Resources Law) and that are carried out by the individuals who practice Petroleum Activities or providers of services and materials to these individuals, shall be subject to Value Added Tax
2. Joint stock companies being Right Holders, and in accordance with Law No 132 dated 24/8/2010, may optionally request to be subject to Value Added Tax from the date of registration at the Ministry of Finance.
3. The activity of transporting Petroleum products outside the Lebanese territories and maritime Waters, in accordance with the definition of these Waters in Law No 132 dated on 24/08/2010 (Offshore Petroleum Resources Law), and provided that the Petroleum Administration has approved this exporting activity, is exempt from the Value Added Tax with the right of deduction.
4. Joint stock companies being Right Holders and Operators have the right to deduct the paid Value Added Tax incurred to perform the Petroleum Activities from the date of registration in the Value Added Tax and even prior to the generation of any revenues.
5. Right Holders and Operators are entitled to deduct all Value Added Tax payments made in order to design, purchase, construct, install, operate and maintain the machinery and equipment, even if these payments were made to build and develop the machinery and equipment and regardless of the materials used to manufacture or construct the machinery and equipment, including the materials that are usually used in the construction of buildings such as cement, steel and others.

6. All goods exempted from Custom Fees, as stipulated in Article 21 of this Law, imported by the Right Holders, Operators or their Agents for the use in Petroleum Activities, are also exempted from the Value Added Tax.
7. The operations taking place between Right Holders and Operators that fall directly within the Exploration and Production Agreement and that only cover the distribution of expenditures, are not subject to Value Added Tax and do not require the issuance of invoices to support this type of operations. These operations only require the issuance of the monthly statements of account by the Operators while the services exchanged between Right Holders are subject to the provisions of the Value Added Tax Law. Right Holders and Operators also have the right to exercise the right of deduction based on the monthly statements of account issued each proportionally to their respective shares.
8. Right Holders and Operators are the legal representatives for each non-resident person whose cooperation with Right Holders and Operators leads to the execution of any transaction involving delivery of goods or services on the Lebanese territories or maritime Waters (in accordance with the definition of these Waters in Law No 132 dated 24/08/2010 (Offshore Petroleum Resources Law)), disregarding the value of these transactions. Right Holders and Operators using a service of a non-resident party on the Lebanese territories or maritime Waters (in accordance with the definition of these Waters in Law No 132 dated 24/08/2010 (Offshore Petroleum Resources Law)), must declare the tax payable on this service regardless of its value and pay it to the Tax Authorities in accordance with laws and regulations.
9. Right Holders and Operators have the right to submit a semi-annual refund request of the deductible tax surplus balance even if no revenues were generated, and the Tax Authorities shall decide on this request and pay the amount approved to be redeemed within a period of four months from the date of the request submission, otherwise interest will be charged at an annual interest rate equivalent to the rate on six-month sovereign treasury bills.

Section Six

Tax Evasion

Article Seventeen: Anti-Tax Evasion

1. The competent Tax Department in the Ministry of Finance has the right, in the existence of one of the Tax Evasion cases as defined in Article 2 of this Law, to take all or some of the following measures:
 - a. Application of the Arm's Length standards to a deed or an economic event where the taxpayer has adopted different standards;
 - b. Reclassification of the transaction where the form of this transaction does not reflect its economic substance;

- c. Adjustments to the amounts which may affect the amount of the tax due and the determination of their actual value;
 - d. Adjustments to the amount of the tax due on the Taxpayer or any other parties involved in the transaction.
2. The taxpayer must keep the documentation that support the Arm's Length pricing method used. These documentation must be presented to the competent Tax Department upon request.
 3. The Ministry of Finance shall inform the Petroleum Administration of the measures taken.

Section Seven

Tax Obligations

Article Eighteen: Tax Obligations on Right Holders and Operators

These companies must:

1. Submit a description of the applied allocation procedures.
2. Submit their tax declarations for all types of taxes on templates prepared by the Ministry of Finance.
3. Subject to the provisions of Article 8 of this Law, maintain the accounting records, submit the declarations and pay the taxes in United States Dollars.
4. Submit the income tax declarations and the auditor's report to the competent Tax Department before the thirty first (31st) of May of the following fiscal year or within a five months' period from the end of the fiscal year followed by these companies.
5. Settle Quarterly advance payments for the income tax on profits within a period of 20 days from the end of each Quarter.

The details of implementation of this clause shall be determined through a decision issued by The Minister of Finance.

Section Eight

Fines

Article Nineteen: Fines

1. Tax violations committed by Right Holders and Operators remain subject to the fines stipulated in Law No 44 dated 11/11/2008 and its amendments (Tax Procedures Law).
2. Subject to the provisions of clause 1 above, Right Holders and Operators which do not inform the Tax Administration about the information stipulated in Article 9 - clause 5, are subject to a fine of five million Lebanese pounds.
3. Subject to the provisions of clause 1 above and in Tax Evasion cases specified in this Law, the fine stipulated in Article 110 of the Law No 44 dated 11/11/2008 and its amendments (Tax Procedure Law) concerning incorrect tax declarations is substituted with the following fine:

For each person that declares a tax which is less than the tax due is subject to a fine that is equal to three hundred percent (300%) of the additional tax relevant to the Tax Evasion provided that the minimum penalty is not less than 100,000,000 L.L. (one hundred million Lebanese Pounds).
4. The minimum limit for fines during the relevant tax period is applied in the event of a loss carried forward related to income tax or a balance carried forward related to the value added tax.
5. All fines due on the Right Holders and Operators are imposed in United States Dollars.

Section Nine

Various provisions

Article Twenty: Various Provisions

- In case of Affiliated Companies, the Parent Company is jointly and severally responsible for the applicable taxes on the Right Holders and Operators.
- Every Right Holder or Operator is considered a taxpayer for his taxable activities in accordance with the laws in force, and there are no tax liabilities towards the other Right Holders.
- The activities of the Right Holders and Operators which are not related to the Petroleum Activities remain subject to the provisions stipulated in the applicable tax laws other than this Law.

Chapter Three

Other provisions

Section One

Customs Duties

Article Twenty One: Exemption from Customs Duties

1. Custom Law and its amendments are applied in what does not conflict with the provisions mentioned below.
2. Equipment, machinery, tools, vehicles, spare parts and materials, that do not have equivalence in the national Production and that are imported by each Right Holder or Operator or their Agent to be used in the Petroleum Activities or to be re-exported, are exempted from customs duties including the minimum duty and the internal consumption duty. These goods shall be specified in accordance with the suggested lists by the Petroleum Administration (that includes the Harmonized System Codes for goods) provided that these lists are approved by The Minister of Finance after seeking the opinion of each of the Ministry of Industry and the Supreme Council for Customs.
3. The operations of importing household appliances, clothing, personal effects held for personal use by the foreign employees working for the Right Holder or Operator in Lebanon, or by their families are exempted in accordance with the Customs Law particularly Article 316.

The details of implementation of this clause shall be determined through a decision issued by the Supreme Council for Customs.

4. Except for that, it is subject to the temporary admission as specified in Article 282 of the Customs Law.

Article Twenty Two: Administration of Documentation on Import, Export and Re-export

Imports and exports operations shall be performed based on customs' records that are specific to these operations accompanied with all required documents and documentation in accordance with the rules.

Customs Administration has the right to request to present the documentation that it considers appropriate to prove that the goods imported or re-exported will be used or have been used for Petroleum Activities.

Article Twenty Three: Transfers and Disposals

1. Where pursuant to the provisions of Article 21 of this Law, goods that were exempted upon import, shall not be sold, assigned, transferred, leased or have their objective of use changed in Lebanon only after acknowledging the Custom Administration and after payment of customs

duties in accordance with the goods' condition and their value on the date of transfer. The beneficiary of the exemption shall not deliver these goods to other parties only after completing all customs related procedures.

2. The imported goods that were exempted from customs duties in accordance with the provisions of Article 21 of this Law and that are to be disposed of for nil value (to be written off from books at the end of its useful life) will be either re-exported or destroyed based on the stakeholders' consensus with the approval and supervision of the Customs Authorities and specialized parties in accordance with the statutory rules, if the destruction does not harm the environment after payment of the required due fees as scrap.
3. Amounts of the customs duties are calculated pursuant to the standards set forth in the Customs Law.

Article Twenty Four: Social Security

The employer is not required to pay any contributions to the National Social Security Fund on behalf of the foreign employees and laborers working for him and who do not benefit from the contributions provided by the National Social Security Fund in accordance with the provisions of clause 2 of the third paragraph of Article 9 of the Social Security Law.

However, Lebanese employees and the other foreign employees and laborers, not included in the provisions of the paragraph above, shall remain subject to the provisions of the Social Security Law, accordingly the employer is required to pay the contributions to the National Social Security Fund.

Section Two

Final Provisions

Article Twenty Five:

The Ministry of Energy and Water shall prepare every four months a report on the progress of petroleum activities and submit it to the Parliament.

Article Twenty Six: Details of Application of this Law

The details of implementation of this Law, concerning the Articles whose details of application were not identified by the specialized source, shall be determined based on decrees issued by the Council of Ministers upon the proposal of The Minister of Finance.

Article Twenty Seven: Entry into Force

This Law shall enter into force immediately upon publication in the Official Gazette.