ANNEX #2
SPECIAL PETROLEUM-OPERATION CONTRACTS

This Annex contains a summary of the law on Special Contracts for Petroleum Operations, Decree-Law Number 1089.

The main provisions of these regulations are as follows:

* It defines the terms "Special Operation Contract", "Contractor", "Compensation", and "Contract for a specific oil job".

* It provides that, if authorized by the Special Petroleum Operation Contract, the contractor may export hydrocarbons received as his compensation without having to meet export regulations, and having guaranteed free disposition of the foreign currency amounts perceived from said export operations.

* It stipulates that the State guarantees the contractor access to the foreign currency market, called the "free banking market", or whichever system may replace it in the future, for conversion and further remittance abroad of incomes perceived from the sale of his own equipments or other goods, in accordance with the terms and conditions stipulated in the contract.

* It establishes that the contractor will be subject to a tax figure calculated directly on the amount of his compensation, which is now 50% of said compensation; or he may be subject to the regular provisions of the Income Tax Law. Notwithstanding this, the President of the Republic may authorize, whatever the applicable tax system, reductions of the payable tax, or of all or any of the taxes established by the Income Law, equivalent to a figure ranging from 10% to 100%, in 10% increments. The applied system substitutes all other direct or indirect taxes that could be levied on the compensation or on the contractor with regard to his compensation, and it remains invariable during the term for which it is granted.

* It authorizes the President of the Republic to condone, in 10% increments up to 100%, the duties, fees, taxes, or contributions and, in general, any other payments or taxes which may be directly or indirectly levied on imports of machinery, equipment, materials, spare parts, and items or goods intended for works of exploration or exploitation of hydrocarbons.

* It indicates that hydrocarbon transfers made to the contractor as payment of his compensation, and the repurchases made by the State or state enterprises from the contractor, as well as the actions, contracts, or documents recording these operations, will be free from all taxes.