



South African Oil and Gas Fiscal Environment Update (February 2009)

The key provisions are:

An **annual exploration fee, royalty and income tax, state participation** in production and an annual **contribution to the Upstream Training Trust**.

Annual Exploration Fee:

Onshore rights - starts at R1/hectare with a minimum of R 1 000 and escalates in 50c/hectare increments each year.

Offshore right - starts at R 200 000/ sq degree pro rata with a minimum of R 50 000 and escalates annually in line with the South African Consumer Price Index (CPI).

Royalties

Royalties will be levied in terms of the Mineral and Petroleum Resources Royalty Act, number 28 of 2008. Royalties are based on profitability with a minimum rate of 0.5% and capped at 5% per annum. A formula is applied to gross sales of unrefined product for the year of assessment.

Income Tax

Income tax will be levied in terms of Schedule 10 to the Income Tax Act, and will not exceed 29% of taxable income [the current rate is 28%]. All expenditure and losses incurred will be allowed as deductions, and in addition, a further 100% of all capital expenditure incurred for exploration and 50% in production. This amounts to 200% of capital expenditure for exploration and 150% for production. All allowable costs (both operational and capital) may be immediately expensed for income tax purposes.

Guarantees

Both the Income Tax Act and the Royalty Act make provision for the Minister of Finance to enter into a contract guaranteeing that for the duration of the right (including any production right flowing from an exploration right, but excluding renewal of a production right) terms will be no more stringent than at date of signature. Corporate tax will continue to follow the rate applicable to all companies and the cap remains at 29%.

Customs Duties and Foreign Exchange

The Customs and Excise Act makes provision for the full rebate of customs duties on imported goods and equipment for use in the upstream sector. Oil and gas companies are also exempt from the normal restrictions on operating Customer Foreign Currency Accounts.

State Participation

All exploration costs are recoverable against income tax. State participation of 10%, carried through exploration, will be through PetroSA. A further 10% interest will be made available on commercial

terms for participation by black South African companies (referred to as Black Economic Empowerment (BEE) companies). It is envisaged that this may be taken up by PetroSA in the absence of any other applications.

Annual Upstream Training Trust Donation

Onshore rights – R1/hectare with a minimum of R 1 000.

Offshore right – R 200 000/ sq degree pro rata with a minimum of R 50 000.

For further information contact:

Lindiwe Mtunzi
Manager: Licensing and Legal Compliance
Petroleum Agency SA
Phone: +27 21 938 3500
Fax: +27 21 938 3520