

TRANSLATION

LAW No. 41

Of 24 August 2007

Whereby the Special System for the Establishment and Operation of Multinational Corporations Headquarters and the Commission of Multinational Corporations Headquarters Licenses are created and other provisions are provided

THE NATIONAL ASSEMBLY

DECREES:

Chapter I

Purpose, Scope of Application and Definitions

Article 1. Purpose. This Law is aimed to create the Special System for the Establishment and Operation of Multinational Corporations Headquarters, to attract and promote investment, generate employment and transfer of technology, and to make of the Republic of Panama a competitive entity in the global economy, by making an optimum use of its geographical position, its infrastructure and international services.

Article 2. Scope of Application. This Law shall be applied within the Republic of Panama and may only be applied to Multinational Corporations Headquarters operations.

Article 3. Definitions. For the purposes of this Law, the following terms will be understood as follows:

1. *Multinational Corporation.* Juridical persons which have their headquarters in a given country and have substantial activities in production, trade, finance or services in different countries. Also will be considered as such, those companies that have operations in different regions of a given country and have decided to establish a branch, affiliate, subsidiary or associated company in Panama, to carry out business transactions in the region.
2. *Multinational Corporation Headquarters (MCH).* Multinational corporations that provide any of the services defined in this Law to their headquarters or subsidiaries, affiliates or associated corporations from Panama or that have established their headquarters in Panama, hereinafter referred to as corporate group. The headquarters will always be part of the multinational corporations with international, regional or important operations in their home country.

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Multinational Corporation Headquarters

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Article 4. Service provision. The services provided by a Multinational Corporation Headquarters are those listed below or a combination thereof:

1. The instructions and/or management for the operations in a company's specific geographical or global area of the corporate group. It refers to the services of: strategic planning, business development, human resources management and/or training, operations control and/or logistics.
2. Logistics and/or storage of components or parts required for manufacturing or assembling of the products it produces.
3. Technical assistance to corporate group companies or to customers who purchased any product or service from the company and, because of which, it is obliged to provide technical support service.
4. Financial management to the corporate group, including treasury services.
5. Accounting of corporate group.
6. Development of design and/or construction blue prints, or parts thereof, which are the scope of the business activity of the parent company or any of its subsidiaries.
7. The electronic processing of any activity, including consolidation of corporate group operations. This service includes network operations.
8. Counseling, coordination and monitoring of guidelines for marketing and advertising of products or services produced by the corporate group.
9. Operational and research support and development of products and services of the corporate group.
10. Any other similar service previously approved by the Cabinet Council through a considered resolution, as long as it complies with the provisions set forth in this Law.

Article 5. Annual Report. The companies established in Panama, subject to the provisions set forth in this law will submit to the Technical Secretariat of the Commission of Licenses of Multinational Corporations Headquarters, an annual report containing the statistics relating to their operations nationwide. This Secretariat will determine the information to be included in that report and include it in a form that should be filled out by all companies covered by the Special System created by this Law. The Multinational Corporations Headquarters are obliged to immediately report to the Commission of Licenses of Multinational Corporations Headquarters, any change to the operational status of the company and of its employees.

Article 6. Service Recipient. The function of a Multinational Corporation Headquarter will be providing services only to the corporate group to which it belongs, according to the activities permitted by this Law.

Article 7. Type of Company. Multinational companies covered by this System shall operate as registered foreign companies in Panama or as Panamanian companies owned by a multinational company, its subsidiaries or its affiliates.

Article 8. Exception. For the purposes of this Law shall not be considered as a multinational company or company subject to the Multinational Corporations Headquarters System those that, as law firms, are directly involved in providing services to customers or other companies outside their corporate group, from Panama or through a subsidiary or affiliate company abroad.

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Chapter III

Commission of Multinational Corporations Headquarters Licenses

Article 9. Creation. The Commission of Multinational Corporations Headquarters Licenses, hereinafter referred to as the Commission, is hereby created as a consultative and advisory body for the establishment of Multinational Corporations Headquarters, which is attached the Ministry of Trade and Industries. The Commission shall consist of five commissioners with right to speak and vote, as follows:

1. The Vice Minister of Foreign Trade, who shall be the chairman.
2. The Vice Minister of Foreign Affairs.
3. The Vice Minister of Labor.
4. The Director General of Immigration of the Ministry of Government and Justice.
5. The Director General of Income of the Ministry of Economy and Finance.

Each commissioner shall have a deputy that will be appointed by the principal.

The National Director of Investment Promotion of the Ministry of Trade and Industries or the official appointed by him, shall participate in the Commission meetings as technical secretary. In the event that the National Director of Investment Promotion is the chairman of the commission, the Director General of Investment Service of the Ministry of Trade and Industries or the official appointed by him shall act as technical secretary.

The Commission shall meet at least once a month and the quorum will consist of a simple majority. The decisions of the Commission shall be by simple majority.

Article 10. Duties of the Commission. The Commission will have the following duties:

1. To recommend to the Executive Branch, through the Ministry of Trade and Industries, promotion policies to establish Multinational Corporations Headquarters in Panama.
2. To set requirements for the granting of Multinational Corporations Headquarters Licenses.
3. To study efficient formulas and/or mechanisms to make of Panama an attractive location for multinational investment.
4. To coordinate with other Government institutions, the necessary measures to make of Panama an attractive location for Multinational Corporations Headquarters investment.
5. To recommend general regulations or apply mechanisms to facilitate the identification and supervision of companies granted with Multinational Corporations Headquarters License in our country.
6. To propose to the Executive Branch, through the Ministry of Trade and Industries, the regulatory provisions of this Law.
7. To advice the National Government on all matters pertaining to the development of this Law.
8. To meet on appeal the decision against resolutions issued by the Technical Secretariat.
9. To discharge all other duties assigned by Law.

Article 11. Duties of the Technical Secretariat of the Commission. The Technical Secretariat of the Commission will have the following duties:

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1. To grant Multinational Corporations Headquarters License to the companies that request and meet the requirements to be granted with this license, prior Commission's recommendation.
2. To manage personnel work visas for companies covered by a Multinational Corporations Headquarters License duly granted, as well as their dependants.
3. To issue certificates on behalf of the company granted with a Multinational Corporations Headquarters License or the personnel covered by the Multinational Corporations Headquarters Staff Visa, for administrative procedures, in matters within its competence.
4. To impose administrative sanctions or financial penalties to the companies granted with a Multinational Corporations Headquarters License, due to the noncompliance with the provisions set forth in this Law, the regulations and rules implementing it.
5. To solve, in first instance, the claims or appeals based on this Law.
6. To monitor the compliance with this Law by the companies granted with a Multinational Corporations Headquarters License.
7. To perform all administrative procedures for managing the benefits of the licensees of this Law and their staff.
8. To have the official registry of companies granted with a Multinational Corporations Headquarters License and their staff and dependants.
9. To prepare forms, guidelines and/or instruction manuals that must be submitted and/or used by the companies granted with a Multinational Corporations Headquarters License, according to the provisions of this Law and its regulations.

For the purposes of official registration and the steps to be taken by the Technical Secretariat when carrying out the duties set forth in this Law, the Ministry of Trade and Industries may establish a Single Window for Investment Procedure attached to the National Directorate for Investment Promotion.

Chapter IV

Multinational Corporations Headquarters Licenses

Article 12. Licensing Requirements. The requirements for obtaining a Multinational Corporations Headquarters License shall be established by the Commission of Multinational Corporations Headquarters License, for which it must take into consideration the following parameters: multinational company's assets, places or operation venues of the multinational company, business activities or operations carried out by the multinational company, the price of shares in national or international stock exchanges, as well as any other information that the Commission deems advisable to be established and evaluated as requirement.

Article 13. License Application. The Multinational Corporations Headquarters License applications shall be in writing and submitted to the Technical Secretariat of the Commission, by filing a form issued by the latter.

The application must be accompanied by a letter from the concerning company, which shall contain a sworn statement stating that it wishes to establish a Multinational Corporation

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Headquarters in Panama and it meets with all the requirements to apply for a license under the provisions of this Law, as well as it has the required supporting documentation.

Paragraph. Multinational Corporations Headquarters operating and providing services in Panama to companies related to the multinational company outside Panama will benefit from the provisions of this Law by an application submitted to the Technical Secretariat in accordance with the terms and conditions described in this Law and its regulations.

Article 14. Criteria for license approval. The Technical Secretariat will evaluate the application and accompanying documentation and will submit it to the Commission, once it is completed, for its recommendation.

The denial of licenses must be by means of a considered resolution. The grounds for denial may be remedied by the submittal of a new form duly corrected.

Article 15. Multinational Corporations Headquarters License Validity. The Multinational Corporations Headquarters License shall be granted to companies for an indefinite period and a unique registration number shall be conferred that will be used in all administrative procedures necessary to carry out its activities in the Republic of Panama. The Technical Secretariat will coordinate everything necessary with the other Government agencies for the proceedings to be processed faster.

Article 16. Extra activities of Multinational Corporations Headquarters. If a company granted with a Multinational Corporations Headquarters License wants to perform in the Republic of Panama extra or activities other than those previously authorized, it shall request the Technical Secretariat to amend its license through a form extension. The new license will have the same registration number as the original license.

Article 17. Activities not covered by the license. If a licensed multinational corporation wants to engage in operations not covered by this Law, it shall be done by creating a separate company, whether registering the company as a foreign company in the Public Registry or by creating a new Panamanian company to carry out such operations in the country. This company shall not be protected by this Law to engage in such activities and shall have its own staff separate from the company whose activities are covered by this Law.

Article 18. Grounds for cancellation. The Technical Secretariat, ex officio or upon request or upon recommendation of the Commission may cancel the license to any company granted with a Multinational Corporations Headquarters License if any of the following causes occur:

1. The cessation of the activity to which it was awarded with the license.
2. Not starting operations within six months after the license was granted. Said period may be extended for an additional period of six months.
3. That the multinational company is seized or declared in bankruptcy by the authorities of its home country.
4. The violation of the provisions of this Law.
5. The violation of the laws of the Republic of Panama.
6. Other cases established by this Law.

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Article 19. Cancellation procedure. The Technical Secretariat will be responsible for cancelling the license, and it may be appealed to the Commission, which may only confirm or deny the cancellation by means of a considered resolution, adopted by the affirmative vote of a simple majority of the commissioners.

The Technical Secretariat, prior verification of the cause or causes for cancellation of the Multinational Corporations Headquarters License, shall inform personally to the company the reasons or grounds for cancellation, which will have a period of ten business days, from the date of notification, to submit its reasons why the company considers the license shall not be cancelled, providing, where appropriate, the documentary evidences.

The Technical Secretariat shall, within a thirty business day period, resolve this issue by means of a considered resolution.

The company shall, within ten business days, file an appeal before the Commission, and the latter will have thirty business days to resolve it. The decision of the Commission will exhaust administrative procedures.

Article 20. Measures after the cancellation of the license. After the resolution whereby the license is cancelled is duly executed, the Commission, through the Technical Secretariat, shall immediately cancel all visas, work permits, and other licenses and work permits, granted in accordance with this Law. In the case of visas and work permits, the affected parties shall be granted with ninety days to regularize their immigration status or leave the country.

Chapter V

Tax System

Article 21. Tax System. The companies holders of a Multinational Corporations Headquarters License shall be exempted from income tax in the Republic of Panama, for the services provided to entities of any nature domiciled abroad, which do not generate taxable income within the Republic of Panama. This exemption will only apply to the company and not to its employees.

Article 22. Transfer of Movable Goods and Service Provision Tax. Due to export services, the service provided by a company holding a Multinational Corporations Headquarters License shall not cause the Transfer of Movable Goods and Service Provision Tax, as long as those are provided to persons domiciled abroad, which do not generate taxable income within the Republic of Panama.

Notwithstanding the provisions of letter e of article 10 of Executive Decree No. 84 of 26 August 2005, export is defined as those services provided from an office established in Panama, but that are perfected, consummated or take their effects abroad. These services are not eligible to obtain Certificates of Settlement.

Paragraph. The services provided by a company holding a Multinational Corporations Headquarters License established and operating in the Republic of Panama, whether it is or not

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part of the same economic group, will cause Transfer of Movable Goods and Service Provision Tax.

The companies holding a Multinational Corporations Headquarters License are not exempted of the Transfer of Movable Goods and Service Provision Tax for the purchase of goods or services in the Republic of Panama or by imports made.

Article 23. Income. The income of Multinational Corporations Headquarters will be considered produced in the Republic of Panama to the extent that their services have an impact on the production of income from Panamanian sources or conservation of this and its value has been considered as an expense deductible by the person who received them. In these cases, the taxpayer who benefits from the service or act to which this Article is about will apply the tariffs established in article 699 of the Tax Code over the fifty percent (50%) of the amount to be remitted to the Multinational Corporations Headquarters. In this case, the procedure for the withholding tax on expiry of the period will be used, the Multinational Corporations Headquarters will submit its tax statement declaring its income as exempted and showing the tax paid, but at no time will be entitled to receive tax credit for losses incurred because of costs and expenses charged to their operation.

Article 24. Information Requirements. The Multinational Corporations Headquarters are required to meet current requirements of information of any third party payments, whether those are natural or juridical persons.

Article 25. Tax Agreement. Notwithstanding the provisions of the previous article and voluntarily, the companies holding a Multinational Corporations Headquarters License may enter into tax agreements with the Ministry of Economy and Finance to consolidate their revenue and income tax payment as a result of the revenue they got from other countries.

If entering into the abovementioned tax agreement, in such shall be established the actual date in which those taxes must be paid and other details that the parties may agree upon.

The companies holding a Multinational Corporations Headquarters License shall submit to the Technical Secretariat of the Commission proof of entering into that agreement.

Chapter VI

Immigration System and other Special Conditions for the Multinational Corporations Headquarters Staff

Article 26. Multinational Corporations Headquarters Permanent Staff Visa. The foreign staff and their dependents will apply, through the Technical Secretariat, for the Multinational Corporations Headquarters Permanent Staff Visa or the Multinational Corporations Headquarters Permanent Staff's Dependent Visa. Foreign personnel granted with a Multinational Corporations Headquarters Permanent Staff Visa will be entitled to work in the Republic of Panama, as long as he works for the multinational company granted with a Multinational Corporations Headquarters License, as stipulated in this Law.

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The Ministry of Trade and Industries will enter into an agreement with the National Directorate of Immigration and Naturalization to verify the processing and issuance of the Multinational Corporations Headquarters Permanent or Temporary Staff Visa and other conditions applicable for its processing, issuance, and/or approval.

The dependants of the holder of a Multinational Corporations Headquarters Permanent Staff Visa includes the spouse, children or minors under twenty-five years old who are students, and parents of such person that will remain in the country under the responsibility of the Multinational Corporation Headquarters employee.

The holders of the Multinational Corporations Headquarters Permanent Staff Visa shall be subject to the same tax system applied to the holders of a Special Temporary Tourist Visa when they receive their income directly from the parent company abroad.

Article 27. Terms of the Visa. The Multinational Corporations Headquarters Permanent Staff Visa will be granted for a period no longer than the one established in the respective contract of employment, while working at the company, which may not exceed five years; the ID card which shall be entitled to under the visa will be valid for five years and entail the right to multiple departures and arrivals permit, valid for the term of the visa. Once, the Multinational Corporations Headquarters Permanent Staff Visa is granted, will not be required to perform any additional procedures or obtaining permission from other agency to work at the multinational company headquarters or to reside in the Republic of Panama.

Article 28. Multinational Corporations Headquarters Temporary Staff Visa. The Multinational Company Headquarters may apply, through the Technical Secretariat, for a Multinational Corporations Headquarters Temporary Staff Visa for the foreign staff that provides technical or training services to the Multinational Company Headquarters for a period no longer than three months. Once, the Multinational Corporations Headquarters Temporary Staff Visa is granted, will not be necessary to perform any additional procedures or obtaining permission from other agency to work at the multinational company headquarters or to remain in the Republic of Panama for the period given in the visa.

Article 29. Special Activities. The foreign staff domiciled abroad the Multinational Corporation Headquarters may attend to events organized by the Multinational Corporation Headquarters, such as trainings, customer and suppliers meetings, strategic meetings or conventions. To do this, the Multinational Corporation Headquarters shall inform to the Technical Secretariat that it will apply for a temporary permit for such purposes. The Executive Branch shall regulate this matter.

Article 30. Recruitment. The company covered by the Multinational Corporation Headquarters License may hire trusted foreign employees to fill senior executives and managerial positions required for their operation and for purposes of the requirements of this Law shall comply with the provisions of article 17 of the Labor Code for companies whose operations are perfected, consummated or having effects abroad. This provision shall not apply to their dependents, who may obtain the appropriate work permits according to law.

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Article 31. Limitations. The holder of a Multinational Corporations Headquarters Permanent or Temporary Staff visa may not engage in business activities other than those carried out at the Multinational Corporations Headquarters.

Article 32. Responsibilities of the Multinational Corporation Headquarters. The Multinational Corporation Headquarters shall be required to immediately inform to the Commission of any change in the status of foreign staff covered by this Law.

Article 33. Exemption. The holder of a Multinational Corporations Headquarters Permanent Staff visa will be exempted, when coming for the first time to the Republic of Panama, of the import taxes that may be applied to his household. The Customs Directorate may make such investigations and verifications allowed by Law.

Article 34. Insurance. Due that the holder of a Multinational Corporations Headquarters Permanent or Temporary Staff Visa will be temporarily in Panama, the provisions of article 77 of Law 51 of 2005 will not be applicable to him, as long as he does not apply for permanent residence in the Republic of Panama.

These foreigners must have medical insurance for themselves and their dependents. The multinational company they work for is responsible for this coverage.

Chapter VII

Violations and Sanctions

Article 35. Violations. Any act or omission that violates the rules contained in this Law and its regulations, or the rules implemented according to those or the ones derived from the licenses, will be considered as a violation to be sanctioned by the Technical Secretariat.

Article 36. Cancellation of License. To the multinational company, holding a Multinational Corporations Headquarters License carrying out in the country activities other than those authorized by the license, without complying with the provisions of this Law, its license shall be cancelled and shall be punished to pay a penalty equivalent to three times the revenue forgone in respect of tax exemptions granted by this Law.

Article 37. Sanction. Employees who enter the country covered under this Law and remaining in Panama without working for the Multinational Corporation Headquarters shall be sanctioned with a penalty up to five thousand balboas (B/.5,000.00), without prejudice to the one corresponding to the company due to non-reporting this situation in accordance to this Law.

In these cases, the visa and/or work permit of said employee shall be automatically cancelled and he shall be repatriated at the expense of the company.

The company not informing as provided on its duties in this Law or not complying with other provisions may be sanctioned with a fine up to one hundred thousand balboas (B/.100,000.00), which will be imposed by the Technical Secretariat.

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Article 38. Administrative Efficiency. The establishment of Multinational Corporations Headquarters shall be governed by the principle of administrative efficiency; therefore, government agencies and employees responsible for processing everything related to the Multinational Corporations Headquarters in Panama shall improve their administrative efficiency and avoid bureaucratization, in order to face faster and efficiently the needs of the Multinational Corporations Headquarters and of their employees.

Chapter VIII

Final Provisions

Article 39. Previsions. The Ministry of Economy and Finance shall take the necessary previsions to the budget allocation required by the Ministry of Trade and Industries for the application of this Law.

Article 40. Enactment. This Law shall be enforced since its promulgation.

LET IT BE KNOWN AND ENFORCED.

Draft 283 of 2007 approved in third reading in Palacio Justo Arosemena, city of Panama, on the twenty-first May, two thousand seven.

The President,

Eliás A. Castillo G.

The Secretary General,

Carlos José Smith S.

NATIONAL EXECUTIVE BRANCH. PRESIDENCY OF THE REPUBLIC OF PANAMA,
REPUBLIC OF PANAMA, 24 AUGUST 2007.

MARTÍN TORRIJOS ESPINO
President of the Republic

ALEJANDRO FERRER
Ministry of Trade and Industries

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