Unofficial Translation

Of

Law no. 27/2014
of 23rd September

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Given the need to update the specific tax regime of petroleum operations, applicable under the joint provisions of article 100 (2), of article 127 and of article 179.2(o) of the Constitution, the Parliament hereby determines:

CHAPTER I
General Provisions

Article 1
(Object)

This Law sets out the specific tax regime for petroleum operations.

Article 2
(Scope)

This Regime applies to corporate bodies incorporated and registered in Mozambican territory, as well as to national or foreign individuals who carry out petroleum operations under a concession contract.

Article 3
(Definitions)

The terms and expressions used in this Law are defined in the Glossary attached hereto, made an integral part hereof.

Article 4
(Specific taxes levied on Petroleum Operations)

1. The natural and legal persons referred to in article 3 of this Regime are, in general, subject to the taxes which are part of the Mozambican Tax System, as well as to the parafiscal charges.

2. The persons referred in the foregoing paragraph are also subject to the Petroleum Production Tax – IPP, to the specific rules of the Corporate Income Tax

– IRPC as well as to the Mechanisms of Production Sharing provided for in this Regime.

CHAPTER II

Taxes and Specific Rules of Taxation of Petroleum Operations

Section I

Petroleum Production Tax – IPP

Article 5

(Taxable activities)

IPP is levied on the petroleum produced in the area of the concession contract.

Article 6

(Taxable persons)

The taxable persons are the legal entities carrying out petroleum operations in national territory, under a concession contract.

Article 7

(Taxable event)

1. A taxable obligation under IPP is deemed to have arisen when the petroleum produced enters the measuring station defined by the Government.
2. In case of payment in kind, the tax obligation is considered to have arisen upon delivery of the produced petroleum at the location defined by the Government.

Article 8

(Tax base)

The IPP tax base is the value of the petroleum produced.

Article 9

(Value of the Produced Petroleum)

1. The value of the produced petroleum is determined on the basis of the weighted average prices of the sale and disposal, in any form whatsoever, by the

producer and its contracted parties, during the month to which the tax to be settled refers, who must comply with the provisions set out in the following paragraphs.

2. The value for each class of individual export of crude Oil must be:

a) in the case of sales to non-subsidiaries, the weighted average price per barrel at delivery point of each declaration of sale or export of crude Oil, calculated by reference to FOB prices at which such crude Oil has been sold by the concessionaire during that calendar month; or

b) for the purposes of this Regime, in the case of sales to a third party under conditions other than the FOB conditions, a FOB price must be applied to be net-back calculated and to be established by way of the deduction to the agreed price of the effective and direct expenditure incurred by the concessionaire in the fulfilment of the obligations arising out of the respective sale agreements to which the obligations inherent to a FOB purchase and sale agreement accrue;

c) in the case of sales to subsidiaries, the price to be agreed among the Ministries jointly responsible for petroleum activities and Finance and the concessionaire, based on the following factors:

i. the FOB weighted average price in the calendar month for Brent crude oil, or other appropriate classification of crude oil for the production and for the petroleum in question. The weighted average is based on the number of days of each calendar month in which a closing price is quoted in the Platts Oilgram Price Report and, to this effect, the days without price quotation, notably weekends and public holidays, are not taken into account;

ii. a premium or discount on the crude oil Brent price, or other appropriate classification of crude oil for the production and for the petroleum in question, to be determined by reference to the quality of the crude oil produced in the contract area and the cost of placing such crude oil on the market.

3. In the cases where the Ministries that jointly supervise the petroleum activities and Finance and the Concessionaire do not reach an agreement on a price pursuant to paragraph 2 c) above, the following procedures shall be adopted in order to determine the premium or discount therein stated:

a) the Ministries that jointly supervise petroleum operations and Finance and the concessionaire submit to each other their assessments of the premium or

discount, together with an explanation of the key-factors considered in the determination of the premium or discount;

b) if the premium or discount separately submitted by the Ministries jointly supervising petroleum activities and Finance and the concessionaire is, in relation to one another, within the bracket equivalent to 10 US c (ten cents of the dollar of the United States of America) per barrel, the average for purposes of establishing the final value of Crude Oil must be calculated;

c) if the premium or discount separately submitted by the Ministries jointly supervising petroleum activities and Finance and the concessionaire has a difference of more than the equivalent to 10 US c (ten cents of the dollar of the United States of America) per barrel, each of them must resubmit to the other a revised premium or discount until the 3rd (third) business day from the first exchange of information;

d) if, in the second exchange of information, the premium or discount separately submitted by the Ministries jointly supervising petroleum activities and Finance and the concessionaire is, in relation to one another, within a bracket of 10 US c (ten cents of the dollar of the United States of America) per barrel, the average for the purpose of establishment of the final value of the Crude Oil must be calculated;

e) if, in the second exchange of information, the premium or discount diverge in higher than the equivalent to 10 US c (ten cents of the dollar of the United States of America) per barrel, the matter must be referred to an independent expert who must then establish a price based on the criteria specified in paragraph 2.c) above, but within the limits established by the parties under the terms of the foregoing subparagraph.

4. The calculated value for the natural gas from the deposits in the contract area must be:

a) in the case of sales to non-affiliated Companies:

i. the weighted average price of each gigajoule of natural gas of commercial specification at the delivery point where the natural gas has been delivered by the concessionaire during such calendar month; or

ii. the weighted average price of each gigajoule of natural gas of commercial specification delivered in the same calendar month originated in deposits under the jurisdiction of the Republic of Mozambique; or

iii. the available weighted average of prices affixed or publicised for fuels alternative to natural gas for large industrial consumers, including electric generators, in the market where the same have been delivered to end consumers.

b) in the case of sales to subsidiaries, the price established in subparagraph a) hereinabove for sales to non-affiliated companies or the price agreed between the Ministries jointly supervising petroleum activities and Finance and the concessionaire.

5. The procedures foreseen in the foregoing numbers do not produce suspensive effect over any of the concessionaire obligations vis-à-vis the State which must be complied with based on the residually and jointly price set by the Ministries jointly supervising petroleum activities and Finance.

6. In case the Government enters into a commercial contract of purchase and sale with the concessionaire, the price cannot exceed the sale price to the subsidiaries established in paragraphs 2.c) and 4.b) hereabove.

Article 10

(Rate)

1. The Petroleum Production Tax rates are the following:

a) 10% for crude oil,

b) 6% for natural gas.

2. The rates foreseen in the foregoing number are lowered by 50% when the production is intended for development of the local industry.

Article 11

(Payment)

The payment of IPP is made by the taxable persons and results from the application of the rate referred in article 10 to the value of the produced petroleum determined under the terms of article 9.

Article 12

(Correction of the tax base)

1. The tax administration may correct the tax base, modifying the declared value, if the prices used by the taxable person are different from the prices practiced on the reference markets or deviate from normal market prices between independent buyer and seller.

2. The taxable person is notified of the taxable amount calculated in accordance with paragraph 1 above and the taxable person may resort to the competent Tax Court, without prejudice to an administrative appeal.

Article 13

(Methods and place of payment)

1. As a general rule, IPP is paid in cash.

2. The IPP must be paid at the tax administration.

Article 14

(Payment in Kind)

1. The Government may, by notice given not less than twelve months before the first day of the month to which the tax refers, notify the taxable persons to pay the tax, in whole or in part, in kind, namely in petroleum or gas.

2. Upon having been notified for payment of IPP in kind, the quantities mentioned in the notice must be delivered to the entity appointed by the Government at the delivery point.

3. The payment in kind in the quantity specified in the notice, made according to the foregoing number, is maintained until a new notice is served by Government, giving the revised instructions to the taxable person.

4. The entity referred in paragraph 2 above shall deliver to the tax administration the value corresponding to the quantities received as production tax, in the month following the month of receipt.

Section II

Specific Rules of Income Tax

Article 15

(Specific Rules)

1. The natural persons with second category income and the legal entities referred in article 3 of this Regime carrying out Petroleum Operations will assess the Personal Income Tax (IRPS) and the Corporate Income Tax (IRPC) based on the rules contained in the respective Codes and in the specific rules foreseen in this Regime.

2. The specific rules of the Corporate Income Tax apply, *mutadis mutandis*, within the ambit of the Personal Income Tax to the natural persons covered by this Regime.

Article 16

(Assessment of the taxable income)

1. The assessment of the taxable income is made individually, per area of the concession contract and refers to each fiscal year.

2. The taxable person must obtain a Sole Tax Identification Number (NUIT) per area of concession contract and have separate accounting records for contract area, under the terms of the preceding paragraph in accordance with the foregoing number.

3. The costs and proceeds resulting from one area of the concession contract can only be deducted or attributed to that same concession contract in relation to each fiscal year.

Article 17

(Principle of the independent entities)

1. For the purposes of the Corporate Income Tax, the following operations are deemed to be carried out between independent entities, and the rules relating to transfer prices foreseen in the Corporate Income Tax Code will apply

a) Transactions referring to different concession contracts of the same taxable person;

b) Transactions referring to a concession contract and other activities of the same taxable person;

c) Transactions referring to Petroleum Operations downstream the Development Plan/Delivery point;

d) Services rendered by activities downstream the delivery point;

e) Any transactions between entities having special relationships as defined in the Corporate Income Tax Code.

2. For purposes of the preceding provision, the transfer of an asset to a separate concession contract is deemed an acquisition or sale of the same, where applicable.

3. Where two or more taxable persons carry out petroleum reconnaissance, surveying, exploration, development and production activities under the same concession contract, each one of them must calculate separately the taxable income of the petroleum operations in relation to that concession contract, as if they were associated companies making transactions among them and applying the principle of independent entities.

Article 18

(Income or gains)

Subject to the provisions of the Corporate Income Tax Code, the income or gains generated by Petroleum Operations are deemed to be the following:

a) Income resulting from the sale or disposal of produced petroleum;

b) Compensation received for the loss or destruction of produced petroleum and resulting from an insurance contract or other source;

c) Amounts received from the sale of information regarding Petroleum Operations;

d) Capital gains resulting from the direct or indirect sale of real estate assets located in the Mozambican territory and related with Petroleum Operations, irrespective of the disposal occurring abroad;

e) Unused amounts of the fund relating to costs of demobilisation of petroleum operations;

f) Any other withdrawals from the demobilisation fund of Petroleum Operations;

g) Any other amounts obtained as a result of Petroleum Operations under the Concession Contract.

Article 19

(Costs or losses)

1. Subject to the provisions of the Corporate Income Tax Code, costs or losses of the Petroleum Operations are deemed to be the following:

a) Operating costs, *inter alia*:

i) Operation, assistance, maintenance and repair of production and injection wells and field installations concluded during development and production operations;

ii) Planning, production, control, measuring and tests of petroleum flow and collection, storage, treatment, and transport of petroleum from the petroleum deposit to the delivery point;

b) Services, such as warehouses, offices, camps, docks, vessels, vehicles, motorised rolling equipment, aerial means, fire and safety stations, workshops, sewage treatment facilities and water supply facilities, power plants, housing, furniture, utensils and equipment used in the petroleum operations.

c) Professional training of Mozambican workers;

d) Charges with the execution of a concession contract, except bonuses associated with such acquisition;

e) Contributions in cash to the fund for the closing and demobilisation and effective costs of demobilisation;

f) Expenditure with any activity downstream the concession contract or with services provided within the scope of activities downstream such concession contract when incurred by the concessionaire under the terms of article 21;

g) General administrative expenses, *inter alia*:

i. Those relating to the main office and field established in Mozambique and general administrative expenditure, including supervision, accounting and employment relationships services rendered in Mozambique;

ii. The general charges deductible by a subsidiary or a stable establishment of a non-resident Mozambican entity, to cover services provided abroad to manage

the petroleum operations and consultancy and personnel assistance services, including financial, legal, accounting and employment relationships services.

2. The expenses referred to in subparagraph ii) of subparagraph g) of the foregoing number must comply with the following parameters in a given fiscal year:

i. 5% of the aggregate costs incurred up to an amount equivalent to USD 5,000,000.00 (five million US Dollars);

ii. 3% of the portion of the aggregate costs incurred from USD 5,000,000.00 (five million US Dollars) to USD 10,000,000.00 (ten million US Dollars); and

iii. 1.5% of the aggregate costs incurred exceeding the equivalent to USD 10,000,000.00 (ten million US Dollars).

Article 20

(General expenses incurred in the Mozambican territory)

1. The expenses referred in Article 19.1.g)i) above borne by a company carrying out petroleum operations in Mozambican territory which cannot been directly attributed to a given concession of such company for being general expenses shall be attributed to the concessions of the same company on a *pro rata* basis.

2. The general expenses referred to in 1 above include:

a) amortisation of the assets used for the benefit of the different concessions;

b) general administrative costs.

3. The Government establishes the rules for the attribution of the general expenses referred to in 1 above, taking into account the value of the assets or the general expenses associated to each petroleum concession held by a company that carries out petroleum operations in the Mozambican territory, or any other criterion considered appropriate.

Article 21

(Determination of the costs with activities downstream)

1. For the purposes of Article 19.f), the fee paid by the entity holding the concession contract to the entity who incurred such costs can be deducted.

2. For the purposes of Article 19.f), the costs with activities downstream the delivery point or with services provided within activities downstream such delivery point must be accounted for separately from the petroleum operations, and the fee collected from the undertakings carrying out petroleum operations can be deducted.

3. The fee to which numbers 1 and 2 refer shall be agreed upon between the entity supervising the petroleum sector and the tax administration and must comply with the principle of independent entities.

Article 22

(Non-deductible expenses)

In addition to the provisions of the Corporate Income Tax Code, the following costs incurred in the situations hereunder cannot be deducted:

a) Fraudulent violation of the legal and regulatory obligations by the taxable person or the person acting on its behalf in regard to the reconnaissance, exploration, development and oil production activities;

b) Hedge agreements, or losses resulting therefrom;

c) Professional training expenses with expatriated personnel and training programmes not complying with the applicable legislation;

d) Financial offers made to the State for the attribution of petroleum concessions;

e) Petroleum trading or transport expenses beyond the delivery point;

f) Expenses with the independent expert to be consulted for the purposes of determination of the petroleum price, if not requested by the Government;

g) Petroleum Production Tax;

h) Commissions paid to intermediaries;

i) Expenses incurred in arbitration proceedings, except when made to defend the reconnaissance, exploration, development and oil production activities;

j) Indemnities paid as liquidated damages;

k) Damages caused by negligence or fraud on the part of the taxable person or the person acting on its behalf.

Article 23

(Amortisations)

1. Subject to the provisions set forth in this article 23, the concessionaire must amortise all depreciable elements of the tangible and intangible assets under the Corporate Income Tax Code.

2. The prospection and exploration expenses made under a concession contract are deemed depreciable elements of intangible assets and eligible for amortisation.

3. The development and production expenses made under a concession contract are deemed depreciable elements of the tangible assets and eligible for amortisation.

4. The amortisation is deducted from the following rates, unless their useful life in a petroleum operation approved in the development plan is lower, in which case the rate is 1 divided by the number of years the petroleum operations are expected to last:

TYPE OF ASSET	RATE
Surveying and Evaluation Expenses	100%
Development Expenses	25%
Petroleum Production Assets	20%
Acquisition of petroleum rights	10%
Other Assets	10%

5. The amortisation starts in the year in which the expenses have been incurred or in which the commercial production commences, if occurring later.

6. The amortisations will only be accepted for tax purposes if accounted for as costs or losses of the financial year to which they refer, pursuant to article 19 hereabove.

7. The calculation of the amortisations of the financial year must be made by using the straight-line method.

Article 24

(Registration and Evaluation of Assets)

1. The taxable person shall keep detailed records of the assets being used in the petroleum operations in accordance with the applicable law.

2. The taxable person must prepare inventories of the assets used in the petroleum operations, under the terms of law.

3. The taxable person must notify the Government in writing of the making of with at least 30 (thirty) days' notice, and the Government has the right to be present at the making of the inventories.

Article 25

(Assignment of the right or participation in the contract)

When the concessionaire assigns the right or participation under a concession contract according with the principle of independent entities, the entity receiving the right or participation must continue to amortise the tangible and intangible assets during the phase of surveying and development as well as any other operating costs attributable to the petroleum operations, under the terms adopted by the original concessionaire.

Article 25

(Undercapitalisation)

1. Undercapitalisation occurs when the total amount of indebtedness of the concessionaire towards the resident or non-resident entity in the Mozambican territory exceeds the ratio 2 of debt to 1 of capital applied to the net financing requirement, defined in paragraph 5 hereunder, and irrespective of the existence of special relationships.

2. The above referred undercapitalisation refers to any date during the taxation period

3. In case of undercapitalisation, the interest and other financial charges on the portion considered surplus are not deductible for purposes of determination of the taxable income.

4. The calculation of the indebtedness attributable to a concessionaire vis-à-vis a resident or non-resident entity with which it has special relationships is carried out according to the principle of independent entities.

5. The need for net financing must result from a cumulative negative net cash flow of the petroleum operations, after taking all income into account.

6. No deduction of interest relating to an increase of the debt can be made, should there be a forecast of operating cash flows sufficient to meet the costs under the production plan without leading to negative cash flows.

7. The financing plan, the conditions of the debt and the principles to ensure a prompt repayment of the debt must be approved as part of the development plan.

8. The interest and other financial charges to which no. 1 of this article refers include all types of credit, irrespective of the form of remuneration, including the financial component of the financial leasing agreements.

9. The calculation of own capital takes into account the subscribed share capital.

Article 27

(Deduction of tax losses)

The tax losses generated in a given financial year are deductible in accordance with the Corporate Income Tax Code.

Article 28

(Withholding at source)

1. Taxable persons carrying out petroleum operations must make withholding at source of Personal and Corporate Income Taxes, as required by the relevant Codes.

2. Taxable persons paying or making available to a non-resident, directly or through a third party, amounts as payment of services under the Concession Contract and provided by non-resident persons, regardless of the location where they are provided, and provided that the beneficiary of the services resides in the Mozambican territory or has a permanent establishment therein must make a 10% withholding at source on the total amount paid.

3. The obligation to withhold Corporate Income Tax at source falls due on the date of payment, maturity, even if assumed, availability, settlement or assessment of the income, as applicable, and the amounts withheld shall be delivered to the tax administration under the terms and conditions set forth in the Income Tax Codes.

Article 29

(Taxation of Capital Gains)

1. The gains obtained by non-residents in the Mozambican territory, with or without permanent establishment resulting from the direct or indirect disposal, against any or no consideration, of petroleum rights in the Mozambican territory are taxed as capital gains at the rate of 32%.

2. The gains to which no. 1 refers, including those originated from the sale of securities, shares or corporate interests in companies holding petroleum rights are deemed for tax purposes as gains from real estate located in the Mozambican territory.

3. The gains obtained in Mozambican territory are deemed to be the gains obtained from the direct or indirect transfer, against any or no consideration, among non-resident entities, of portions of the share capital of entities holding a petroleum right, or of other securities issued by those entities regarding such right, involving petroleum realty assets located in Mozambican territory, irrespective of the place where the disposal takes place.

4. For purposes of determination of the capital gains, the rules foreseen in the Income Tax Codes shall apply.

5. The acquiring entity and the holder of the petroleum right are severally liable for payment of the tax arising from gains obtained by a non-resident entity without permanent establishment in Mozambique.

6. The tax payable becomes due thirty days after the date of the sale of the petroleum rights.

Article 30

(Settlement and payment)

1. The taxable income of petroleum operations carried out during the fiscal year is calculated by applying the rate referred in article 28 to the taxable income assessed pursuant to articles 16 to 27 and to the provisions of the Corporate Income Tax Code.

2. Should the taxable person have taxable income other than from petroleum operations, such income shall be taxed under the terms of the Corporate and Personal Income Tax Codes.

Section III

Production Sharing Mechanisms

Article 31

(Recovery of costs)

1. The concessionaire will recover the costs incurred in petroleum operations by means of remuneration under the form of ownership of a given quantity of petroleum produced and to the extent permitted herein.

2. The concessionaire can keep part of the total quantity of petroleum produced in order to pay the Petroleum Production Tax and the remainder shall hereinafter be referred to as “petroleum available”.

3. The costs incurred by the concessionaire in Petroleum Operations are recovered from the petroleum available at the delivery point defined by the Government, except the interest and other financial costs.

4. In each calendar year, the total amount of recoverable costs incurred by the concessionaire in petroleum operations in the contract area shall not exceed 60% (sixty per cent) of the petroleum available.

5. The recoverable costs exceeding the limit set in paragraph 4 above in one calendar year are carried forward to the subsequent year or years until they are recovered in full.

Article 32

(Production sharing)

1. The provisions relating to the recovery of costs and to the right to profit set forth in the foregoing article apply to the petroleum in such a way as to entitle the State and the concessionaire to undivided shares of the petroleum available for sale by the concessionaire in a given period of time.

2. Unless otherwise required by the Government in the concession contract, the sale of the such petroleum will be made together with the concessionaire; the concessionaire holds such rights in undivided proportions equal to the proportions of petroleum available to which each party is entitled during such period and such Government determinations must not affect the petroleum volumes subject to contract.

3. Accordingly, the revenues obtained from the joint sale of petroleum in any given period of time is shared between the State and the concessionaire, irrespective of the number of partners in the joint venture, *pro rata* to the relevant undivided right to the petroleum sold.

4. The profit-petroleum must be shared between the State and the concessionaire in accordance with a variable scale depending on the value of the R Factor, where:

a) R Factor $\frac{\text{(Accumulated Cash Receipts) n}}{\text{(Accumulated Investment Expenses) n}}$

b) Accumulated Cash Receipts n=

+ Concessionaire's Share of profit-petroleum

+ Concessionaire's Cost Petroleum n

- Operating Costs

c) Accumulated Investment Expenses n =

Accumulated investment Expenses (n-1)

+ Surveying costs n

+ Expenses with investment in development and production n

Where:

n is the current year; and (n-1) is the preceding year;

Concessionaire's Cost Petroleum if the amount of recoverable costs actually recovered;

5. For purposes of calculation of the R Factor, the first year (n=1) shall be the year when the effective date occurs, and all investment expenses prior to the effective date are taken into account for purposes of calculation of the R Factor as having been incurred during the year of the effective date.

6. The R Factor is calculated on the last day of each calendar year, and the applicable ratio determines the sharing of profit-petroleum in the subsequent calendar year.

7. The profit-petroleum must be shared based on the following table:

R Factor	Government Share	Concessionaire Share
Less than 1	15%	85%

Equal or higher than 1 and less than 1,5	25%	75%
Equal or higher than 1,5 and less than 2	35%	65%
Equal or higher than 2 and less than 2,5	50%	50%
Equal or higher than 2,5	60%	40%

8. For the purposes of calculation of the R Factor, the petroleum available and the cost petroleum shall be calculated taking into account the entire contract area.

CHAPTER III

Tax Benefits applicable to the petroleum operations

Article 33

(Right to Tax Benefits)

1. The undertakings under the Petroleum Law are granted the tax benefits defined in this Regime, provided that they comply with the established conditions.

2. The effective enjoyment of the tax benefits cannot be revoked and the vested rights cannot be reduced, except in the cases foreseen in this Law and in case of non-compliance with the obligations established for the beneficiary.

Article 34

(Transfer of the tax benefits)

Tax benefits can be transferred during their validity, upon authorisation from the Minister for Finance, provided that they remain unchanged and the transferee meets the conditions necessary to enjoy the benefit.

Article 35

(Tax benefits in import)

1. Under the Petroleum Law, for a period of five financial years after approval of a development plan, the undertakings will exempt from:

a) customs duties in the import of equipment to be used in petroleum operations, classified as class K in the Customs Tariff;

b) customs duties payable on the import of the goods listed in Exhibit II to this law, ranking as class K goods of the Customs Tariff.

2. The benefits referred to in the foregoing number shall only be granted if the goods to be imported are not produced in national territory or, if produced in this territory, fail to meet the intended purpose and functionality required or inherent to the type of activity to be developed and explored.

Article 36

(Requirements to obtain tax benefits)

The requirements to obtain tax benefits are the following:

a) Authorisation by the competent entities to carry out petroleum operations under the Petroleum Law;

b) Tax registration by having obtained the relevant Sole Tax Identification Number (NUIT);

c) Proper set of accounts in accordance with the Accounting System for the Corporate Sector and compliance with the Corporate Income Tax Code and of the Personal Income Tax Code, where applicable;

d) Absence of tax infringements under the applicable legislation.

Article 37

(Caducity, suspension and loss of tax benefits)

1. The tax benefits lapse at the end of the period for which they were granted or upon the application of a sanction extinguishing the same.

2. The lapse or suspension of the tax benefits will imply the automatic taxation prescribed by law.

3. In the event of application of a sanction with suspensive effect, the same will remain in force until the situation that caused the suspension is restored, including payment within 30 days from the date of notice served by the competent tax authority of the lost revenues.

4. The holders of the right to tax benefits must declare, within 30 days, the end of the legal or de facto situation upon which the tax benefit is based, and the same communication must be made in the case of suspension of the tax benefits.

5. The procedures for obtaining the tax benefits referred to in this Law, as well as the rules regarding their suspension or loss, in case of tax infringements and non-compliance with the conditions established at the time the same were granted and recognized, shall be laid down in specific regulations.

Article 38

(Sale of goods with tax incentives)

Whenever the tax benefit refers to the acquisition of goods intended to the direct realisation of the purposes of the acquirers, it will be rendered void in case of sale of such goods, or should they be used for a purpose other than the intended purpose, without the prior authorisation of the competent entity, in which case the sanctions provided for in the applicable legislation will be applied.

CHAPTER IV

Final and Transitory Provisions

Article 39

(Control)

1. The entities holders of the right to tax benefits to which this Regime refers are subject to the control of the tax administration for verification of the prerequisites of the relevant tax benefits and fulfilment of the required obligations.

2. The taxable persons and other taxpayers covered by this Regime shall, within reasonable limits, provide all the collaboration required by the competent authority to enable the latter to exercise the relevant duties, including those of control.

Article 40

(Certification of accounts)

3. The entities carrying out petroleum operations under a concession contract shall submit the respective balance sheets and annual profit and loss accounts certified by an authorised independent auditor.

Article 41

(Taxpayers Guarantee)

Taxpayers guarantees are those set forth in the applicable legislation.

Article 42

(Transitory Regime)

1. The entities carrying out petroleum operations under an existing petroleum contract entered into based on the herein repealed legislation shall continue to meet their tax obligations under those contracts, unless they expressly request the application of this Regime within sixty days from the date of its entry into force.

2. Whenever this Regime shall apply following the request referred to in the foregoing paragraph, the new law shall apply after the new fiscal year onwards.

Article 43

(Stability)

1. Tax stability for a ten-year period can be negotiated to begin on the date of approval of a development plan for commencement of the exploitation of mineral resources, in regard to the following parameters:

a) Rates set out in this law;

b) Collection rules, and

c) Annual fixed rate of concession.

2. The tax stability period foreseen in the foregoing paragraph can be extended until the end of the initial concession period against payment of additional 2% of Production Tax from the eleventh year of production.

Article 44

(Violations)

Violations to the provisions set out in this Law constitute tax infringements subject to sanctions under the applicable legislation.

Article 45

(Regulations)

The Government shall enact regulations to this Law within ninety days from publication.

Article 46

(Repeal)

Laws no. 12 and 13/2007, of 27 June, are hereby repealed.

Article 47

(Entry into force)

This Law goes into effect on 1 January 2015.

Passed by the Parliament on …

The President of the Parliament

Verónica Nataniel Macamo Ndlovo

Enacted on …

To be published

The President of the Republic

ARMANDO EMÍLIO GUEBUZA"

EXHIBIT I

GLOSSARY

Without prejudice to the concepts foreseen in the Petroleum Law, for the purposes of this Regime the following expressions shall have meaning ascribed to them hereunder:

a) **Real estate assets** – means the petroleum fields and deposits located in the Mozambican territory as well as the Concession Contract including direct or indirect shareholdings in the entities holders of a Concession Contract, either resident or non-resident entities.

b) **Tax Benefits** – means the tax measures set forth in this Regime implying a reduction of the amount payable of the taxes in force with the purpose of encouraging the mineral activity to the benefit of the economic and social development of the Country.

c) **Concessionaire** – means one of the signatory parties to a concession contract for the Exploration and Production of Petroleum, who are granted petroleum exploration and production rights under the applicable legislation.

d) **Concession Contract** – means an administrative contract whereby the State grants confers petroleum operations rights to a Mozambican person or a foreign legal entity registered in Mozambique.

e) **Demobilisation Costs** – means the costs approved by the government entity responsible for the petroleum sector relating to the planning, preparation and implementation of the activities related to the closure of petroleum operations, including the dismantling, demolition or disassembly and removal of installations and equipment used in the production as well as the restoration and recovery of the area to conditions ecologically similar to the conditions that existed before commencement of petroleum extraction.

f) **Effective date of the Concession Contract** – means the date of the approval of the contract by the Administrative Court.

g) **Development Expenses** – means the expenses incurred by the concessionaire or operator in the activities related with the planning, preparation, construction, installation of one or more infrastructure for oil production, including the drilling of the wells necessary to carry out the petroleum operations.

h) **Exploration Expenses** – means the direct and indirect costs allocated to the undertaking and incurred in the search for petroleum in the Contract Area.

i) **Operating Costs** – means the costs incurred in the petroleum operations after commencement of Commercial Production and not deemed Exploration Expenses, Investment Expenses for Development and Production, General and Administrative Expenses and Costs with Services.

j) **Petroleum rights** – means the powers granted to the concessionaire to execute Petroleum Operations in the area of a given concession or over corporate shareholdings of same.

k) **Associated Company** – means the company under the control and significant influence of a participating company in the management and financial policy and which is not a subsidiary, assuming that influence exists when the participating company holds 20% or more of the voting rights attached to share capital and which is not the parent company.

l) **Parent company** – means the company that has one or more affiliated companies.

m) FOB Prices – defined in accordance with the International Commerce Terms (INCOTERMS).

n) **Petroleum Operations –** means the planning, preparation and implementation of activities corresponding to reconnaissance, surveying, development, production, production, storage, transport, termination of such activities or the discontinuation of the use of infrastructure, including the implementation of a plan for demobilisation, sale or delivery of petroleum to the stipulated point of export or supply, i.e., the location where the petroleum is delivered for consumption or use, or loaded as a commodity, including in the form of liquefied natural gas.

o) **Cost petroleum** – means the portion of petroleum produced, available to the concessionaire for recovery of the costs and expenses incurred in the execution of the petroleum operations, set forth herein.

p) **Petroleum Available** – means the balance of petroleum remaining after the taking of the part of petroleum produced needed to meet the obligation of payment of the production tax.

q) **Profit Petroleum** – means the portion of petroleum available exceeding the cost petroleum allocated to the parties under this regime.

r) **Produced Petroleum** – means the petroleum extracted from one petroleum deposit, initially separated and processed as Crude Oil, condensed petroleum or Natural Gas, *measured at the measuring point approved by the Government, for purposes of payment of the production tax, including any lost petroleum volumes due to deficiencies or negligence during the petroleum operations.* The same definition applies to "Crude Oil Produced", "Condensate Produced" and "Natural Gas Produced", as applicable.

s) **Delivery Point** – means, in the case of Natural Gas, the intake flange of the transport pipeline, and in the case of Crude Oil and Condensate, the intake flange of the lifting tanker or any other transport means or, in either case, , any other place to be specified by the Government in the Concession Contract.

t) **Production** – means the activities corresponding to the extraction of oil from underground oil deposits, including drilling for oil production, injection to improve recovery, separation and treatment, including liquefaction, storage, measurement, preparation for loading and transporting oil in bulk and operation and use of infrastructure for oil production.

u) **Commercial Production** – means the production of oil and delivery at the Delivery Point under a production and sales programme, established in a development plan, as amended from time to time.

v) **Subsidiary** – means

i. A company in which the associated company holds directly or indirectly the absolute majority of the votes at a General Meeting, or holds more than 50% of the rights and interests that confer the power to run or to control such company;

ii. A company or any other entity in which the absolute majority of votes of the respective General Meeting confer the power to directly or indirectly direct it, such voting rights being held by a company or any other entity that directly or indirectly holds the absolute majority of votes of the General Meeting or equivalent corporate body of the associated company with the power to direct and control;

iii. A company or any other entity holding, directly or indirectly, the absolute majority of the votes of the General Meeting or of an equivalent corporate body, or holding the power to direct and control;

x) **Transport** – means the activities related to transport, from production infrastructure to a specific delivery location, of petroleum through an oil or gas pipeline system, in bulk on ships or on vehicles.

EXHIBIT II

LIST OF GOODS INTENDED TO BE USED IN THE PETROLEUM ACTIVITY EQUIVALENT TO CLASS K GOODS OF THE CUSTOMS TARIFF (article 35)

Table I

1. Cuttlefish knocker (machine used in underground mines to knock down loose aggregates in the excavation ceiling or sides);
2. Trawls feeder;
3. Belt feeder;
4. Vibrating feeder;
5. Alternator;
6. Core sampler;
7. Fork-lift truck scale;
8. Bucket (recipient for excavation, loading and transport of mineral or coal);
9. Hydraulic test bench;
10. Boring Bar;
11. Rotation crusher;
12. Conic drill;
13. Dump truck;
14. Belt winder truck;
15. Compactor truck;
16. Unloading truck;
17. Maintenance truck;
18. Kite truck;
19. Truck for explosives;
20. Lubricator truck;
21. Tug Truck;
22. Truck crane;
23. Discharge loader;
24. Training loader;
25. Front loader;
26. Loader over wheels;
27. Boat loader;

28. Crawler Roll Drill;
29. Platform truck;
30. “Chute” (device for the transfer of ore or overburden);
31. Deviating chute;
32. Cyclones for the recovery of destroyed sample;
33. Collector;
34. Flotation columns;
35. End command;
36. Control gate;
37. Shell, bucket (part of the equipment similar to an iron sheet);
38. Touch converter;
39. Dumpcart conveyor and elevator belts;
40. Cutter;
41. Dredgers;
42. Forklift;
43. Equipment for the loading of wagons;
44. Equipment for the drilling of ascents;
45. Drill rig;
46. Drill rig for the recovery of tests;
47. Equipment for the placement of anchor cables;
48. Portable equipment for the multi-parameter measuring of the onsite water quality;
49. Laser precise scanning;
50. Hydraulic crawler excavator;
51. Spacer, intermediary plug;
52. Base station and accessories;
53. Ground station and GPS Ground Station;
54. Total Station and accessories;
55. Steel structure;
56. Rock shredder;
57. Universal router;
58. Drill bench machine (Drillclmn);
59. Drill/borer;

60. Root drill;
61. Cage;
62. Galvanometers;
63. Generator;
64. Crane;
65. Winch;
66. Drill rod;
67. Microlog cable set;
68. Jumb;
69. Mobile lab for the analysis of miners;
70. Machine for the installation of traces;
71. Industrial machine for the washing of parts;
72. Continuous miner;
73. Motor grader;
74. Internal combustion diesel engine;
75. Change multiplier;
76. Screw machine;
77. Static sieve;
78. Vibrating sieve;
79. Drill rig;
80. Tires;
81. Overhead crane;
82. Tires press;
83. Trolley.

Table II

1. Particle size scale;
2. Stereoscopes;
3. "*Gaterres"*
4. Booster pumps;
5. Hydraulic pump;
6. Dosing pump;
7. Centrifugal pumps;

8. Anchor cable;
9. Interface cables;
10. High, medium and low voltage power cables;
11. On-Board computers and respective accessories;
12. Densimeter;
13. Unloader;
14. Drive transmission;
15. Air duct;
16. High accuracy and standard GPS;
17. GPS map;
18. cp 80mm magnifier;
19. Mandrill;
20. Two-way radios;
21. Mobile loading ramp;
22. Loading ramp;
23. Crawler backhoes;
24. Tire backhoes;
25. Backhoes loaders;
26. Magnetic separator;
27. Electrostatic separators;
28. Metallic structure
29. Coal silo;
30. Kit for petroleum overflow contention;
31. Cable car;
32. Theodolite;
33. Lathe machine;
34. Parallel lathe machine;
35. Matting tractor;
36. Blade tractor;
37. Tire tractor;
38. Carrier of belt;
39. Staff carrier;
40. Waste disposer;

41. Equipment for the handling of giant tires;
42. Sweeper;
43. Scale or weighbridge.

Table III

1. 24 bits scanner;
2. Special cellular modem for seismograph stations;
3. Theodolite;
4. Magnetometer
5. Protons magnetometer and sensor;
6. Tripod;
7. Flux Gate magnetometer with three sensors;
8. Scanner;
9. PPM processor;

Table IV

1. Electrical conductivity instruments;
2. Radiometric instruments;
3. Magnetic susceptibility measuring instruments;
4. Induced polarisation instruments;
5. Protons magnetometers;
6. Spectrometers;
7. Magnetic susceptibility K-meters;
8. Electrical conductivity instruments;
10. Gravimetric instruments.