



## South African Oil and Gas Fiscal Environment Update (July 2010)

The key provisions are:

An **annual exploration fee**, **royalty** and **income tax**, **state participation**, **BEE 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. The rate is variable based on profitability with a minimum rate of 0.5% and capped at 5% per annum.

### Income Tax

Income tax will be levied in terms of the Income Tax Act, Schedule 10 of which contains additional provisions applicable only to the upstream petroleum sector and will not exceed 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. The rate was changed in the Revenue Laws Amendment Act 2008. (Act 60 of 2008).

### 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) the terms of the Tenth Schedule and Royalty Act will be no more stringent than at date of signature.

### Customs Duties and Exchange Control

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 and BEE Participation Interest

State participation of 10%, carried at the production stage, will be through PetroSA. A further 10% interest will be made available on commercial terms for participation by BEE companies (Black

Economic Empowerment companies). This may be taken up by PetroSA in the absence of any BEE participants.

**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.

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