

MEMORANDUM OF UNDERSTANDING

**RELATING TO THE PURCHASE AND TRANSMISSION OF
NATURAL GAS THROUGH A PIPELINE**

BETWEEN

THE GOVERNMENT OF THE STATE OF ISRAEL

AND

THE GOVERNMENT OF THE ARAB REPUBLIC OF EGYPT

The Government of the State of Israel and the Government of the Arab Republic of Egypt - hereinafter referred to as "the Parties";

Recalling the Treaty of Peace between the State of Israel and the Arab Republic of Egypt of 26 March 1979, and in particular Annex III thereof, concerning the economic relations between the Parties;

Affirm their willingness to develop bilateral economic cooperation in all fields including the gas sector;

Emphasizing that the supply of natural gas from Egypt to Israel will contribute to enhancing peace and stability in the Middle East and to the establishment of an environment of comprehensive security and cooperation;

Aware of the resolution of the Cabinet of Ministers of the Arab Republic of Egypt during its meeting held on 18 September 2000, authorizing the Egyptian Ministry of Petroleum represented by the Egyptian General Petroleum Corporation to conclude the necessary contract with East Mediterranean Gas Company, an Egyptian joint-stock company, hereinafter referred to as –"EMG", for the export of quantities of Egyptian Natural Gas to the consuming markets in the Mediterranean countries as well as the European Markets;

Welcoming contracts between EMG and Israeli companies such as the contract between the Israel Electric Corporation Ltd., hereinafter referred to as- "IEC" and EMG for the supply of natural gas originating from Egypt to Israel, through a pipeline to be constructed between El-Arish and Ashkelon, for a period of 15 (fifteen) years, renewable by mutual agreement, as well as additional contracts to be concluded between EMG and other Israeli companies;

Have agreed on the following:

ARTICLE 1

General

The purchase of Natural Gas, its transmission through a Pipeline between El –Arish and Ashkelon, including the construction of the Pipeline and its operation shall be in accordance with the terms of this Memorandum of Understanding and in accordance with and subject to the laws of the State under whose jurisdiction it lies.

ARTICLE 2

Guarantee of Supply

The Government of the Arab Republic of Egypt guarantees the continuous and uninterrupted supply of the Natural Gas contracted and/or to be contracted such as

between EMG and IEC for the initial 15 years as well as for any extended period, according to the provisions of the contract and for a yearly total amount of up to 7 BCM (Seven Billion Cubic Meters). The same guarantee shall apply to any other entity importing Gas from Egypt to Israel.
This guarantee will start on the date of the activation of any contract of purchase of Natural Gas from Egypt.

ARTICLE 3

Subject to its law and the provisions of this MOU each Party shall facilitate the implementation of this MOU.

ARTICLE 4 **Safety and Security**

- (1) Each Government shall have the right to determine, in accordance with its own laws, the safety and security measures which are to govern the construction and operation of the part of the Pipeline under its jurisdiction.
- (2) Operation of the Pipeline, or any part thereof, shall not commence until each Party has issued all necessary authorizations and permits in accordance with their national legal requirements.

ARTICLE 5 **Environmental Protection**

Each Party shall have the right to ensure, in accordance with and subject to its laws, that the laying and operation of the Pipeline shall not cause pollution to the marine, coastal or land environment, or damage to facilities onshore or offshore, amenities, vessels or fishing gear.

ARTICLE 6 **Tax**

Based on the authority of the Israeli Minister of Finance under Article 16a of the Israeli Income Tax Ordinance (New Version) - 1961, EMG, an Egyptian resident company, shall be exempt from taxes in Israel for its income from the sale and transportation of natural gas from Egypt to Israel and its delivery at the delivery station in Ashkelon.

This exemption does not and will not apply to any current or future Israeli shareholder in EMG, whether such shareholders holdings in EMG are direct or indirect. For any

change in Israeli holdings in EMG, directly or indirectly, the Israeli shareholders shall need the advance approval of the Director General of Israel's Tax Authority.

EMG will not be required to open file with the Israeli Income Tax Authorities, nor will it be required to file yearly income tax reports in Israel.

This tax exemption, as well as the waiver on the need to open file with the Israeli Tax Authorities and to file yearly income tax reports, shall be in force as long as the majority of shares in EMG are not held, directly or indirectly, by Israeli residents or citizens, and the control and management of EMG's operations, including the management of its day to day operations (except for the operation of the Delivery Station in Ashkelon), are carried out outside the territory of the State of Israel by a management team which does not include residents or citizens of the State of Israel, either directly or indirectly, except for a number of Israeli members of the board of directors corresponding to direct or indirect holdings in EMG shares of 25%. All the activity of the entire EMG board of directors shall be carried out outside the State of Israel.

This exemption shall remain in force for the entire period of the contract between EMG and IEC (15 years plus an option for an additional 5 years) and will also apply to EMG's income and its gains derived in Israel from other similar gas agreements between the EMG and other Israeli entities during this period.

ARTICLE 7

Tripartite Agreement

The Egyptian Government designates the Egyptian General Petroleum Corporation (EGPC) and the Egyptian Gas Holding Company (EGAS) as representatives of the Egyptian Ministry of Petroleum in signing the tripartite agreement as the First Party in the agreement guaranteeing natural gas supply, with EMG as the Second Party in the agreement, and IEC as the Third Party in the agreement.
The same shall apply to any other entity importing Gas from Egypt into Israel and/or consuming Gas from Egypt in Israel.

ARTICLE 8

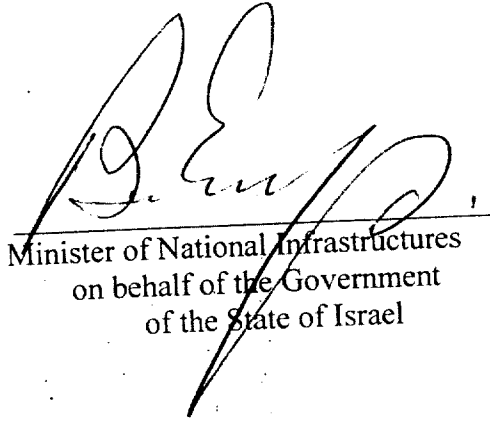
Consultations

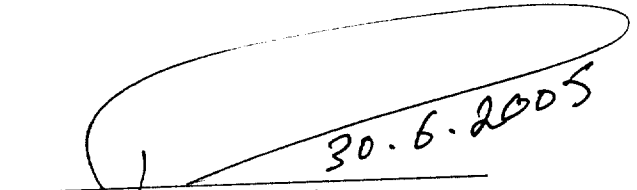
The Parties, recognizing each other's legitimate interest in safeguarding the supply of natural gas from Egypt to Israel may consult each other with a view to find a solution to outstanding issues.

ARTICLE 9
Entry into Force

- (1) This Memorandum shall enter into force on the date of the latter of the Diplomatic Notes by which the Parties notify each other that their internal legal requirements for the entering into force of the Memorandum has been complied with.
- (2) The implementation of this MOU is subject to the written authorization of the track of the pipeline by the competent Israeli authorities.

Done at Cairo, Egypt on the 30 day of JUNE 2005, which corresponds to the 23rd day of Sivan 5765, in two original copies, in the English language.


Minister of National Infrastructures
on behalf of the Government
of the State of Israel


30.6.2005
Minister of Petroleum
on behalf of the Government of the
Arab Republic of Egypt

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