

Natural Gas Investment Taxation Law

Article 1:

Natural Gas Investment Tax will be imposed on any natural or legal person (referred to hereinafter as a "Taxpayer"), working in the field of natural gas, liquids and condensates in the Kingdom or within its economic territories or continental shelf.

Article 2:

- 1- The activity of natural gas investment means upstream, downstream applications which include exploitation/drilling, collection, refinery, processing, fractionation, production and collection of gas condensates, Transmission of gas, liquids and condensates.
- 2- Transmission means to transport the gas condensates or natural gas from refining to processing and fractionation plants or to the consumers' facilities. This excludes the local distribution networks and pipelines constructed by the non-producers beyond the main sales outlets.
- 3- The Gas condensates are the mono - gaseous hydrocarbons naturally available in the locations with a temperature ranging between critical and highest degrees. They are usually produced with natural gas, which are liquid at normal pressure and temperature.

Article 3:

The return of natural gas investment is the total revenue of sale, exchange or conversion of natural gas, liquids or condensates including sulfur and other products or any income earned by the taxpayer, as a result of extraneous or non operational revenues related to his main activity whatsoever or from any source. This encompasses the return out of the surplus energy optimization in any facility subject to the natural investment taxation.

Article 4:

The Gas Investment taxing base (taxable income) is the total revenue referred to in Article 3 herein deducting the applicable expenses under the income taxing act issued by the Royal Decree no (17/2/28/3321) dated 21/1/1370H, amended by Royal Decree No (M/19) dated 1/7/1390H and the terms of the cabinet resolution No (3) dated 5/1/1421H. The surface rents and yields are considered as deductible expenses.

Article 5:

The natural gas investment tax for every taxation year will be based on the internal rate of return (IRR) for the annual accrued cash flows of the taxpayer. The rate for the taxable base is as follows:

IRR (%)	Tax Rate (%)	IRR (%)	Tax Rate (%)	IRR (%)	Tax Rate (%)	IRR (%)	Tax Rate (%)
8 or less	30	11	32.61	14	57.50	17	82.29
8.1	30.15	11.1	32.87	14.1	58.87	17.1	82.693
8.2	30.17	11.2	33.15	14.2	60.24	17.2	82.85
8.3	30.18	11.3	33.46	14.3	61.59	17.3	83.04
8.4	30.2	11.4	33.8	14.4	62.93	17.4	83.22
8.5	30.22	11.5	34.17	14.5	64.24	17.5	83.39
8.6	30.25	11.6	34.57	14.6	65.51	17.6	83.54
8.7	30.27	11.7	35.01	14.7	66.75	17.7	83.67
8.8	30.3	11.8	35.49	14.8	67.95	17.8	83.80
8.9	30.33	11.9	36	14.9	69.10	17.9	83.91
9	30.37	12	36.56	15	70.21	18	84.01
9.1	30.41	12.1	37.16	15.1	71.26	18.1	84.10
9.2	30.45	12.2	37.8	15.2	72.27	18.2	84.19
9.3	30.51	12.3	38.5	15.3	73.22	18.3	84.26
9.4	30.55	12.4	39.24	15.4	74.12	18.4	84.33
9.5	30.6	12.5	40.02	15.5	74.97	18.5	84.40
9.6	30.67	12.6	40.88	15.6	75.76	18.6	84.45
9.7	30.74	12.7	41.78	15.7	76.50	18.7	84.50
9.8	30.81	12.8	42.73	15.8	77.20	18.8	84.55
9.9	30.9	12.9	43.74	15.9	77.84	18.9	84.59
10	30.99	13	44.79	16	78.44	19	84.63
10.1	31.09	13.1	45.9	16.1	79.00	19.1	84.67
10.2	31.2	13.2	47.05	16.2	79.51	19.2	84.70
10.3	31.33	13.3	48.25	16.3	79.99	19.3	84.73
10.4	31.046	13.4	49.49	16.4	80.43	19.4	84.75
10.5	31.61	13.5	50.76	16.5	80.83	19.5	84.78
10.6	31.78	13.6	52.07	16.6	81.20	19.6	84.80
10.7	31.096	13.7	53.41	16.7	81.54	19.7	84.82
10.8	32.15	13.8	54.76	16.8	81.85	19.8	84.83

The accrued cash flows are the total annual cash flows of the taxpayer, subject to the natural gas investment taxation, starting from the first year of the subject taxing statement to the preceding year of the next statement.

The internal rate of return (IRR) is the discount rate that results in a net present value of zero then it approximates to one tenth percent (0.1%) of the annual accrued cash flows (after deductions are made to the early first year of the cash flows) .

Article 6:

The annual cash flows will be calculated by modifying the taxable base of the natural gas investment as follows:

- 1- Reincorporate the operational loss carried over from the precedent years as per the cabinet resolution no (3) dated 5/1/1421h.
- 2- Reincorporate the non cash items deducted to set the taxpayer's taxable base.
- 3- Reincorporate all funding fees and other banking services.
- 4- Deduct the capital cash expenditures except the funding fees or any other banking services.
- 5- Deduct the taxes paid on the natural gas investment and income.

Article 7:

- 1- An income tax of 30% will be imposed on the natural gas investment taxable base of the taxpayer under the article 11 vested in the Royal Decree No (17/2/28/3321) dated 21/1/1370 amended by The Royal Decree No (M/19) dated 1/7/1390 and the provisions of the cabinet resolution No (3) dated 5/1/1421h.
- 2- The income tax amount paid by the taxpayer under paragraph (1) of this article shall be deducted from the due investment tax.

Article 8:

- 1- For computation of the tax on the natural gas investment, the subject taxable base of the taxpayer for each contract or agreement made with the government for gas exploitation or production shall be independent from any other taxable base of such works. The taxpayer shall submit final, audited and separate statements for every contract or agreement for gas exploitation and production.
- 2- The subject taxable base of the taxpayer shall be independent from the taxable base of the other activities irrelevant to the gas investment. The taxpayer shall submit final and audited statements for his works in natural gas investment separately.

Article 9:

- 1- An income tax of 30% will be imposed on the taxpayer, for the natural gas processing and fractionation at his independent licensed plants, under the article 11 vested in the Royal Decree No (17/2/28/3321) dated 21/1/1370 amended by The Royal Decree No (M/19) dated 1/7/1390 and the provisions of the cabinet resolution No (3) dated 5/1/1421h.
- 2- An income tax of 30% will be imposed on the taxpayer , for the natural gas transmission by his independent licensed pipeline, under the article 11 vested

in the Royal Decree No (17/2/28/3321) dated 21/1/1370 amended by The Royal Decree No (M/19) dated 1/7/1390 and the provisions of the cabinet resolution No (3) dated 5/1/1421h .

Article 10:

The provisions of this law don't apply to any company operating in petrol production or both petrol production and natural gas production in relation with its activity within the operation or concession area when this law is put in force .

Article 11:

The provisions of the Royal Decree no (M/65) dated 13/11/1394H don't apply to the taxable base of the natural gas investment of any taxpayer subject to these taxes.

Article 12:

Unless otherwise stated herein, the terms of the income taxing Act issued under the Royal Decree No (17/2/28/3321) dated 21/1/1370H and revisions will be enforced till the new income law is issued and acted accordingly.

Article 13:

The implementing rules of this law will be issued by the decision made by the Minister of Finance.

Article 14:

This law is to be published in the Gazette and will be in force as of its publishing date.