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# The Deloitte Guide to Oil and Gas in East Africa

## Uniquely structured

2014 Edition

# Contents

# Introduction

**Welcome to the 2014 edition of the Deloitte Guide to Oil and Gas in East Africa.**

In the twelve months since our first edition, East Africa has continued to hit the industry headlines and it seems safe to predict that this will continue for the rest of 2014. September 2013 saw Uganda issue its first production licence (for the Kingfisher field) with the expectation that others will follow in 2014, along with finalisation of plans for a new oil refinery at Hoima. In Tanzania continuing exploration has added to the country's offshore gas reserves and a new licensing round was launched in October. Mozambique is expecting FID for its huge offshore gas reserves during 2014 with plans to construct a 4 train LNG plant with a 20 million tonne per year capacity. Kenya has seen further exploration success with Tullow indicating total oil reserves of approximately 600 million barrels in its onshore blocks in Northern Kenya and further offshore drilling is planned for Kenya's exclusive economic zone in 2014.

Our new edition updates the information provided last year but also adds a new country: Ethiopia. Whilst Ethiopia far enjoyed only limited exploration success it does have potentially commercial gas reserves and promising geology. We expect interest in this country to increase in the coming months.

Expectations across the region are high, but there is still a long and (perhaps) winding road to follow before upstream oil and gas exploitation starts to deliver results in terms of higher living standards and increased tax revenues for governments. Unfortunately there are already signs of impatience and managing expectations is going to be a key challenge in the coming years, not only for the oil and gas companies themselves, but also, even more importantly, for governments and politicians. It also needs to be remembered that massive investments are required and governments need to maintain a welcoming environment for the foreign investors who will provide the billions of dollars of finance.

As a professional services firm with a long history of working with the oil and gas industry (both private sector players and governments), Deloitte is committed to making oil and gas a success story for this region. I hope and expect that future editions will chart that success.

Finally I must thank my Deloitte colleagues who contributed to this guide: Eugenia Santos and Celia Meneses from our Maputo office; Nikhil Hira from Nairobi; Patronella Namubiru and Matthew Tallarovic from Kampala; Getu Jemaneh from Addis Ababa; and Graham Sadler and Lydia Thevanayagam from Deloitte's Petroleum Services Group in London. I must pay special thanks in addition to Linda Ndungu of our Dar es Salaam office who has assisted me with editing and statistical research.

Bill Page
Dar es Salaam, March 2014

# 1 Ethiopia

## 1.1 Overview

Apart from a brief period of Italian occupation between 1936 and 1941, Ethiopia successfully resisted the "Scramble for Africa". It was a monarchy until 1974, when the last emperor, Hailie Selassie, was deposed by a military junta (the Derg) which imposed a socialist system. Following years of internal strife and appalling famines, the Derg itself was overthrown in 1991. The first multi-party elections were held in 1995. For 2 decades Ethiopian politics was dominated by prime minister, Meles Zenawi, the charismatic leader of the movement which defeated the Derg. His coalition, the Ethiopian People's Revolutionary Democratic Front, remains the ruling party. On his death in 2012, power passed to his deputy Hailemariam Desalegn. Parliamentary elections are due to take place in 2015.

Though one of the fastest growing economies in Africa, Ethiopia still has one of the lowest GDPs per person, and the economy has not been fully liberalised. The key financial services and telecoms sectors are closed to foreign investment. Agriculture, particularly coffee production, remains a key part of the economy though poor farming practices and low levels of investment still leave parts of the country vulnerable to drought and famine. Despite the threat of drought, mountainous Ethiopia has huge potential for hydropower for both the domestic market and export: the government has initiated a plan to increase generation capacity to 15GW by 2015.

Ethiopia is land-locked following Eritrea's independence in 1993 and tensions remain with that country

## 1.2 Key facts

**Population:** 93 million (July 2013 estimate)
**Median age:** 17.5 years
**Currency (code):** Birr (ETB)
**Exchange rate at 1 March 2013:** 19.6 = US$ 1
**Exchange controls:** Ethiopia's central bank administers a strict foreign currency control regime and the local currency (Birr) is not freely convertible
**GDP (purchasing power parity):** US$118.2 billion (2013 estimate)
**GDP per head of population:** US$1,300 (2013 estimate)
**GDP Growth:** 7% (2013 estimate)
Principal industries: food processing, beverages, textiles, leather, chemicals, metals processing and cement
**Official language:** Amharic
**Unemployment:** 17.5% (2012 estimate)
**Hydrocarbon production:** nil
**Petroleum product usage:** 49,080 barrels per day (2011 estimate)
**Legal system:** Civil law system
**Head of State:** President Mulatu Teshome Wirtu (since 7 October 2013)
**Head of Government:** Prime Minister Hailemariam Desalegn (since 21 September 2012);
Note - prior to his approval as prime minister, Hailemariam had been acting prime minister due to the death of former Prime Minister Meles
**Transparency International corruption perception index 2013:** 33 (ranked 111)

Sources

- BBC country profile (http://www.bbc.com/news/world-africa-13349398);
- National Bank of Ethiopia http://www.nbe.gov.et/
- CIA World Factbook (https://www.cia.gov/library/publications/the-world-factbook/geos/et.html);
- Transparency International (http://cpi.transparency.org/cpi2013/results/)

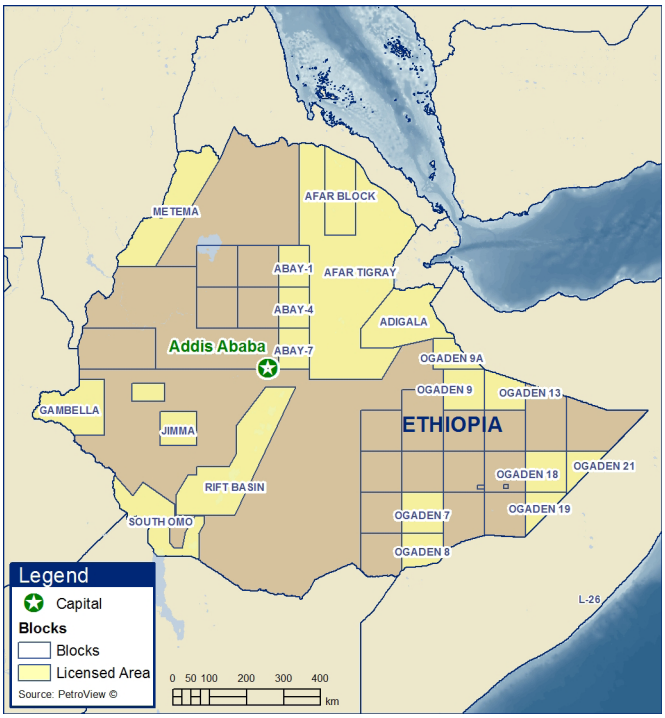
## 1.3 Industry overview

Ethiopia currently has no commercial production of hydrocarbons, though there have been significant gas discoveries and signs of oil.

Ethiopia has 6 basins which may contain commercial hydrocarbons: Ogaden, Abay, Gambella, Omo, Chew Bahir and Mekele. US company Tenneco discovered 2 gas fields in the Ogaden Basin in the early 1970s: Calub (estimated at 2.7 tcf) and Hilala (estimated at 1.3 tcf). These have had a troubled history and are still not in production. Following the overthrow of Emperor Hailie Selassie, Tenneco was expelled by the Derg in 1977 and further work was then carried out at the fields by a Soviet exploration company. They in turn left Ethiopia after the fall of the Derg and in 2007 PPSAs were awarded to Petronas. Petronas left Ethiopia in 2010 as a result of a portfolio rationalisation exercise and the blocks were then awarded to a private Hong Kong-based company, PetroTrans. PetroTrans rapidly fell out with the Ethiopian government and is reported to be taking its dispute to international arbitration. Meanwhile local media reports that another Chinese company, Poly GCL Petroleum Investment Ltd, has signed new PPSAs for the blocks.

The Chew Bahir and Omo basins lie in the East Africa Rift system and have attracted particular interest since Tullow Oil's success in the near-by and geologically similar Lake Turkana region of Kenya. Tullow and partner Africa Oil drilled 2 wells in the South Omo block during 2013. Whilst neither confirmed the presence of commercial hydrocarbons, the companies issued optimistic press releases and confirmed their intention to drill further wells in the area during 2014.

In February 2014, it was reported that the El Kuran-3 well in the Ogaden Basin (operator New Age) had encountered oil and gas shows and that operator would continue drilling to a depth of 3,500 metres to test deeper strata.




Source: PetroView®

| Operator | Block Name | Partners |
|---|---|---|
| AFAR EXPLORATION | AFAR BLOCK | - |
| AFRICA OIL CORP | ADIGALA | GENEL ENERGY, NEW AGE (GAE) LTD |
| | RIFT BASIN | - |
| CALVALLEY PETROL | METEMA | - |
| TULLOW OIL PLC | SOUTH OMO | AFRICA OIL CORP, MARATHON OIL CORP |
| TRANSGLOBAL PETROLEUM | AFAR TIGRAY | - |
| FALCON PETROLEUM | ABAY-1 | - |
| | ABAY-4 | - |
| | ABAY-7 | - |
| PEXCO NV | OGADEN 18 | - |
| | OGADEN 19 | - |
| | OGADEN 21 | - |
| NEW AGE (GAE) LTD | OGADEN 7 | AFRICA OIL CORP, AFREN PLC, |
| | OGADEN 8 | AFRICA OIL CORP, AFREN PLC, |
| SOUTHWEST ENERGY BVI | OGADEN 9 | - |
| | OGADEN 9A | - |
| | OGADEN 13 | - |
| | GAMBELLA | - |
| | JIMMA | - |

Source: PetroView®

### 1.4 Regulatory environment

Ethiopia's economy is not yet fully liberalized, though significant steps are being taken to encourage foreign investment in key sectors. Hydrocarbon exploration still has a relatively low priority for the government, though this is starting to change given the large discoveries elsewhere in the region.

The legal foundation for upstream activities in Ethiopia is the Proclamation to Regulate Petroleum Operations (Proclamation 295/1986) issued by the Derg in March 1986 and still in force. This is available in English and Amharic on the website of the Ethiopian Ministry of Mines (http://www.mom.gov.et/). The Ministry combines the functions of policy maker, regulator and (in the absence of a NOC) commercial partner in upstream projects, though the latter function has not so far been exercised.

Proclamation 295/1986 is brief but fairly comprehensive in its coverage of upstream issues. It states that, in respect of issues covered, it takes precedence over any other Ethiopian laws, specifically those related to mining. It should be noted however that conflict of laws remains a key issue for investors as conflicting laws often state that they take priority over all other laws. The Proclamation provides the following, amongst other matters:

- The government, acting via the Minister of Mines, may enter into agreements (i.e. PPSAs – see below) to undertake petroleum operations.
- In addition to PPSAs, non-exclusive agreements are possible in order to carry out G&G surveys.
- PPSAs may be awarded after competitive bidding or exclusive negotiation.
- Preference is to be given to employment of Ethiopians and to procurement of Ethiopian goods and services. No minimum percentages are provided.
- Direct assignments of PPSA interests require ministerial consent.
- Customs exemptions are provided for contractors and subcontractors in respect of goods imported for petroleum operations.
- Expatriate employees are exempt from personal income tax.
- Exchange control regulations are relaxed for contractors and subcontractors.

Ethiopia has adopted production sharing as a basis for its engagement with international oil and gas companies. Hydrocarbons in the ground are property of the state and are to be shared once produced under the framework of a Petroleum Production Sharing Agreement (PPSA). A model PPSA is posted on the Ministry of Mines website. The model (MPPSA) follows international standards fairly closely:

- Contractors may be Ethiopian or foreign legal entities, but in both cases they should maintain offices in Ethiopia (which implies registration of a branch in the case of a foreign legal entity).
- Negotiable government equity participation is provided (either directly or via a nominee) with no obligation to reimburse exploration costs. An interest-bearing loan is required from the Contractor to fund the government's share of development costs.
- A cost recovery cap is provided but the amount is negotiable.
- Profit hydrocarbons are shared on the basis of volumes produced (i.e. no R-factor or other return-based criterion).
- Financing costs (except in respect of funding exploration) are cost-recoverable subject to arm's length tests.
- The contractor is required to sell oil to the state under certain circumstances, but the amount should be proportionate and paid for in USD at market value as determined under the PPSA.
- Rentals, royalties and bonuses are provided for, but the amounts are negotiable.
- The contractor and subcontractors are subject to Ethiopian tax legislation (see below).
- Foreign exchange control relaxations reflect those in Proclamation 295/1986 as do the exemptions from import taxes and personal income tax for expatriates.
- A standard form of accounting procedure is included.
- The MPPSA does not provide for an additional profits tax or other form of windfall tax.
- There is no provision for the establishment of a decommissioning reserve.

### 1.5 Taxation of oil and gas projects

The Ministry of Mines website contains a link to Proclamation 296/1986 (The Petroleum Operations Income Tax Proclamation) which was issued shortly after Proclamation 295/1986. This document provides detailed rules for the application of income tax to upstream operations and is supposed to take precedence over the general tax regime (though there is some uncertainty about this in practice). Proclamation 296/1986 does not deal with taxes apart from income tax.

- Proclamation 296/1986 provides that the base for calculating income tax is revenue from the Contractor's share of production less allowable deductions including tax depreciation.
- This calculation is entirely separate from the calculation of profit hydrocarbon sharing under the PPSA, but should be based on the accounting records prepared in US dollars in accordance with the Accounting Procedure and "generally accepted international petroleum industry practice". The applicable tax rate is 30%.
- There is no fiscal consolidation of separate legal entities, but no income tax ring fence where more than one PPSA is held by a single legal entity, so results may be consolidated for purposes of calculating income tax.
- Exploration and other costs incurred before the commencement of "regular production" are to be capitalised and depreciated at 20% per annum (straight-line basis) from the period in which regular production commences. Other capex is to be depreciated on the same basis from the year incurred.
- Decommissioning costs may only be deducted in the year incurred.
- Losses may be carried forward for up to 10 years. There is no provision for loss carry-back.
- Interest on debt that is on arm's length terms is deductible (unless it is used to fund exploration). General tax law provides WHT at a rate of 10% on interest paid to non-residents.

- General tax law provides a 10% WHT on dividends paid to non-residents. Proclamation 296/1986 provides an exemption from this in respect of profits derived from petroleum operations. There is no branch profits tax in Ethiopia.
- Proceeds from the disposal of interests in a PPSA that have commenced "regular production" are treated as receipts from petroleum operations. This implies no adjustment to tax depreciation pools, though of course this is untested in practice. The acquirer is entitled to relief on the amounts paid (including any premium) as capex subject to 20% per annum tax depreciation on a straight-line basis.
- Proceeds from the disposal of interests in a PPSA that is still in the exploration phase may be offset by costs incurred in respect of the interest transferred. This implies apportionment of the base cost where there is a part disposal.

Proclamation 296/1986 also provides rules for the income tax treatment of foreign subcontractors, "Subcontractors" are defined as persons "with whom a contractor establishes a contractual relationship for the provision of services required for performance under a petroleum agreement" (i.e. a PPSA). There is no separate definition of "foreign subcontractors" however, though the natural meaning would be companies which are not registered in Ethiopia. The definition excludes lower tier subcontractors, who will therefore be subject to general income tax rules. Specific provisions in the Proclamation applicable to foreign subcontractors are:

- Services provided outside a development area are exempt from income tax. A development area is a location which has a commercial discovery approved for development by the Minister of Mines.
- A foreign subcontractor performing services for a contractor in relation to a development area will be subject to income tax. The tax is collected via withholding which is applied at the rate of 3% (which is equivalent to the 30% statutory rate applied to a deemed margin of 10%. The tax base excludes mobilisation, demobilisation and reimbursable costs.

It should be noted that these provisions apply only for income tax purposes. For example, they do not relieve subcontractors from the obligation to account for VAT. The income tax exemption for exploration stage activities conflicts with the general income tax law that would potentially deem a permanent establishment in respect of service activities carried out in Ethiopia. General law provides for a 10% WHT on payments for technical services provided by non-registered, non-residents.

As noted above certain exemptions in respect of import taxes and personal income tax for expatriates are provided under Proclamation 295/1986 and the MPSA. These have not been challenged so far as we are aware at the time of writing.

Personal income tax rates change from 10% to 35% and the tax base includes most benefits in kind. Employers are required to deduct tax at source. In addition, there is a mandatory social security contribution for Ethiopian nationals: the rate is 7% of remuneration for employees on top of which the employer pays an additional 11%.

Ethiopia has a VAT regime which is consistent with international norms. Companies involved in exploration and development are entitled to VAT register even if they are not yet generating income. Input VAT incurred in this period is repayable in principle, though as in many emerging markets, in practice it may be harder, particularly if the amounts are substantial. Services provided outside Ethiopia are subject to a reverse charge mechanism which requires payment of VAT on imported services. This then becomes creditable input VAT recoverable subject to normal rules.
It should be remembered that the upstream industry is still in its infancy in Ethiopia and there are many uncertainties in law and practice.

# 2 Kenya

## 2.1 Overview

Kenya is a former British colony which became independent in 1963. Its first president, the charismatic Jomo Kenyatta, led the country from 1963 to his death in 1978. His successor, Daniel arap Moi left power in 2002 after 24 years in office, a period marked by major corruption scandals. Kenya's transition to stable, democratic government has been somewhat erratic, with continuing allegations of corruption. The 2007 election was followed by widespread violence resulting in the deaths of around 1,500. Following the unrest, a peace deal was brokered by former UN secretary general, Kofi Annan which resulted in the formation of a coalition between the main political parties. Kenyans voted in a national referendum to approve a new constitution in August 2010 which entailed the creation of a bicameral assembly and the abolition of the post of prime minister. As part of the new constitution, 47 counties each with a governor and county assembly have been established. Kenya held a peaceful general election in March 2013 and elected a new President – Uhuru Kenyatta (son of the first president) with William Ruto as his deputy. Devolution to county governments has proved to be difficult but is progressing. Kenya's economy remains energy starved with restricted access to electricity.


Source: PetroView®

## 2.2 Key facts

**Population:** 44 million (July 2013 estimate)
**Median age:** 18.9 years
**Currency (code):** Kenya shilling (KES)
**Exchange rate at February 2014:** KES 86.3 = US$ 1 (Central Bank of Kenya)
**Exchange controls:** none, but banks must report foreign exchange transactions on excess of US $ 10,000.
**GDP (purchasing power parity):** US$79.9 billion (2013 estimate)
**GDP per head of population:** US$ 1,800 (2013 estimate)
**GDP growth:** 5.1% (2013 estimate)
**Principal industries:** small-scale consumer goods, agricultural products, horticulture, oil refining; aluminium, steel, lead; cement, commercial ship repair, and tourism
**Official languages:** English, Kiswahili
**Unemployment rate:** 40% (2008 estimate)
**Hydrocarbon production:** nil
**Petroleum production usage:** 82,000 barrels per day equivalent (2011 estimate)
**Legal system:** mixed legal system of English common law, Islamic law, and customary law.
**Head of State:** President Uhuru Kenyatta
**Head of Government:** Uhuru Kenyatta
**Transparency International corruption perception index 2013:** 27 (placed 136)

Sources:

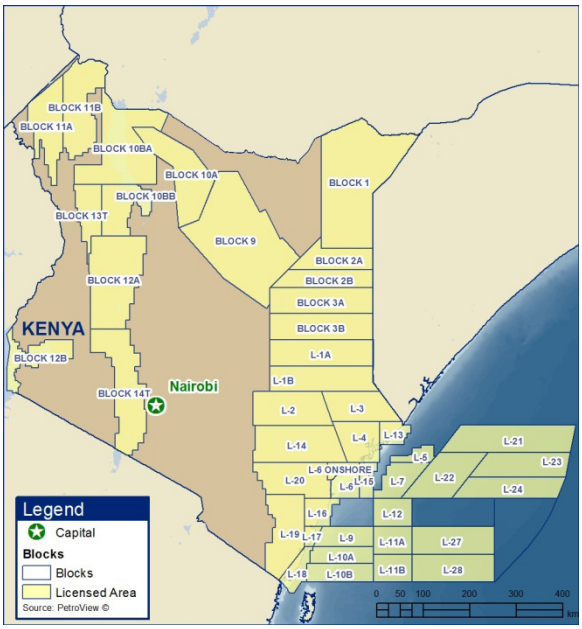
- BBC country profile (http://www.bbc.co.uk/news/world-africa-13681341);
- CIA World Factbook (https://www.cia.gov/library/publications/the-world-factbook/geos/ke.html);
- Transparency International (http://cpi.transparency.org/cpi2013/results/)

## 2.3 Industry overview

Kenya has 4 prospective sedimentary basins: Anza, Lamu, Mandera and the Tertiary Rift. The Lamu basin extends offshore.

Kenya has no proven commercial hydrocarbon discoveries at the time of writing. BP and Shell carried out exploration work in the 1950s with the first exploration well being drilled in 1960. Over the past 50 years many other oil and gas companies have tried their luck onshore and offshore, including Exxon, Total, Chevron, Woodside and CNOOC. Of 33 wells drilled in the country prior to 2012, 16 showed signs of hydrocarbons, but none were considered commercial. Only 4 had been drilled offshore prior to 2012 and of these only 1 (in Block L5, drilled by Woodside in 2007) was in deep water. Following recent successes in Mozambique and Tanzania, offshore exploration has become the flavor of the moment and industry confidence was boosted in 2012 by the announcement that Apache's Mbawa-1 well (Block L8) had encountered gas. Extensive activity is expected over the next 2 years, with drilling planned by Afren (Block L17/18), Anadarko (Block L12), BG Group (Blocks L10A and L10B) and FAR (Block L6).

Onshore drilling by CNOOC during 2009 in Block 9 (Anza Basin) proved unsuccessful, despite high hopes and reports of gas finds. Tullow Oil farmed into 6 blocks in the Turkana Rift Basin in late 2010 (5 in Kenya and one block in Ethiopia). The geology of this area is similar to that in the Albertine Graben of Uganda and a well drilled in 1992 by Shell found evidence of waxy crude similar to that in the Ugandan arm of the Rift Valley. On 26 March, 2012, Tullow announced an oil discovery in Block 10BB. A further discovery of oil in Block 13T was announced in November 2012 and drilling in the area continues at the time of writing with a total of 7 discoveries out of 7 wells drilled and estimates of 600 million barrels of oil in place. Kenya's blocks are currently licensed as follows:




Source: PetroView®

| Operator | Block | Consortium partners |
|---|---|---|
| ADAMANTINE ENERGY | BLOCK 11B | BOWLEVEN PLC |
| AFREN | L-18 | - |
| | L-17 | - |
| | BLOCK 1 | TAIPAN RESOURCES INC |
| AFRICA OIL | BLOCK 9 | MARATHON OIL |
| ANADARKO | L-11B | TOTAL, GOVERNMENT - KENYA, PTTEP |
| | L-12 | TOTAL, GOVERNMENT - KENYA, PTTEP |
| | L-11A | TOTAL, GOVERNMENT - KENYA, PTTEP |
| | L-7 | TOTAL, GOVERNMENT - KENYA, PTTEP |
| | L-5 | TOTAL, GOVERNMENT - KENYA, PTTEP |
| A-Z PETROLEUM | L-1A | - |
| | L-3 | - |
| BG GROUP | L-10B | PREMIER OIL, PANCONTINENTAL, PTTEP |
| | L-10A | PTTEP, PANCONTINENTAL |
| CAMAC | L-16 | GOVERNMENT - KENYA |
| | L-1B | GOVERNMENT - KENYA |
| | L-27 | GOVERNMENT - KENYA |
| | L-28 | GOVERNMENT - KENYA |
| CESPA | BLOCK 11A | EHRC ENERGY, GOVERNMENT - KENYA |
| EDGO GROUP | L-14 | QATAR FIRST INVESTMENTS |

Source: PetroView®

| Operator | Block | Consortium partners |
|---|---|---|
| ENI | L-21 | - |
| | L-23 | - |
| | L-24 | - |
| FAR LTD | L-6 | PANCONTINENTAL OIL |
| | L-6 ONSHORE | MILIO INTERNATIONAL, PANCONTINENTAL OIL |
| IMARA ENERGY CORP. | L-2 | - |
| MIDWAY RESOURCES | L-4 | SWISS OIL COMPANY, NOCK |
| | L-13 | SWISS OIL COMPANY, NOCK |
| MILIO INTERNATIONAL | L-20 | PACIFIC SEABOARD |
| NOCK | BLOCK 14T | - |
| OPHIR ENERGY | L-9 | FAR LTD, GOVERNMENT - KENYA, VANOIL ENERGY |
| | L-15 | GOVERNMENT - KENYA |
| PANCONTINENTAL | L-8* | - |
| PREMIER OIL | BLOCK 2B | TAIPAN RESOURCES INC |
| RIFT ENERGY CORP | L-19 | - |
| SIMBA ENERGY INC | BLOCK 2A | - |
| TOTAL | L-22 | - |
| TULLOW OIL | BLOCK 10BA | AFRICA OIL |
| | BLOCK 10A | AFRICA OIL, AFREN PLC |
| | BLOCK 10BB | AFRICA OIL |
| | BLOCK 13T | AFRICA OIL, NOCK |
| | BLOCK 12B | SWALA ENERGY |
| | BLOCK 12A | AFRICA OIL , MARATHON OIL, NOCK |
| VANOIL | BLOCK 3B | - |
| | BLOCK 3A | - |

*Pancontinental is reapplying for the L-8 license after operator APACHE left the block.

Source: PetroView®

Kenya is home to the region's only operating refinery although in the recent past there have been differences between the government and the private sector owners which has resulted in a temporary shutdown. The nameplate capacity of the Mombasa refinery, operated on a tolling basis by Kenya Petroleum Refinery Limited (KPRL), is 80,000 barrels per day. In 2009 Essar acquired a 50% interest in KPRL from a consortium of BP, Shell and Chevron. The remainder is owned by the Kenyan government. At that point it was announced that Essar would invest USD 400 – 450 million in a significant upgrade. This project appears to be stalled at the time of writing.

Sources:

- National Oil Corporation of Kenya website (http://www.nockenya.co.ke/)
- A Dash for Gas (and Oil…) in East Africa (Citigroup Global Markets, 4 July 2011)
- Tullow Oil website (http://www.tullowoil.com/)
- Essar website (http://www.essar.com/)
- KPRL website (http://www.kprl.co.ke/)

## 2.4 Regulatory environment

The Petroleum (Exploration and Production) Act (cap 308), last revised in 2012, is the fundamental law governing upstream activities in Kenya. This vests ownership of hydrocarbons in the hands of the Kenyan government and grants significant powers over the sector to the Cabinet Secretary in the Ministry of Energy and Petroleum. Day to day responsibility for the sector lies with the Petroleum Energy Department of the Ministry.

The Act envisages upstream activities being conducted via a state oil company established for that purpose or through contractors under a petroleum agreement or "in any such other manner as may be necessary or appropriate" (section 4 (3) (b)). The Minister is empowered to sign petroleum agreements on behalf of Kenya and is required to make a model agreement available to potential contractors: this can be downloaded from the website of the state oil company (the National Oil Corporation of Kenya Ltd (NOCK) - see http://www.nockenya.co.ke/).

The Act is brief and provides little detail, particularly on questions relating to development and production activities. There are a couple of points worth noting:

- Where petroleum operations are carried out onshore, the Act provides the contractor with right of access to private land at 48 hours' notice subject to various conditions.
- A contractor is required to give preference to locally available goods and services, but there is no definition of what "locally available" means and no specific percentage of local content is prescribed.

NOCK was established in the 1980s to spearhead exploration on behalf of the Kenyan government. This remains a key role, but since 1997 it has also built up a retail business and today controls around 5% of the retail market for petroleum products in Kenya.

Key features of the current model production sharing contract include:

- Negotiation of an initial exploration period with the possibility to extend this twice.
- An agreed percentage of the contract area is to be surrendered at the end of each exploration period.
- In the event of a commercial development the total contract duration is negotiable.
- Surface fees are provided for but are negotiable.
- Annual contributions to the Ministry of Energy training fund.
- The PSC does not provide for bonus payments or royalties.
- A cost recovery cap per period is envisaged but the amount of this is also negotiable.
- Capital costs are subject to recovery at a rate of 20% per annum (straight-line).
- The sharing of profit oil is based solely on production volumes with the maximum state share achieved when production exceeds 100,000 barrels per day. The state share may be taken in cash or in kind.
- Separate rules for sharing gas production are not provided.
- The state's share of profit oil is inclusive of income tax (see below for more detail).
- The model provides for an additional allocation of profit oil to the state, triggered when the oil price exceeds a specified threshold.
- In the event of a development, the government has a right to participate directly or via its designee (presumably this would be NOCK). The percentage share to be transferred is subject for negotiation. The PSC envisages that this will not entail reimbursement of costs up to the adoption of the development plan, but the government or its designee will be obliged to fund the respective share of costs thereafter, no carry arrangement being envisaged.
- The contractor is obliged to supply the domestic market out of its share of production in accordance with instructions from the Minister. This will be at market price.
- The contractor and its subcontractors will be entitled to import goods and equipment for petroleum operations free from customs duties.

- The PSC is subordinate to the laws of Kenya and it is not envisaged that it will be given force of law itself (e.g. by gazetting). In the event of a change in laws or regulations that impacts the economic benefits of a party to the PSC, it is provided that the parties "shall agree to make the necessary adjustments" to restore the status quo.
- In the event of dispute arbitration is provided for under UNCITRAL rules. This is to take place in Nairobi.
- The accounting procedure specifies the use of US dollars.

The government is currently working on its policy framework for natural resources (which is expected to be published during the course of 2014) as well as on a draft Energy Bill.

Sources:

- National Oil Corporation of Kenya website (http://www.nockenya.co.ke/)
- Website of the Kenya Ministry of Energy (http://www.energy.go.ke/)
- The Petroleum (Exploration and Production) Act, Chapter 308, 1986
- The Petroleum (Exploration and Production) Regulation

## 2.5 Taxation of oil and gas projects

The responsibility for administering taxes in Kenya rests with the Kenya Revenue Authority ("KRA"). The tax year is the calendar year for natural persons, and the financial year which ends in June for all other persons.

Kenya resident companies and branches of foreign legal entities are taxed on all income accruing in or derived from Kenya. The calculation of profits is based on the IFRS financial statements. The rate for resident companies is 30% and for branches is 37.5%. There is no branch profits tax or branch remittance tax. Dividends paid by a resident company to a non-resident shareholder are usually subject to withholding tax at a rate of 10%. Capital gains are generally not taxed in Kenya (whilst there is capital gains tax legislation this has been suspended since 1985). Losses incurred may be offset in the year in which incurred and any of the 4 following years.

Income tax on employment income is generally collected via withholding at source under "pay as you earn" (PAYE). The marginal rate is 30% and additionally employers are required to collect certain social security contributions.

As noted above, the Kenyan model PSC provides that income tax (including tax on dividends paid) imposed on the contractor will be allocated from the government's share of production. The PSC does not provide detailed rules for calculating the implied gross-up or guidance on how the allocation is to be carried out if the company has more than one PSA or other activities.

The Kenya Income Tax Act contains a specific schedule (the Ninth) which deals with the taxation of upstream activities and includes a special regime for subcontractors. At the time of writing, we understand that these rules are under review but it is not clear what changes may be made or when they might be introduced. The rules are clearly drafted and deal with most routine situations likely to be encountered during the exploration phase. They have not been tested through development and production, of course.

Key points addressed in the schedule which apply to petroleum companies are as follows:

- There are specific and detailed rules for determining the value of sales for tax purposes together with specific transfer pricing rules. These mirror the provisions of the model PSC.
- Capital expenditure is depreciated for tax purposes at a rate of 20% per annum (straight-line) commencing in the year the asset is brought into use or the year in which production commences whichever is later. Operating costs (including G&G and intangible drilling) are fully deductible in the year incurred.
- There are also specific thin capitalization rules for petroleum companies. These apply to both branches and residents. Interest expenses are restricted if the loan amount or interest rate exceeds an arm's length amount. No specific debt: equity ratio is prescribed (unlike the general thin capitalization rules which impose a maximum debt: equity ratio of 3:1).
- Petroleum companies are permitted to carry back losses arising in the final year of production for up to 3 years. No carry back is permitted under general tax rules.
- Any gain arising on the disposal of a PSC interest will be taxed as income (the suspension of tax on capital gains is therefore not a benefit to petroleum companies). The gain is the difference between proceeds and capital expenditure that has not yet been depreciated for tax purposes. The rules are silent on what happens in the case of a loss. In the case of a partial disposal the KRA may apportion the tax basis between the part sold and the part retained.
- In the event a disposal wholly or partly in exchange for the undertaking of a work obligation the value of the work obligation is excluded from the calculation of the gain.
- Amendments to the Income Tax Act introduced at the end of 2012 introduced an additional withholding tax on direct and indirect transfers of PSC interests. The rate is 10% of the value of total consideration in the case of transactions with residents and 20% in other cases. Before the Finance Act 2013, this was a final tax. However, the Finance Act 2013 amended this position such that the withholding tax deducted will be an advance tax effective 1 January 2014.

- On a disposal the assignee is permitted to tax depreciate the full consideration (i.e. a step-up in basis is permitted).
- The schedule does not provide for ring fencing of individual PSCs for tax purposes, so theoretically a petroleum company should pool all income and expenditures for purposes of calculating income tax. This is likely to cause difficulty in practice as the model PSC allocates income tax out of the government share of production and logically the mechanism for doing so can only operate on in individual PSC basis.

As mentioned above, the Ninth Schedule also deals with the taxation of "petroleum service subcontractors". The definition restricts the scope to non-resident companies which contract directly with a petroleum company, i.e. it excludes a resident entity and also any lower tier subcontractors. The rules created a simplified tax regime for companies which are within the scope:

- They are subject to tax at the non-resident rate (37.5%) on a deemed profit of 15%.
- The resulting tax (5.625%) is to be withheld by the petroleum company and is a final tax.
- The base for calculating the tax excludes costs reimbursed by the petroleum company (including mobilization and demobilization costs).
- The rules only apply to activities within Kenya and its exclusive economic zone.

For activities undertaken by lower tier subcontractors, or services otherwise outside the scope of these special rules other rates of withholding tax may be applicable, depending on the specific fact pattern.

In addition to income tax on companies, Kenya operates a VAT system along conventional lines. The standard VAT rate is 16% but exports are generally zero-rated. Imports of goods and services normally trigger a VAT liability. The model PSC provides an exemption from VAT and customs duty on imports of goods by contractors and subcontractors. The new Kenyan VAT Act which came into effect on 2 September 2013 also provides for exemption from VAT in respect of supplies, excluding motor vehicles, imported or purchased for direct and exclusive use in oil prospecting or exploration, by a company granted a prospecting or exploration license in accordance with the provisions of Petroleum (Exploration and Production) Act (Cap. 308) upon recommendation by the Cabinet Secretary responsible for energy.

General Law also provides an exemption from customs duty on equipment imported for purposes of exploration and development activities. This mirrors the exemption provided in the PSC, though it does not apply to subcontractors.

In addition to the above, the Finance Act 2013 introduced a Railway Development Levy (RDL) under Section 117A of the Customs and Excise Act, which will be imposed on all goods imported for use in Kenya. The levy will be at the rate of 1.5% of the customs value of the goods (i.e. Cost, Insurance and Freight for sea shipments and Cost and Insurance for air freight), and shall be payable by the importer at the time of clearing the goods.

The effective date of this amendment was 1 July, 2013. The Kenya Oil & Gas Association sought exemption on the basis that the Production Sharing Contracts signed by the oil companies exempt them from any such levies. This application was denied on the basis that there is no legal provision allowing for exemption. The Association is currently engaging the Treasury with a view to resolving this. However, the National Treasury is yet to formally comment.

**Sources:**

- Kenya Income Tax Act
- Kenya VAT Act
- Customs and Excise Act
- East African Community Customs Management Act

# 3 Mozambique

## 3.1 Overview

Mozambique has been independent now since 1974. While services and agriculture remain a key part of the economy, it has developed strong economic growth during the last 10 years derived from the export of aluminium, gas and very recently, from other mineral exports, in particular coal. This year Mozambique will be, for the first time, exporting oil from Inhambane Province.

The government of Mozambique continues to pursue development of industrial projects linked to the exploration of natural resources as well as tourism, logistics and energy taking full advantage of the SADC (Southern African Development Community) market with a 278 Million population. In accordance with the latest IMF report the expected growth for 2014 will be 8%.

The peace agreement between Renamo (the main opposition party) and Frelimo (the ruling party) which ended the civil war in 1992, has been challenged since October last year and the country subject to new low intensity attacks by a military faction of Renamo. These attacks have disrupted communications by road in the central province of Sofala but so far have not spilled over into other provinces.

During the municipal elections in November 2013 the second opposition party has gained substantial ground and captured four major cities (Beira, Quelimane, Nampula and Gurué).


Source: PetroView®

### 3.2 Key Facts

**Population:** 24,096,669 (July 2013 estimate)
**Total Area:** 799,380 sq. km
**Median age:** 16.8 years
**Currency (code):** Metical (plural Meticais) (MZN)
**Exchange rate at 7 Mar 2014:** MZN 30.48= US$ 1
**Exchange controls:** foreign exchange transactions are subject to registration. Capital operation must be pre-approved by the Central Bank. Non-capital transfer abroad must be done through a commercial bank. No restrictions on remittance of profits and dividends.
**GDP (purchasing power parity):** US$28.15 billion (2013 estimate)
**GDP per capita:** US$1,200 (2013 estimate)
**GDP growth:** 7% (2013 estimate)
**Principal industries:** agriculture, metallurgy, fishing, cement, chemicals
**Official language:** Portuguese
**Unemployment:** 17% (2007 estimate)
**Hydrocarbon production:** 127.4 billion cu m (January 2013 estimate)
**Petroleum product usage:** 19,580 barrels per day (2011 estimate)
**Legal system:** Roan law system based on Portuguese civil law
**Head of State:** President Armando Emílio Guebuza
**Head of Government:** Prime Minister Alberto Vaquina
**Transparency International corruption perception index 2013:** 30 (placed 119)

Sources:

- BBC country profile (http://www.bbc.co.uk/news/world-africa-13890416)
- CIA World Factbook (https://www.cia.gov/library/publications/the-world-factbook/geos/mz.html);
- Transparency International (http://cpi.transparency.org/cpi2013/results/)

## 3.3 Industry overview

Exploration for hydrocarbons in Mozambique dates back to 1948 and prior to 1971, 54 exploration wells had been drilled, including 10 offshore. No discoveries were made which were deemed commercial at the time and activities ceased during the independence struggle and ensuing civil war. In 1998 Sasol was awarded licenses for the onshore Pande and Temane gas discoveries, made in the 1960s. Production began in 2004 after construction of an 865km 26 inch pipeline between Temane and Secunda, South Africa. Proved reserves for the combined project are in the region of 3 TCF of gas with condensate. An expansion project is expected to result in increased exports and production of 15 – 20,000 tonnes pa of LPG for the domestic market.

Recently most interest has focused offshore. Anadarko and Eni acquired concessions in the Rovuma basin, off the northern coast in 2006 (offshore Areas land 4 respectively). In 2010-2011 the companies made a series of massive gas discoveries. Further drilling has suggested that upwards of 150 tcf of recoverable natural gas may be in the basin. In December 2012, Anadarko signed a memorandum of understanding with ENI to jointly develop an onshore LNG facility. The project, which is expected to cost US$ 50 billion, should start construction in 2014, with two trains set to begin producing in 2018. It is hoped to expand the project eventually to 10 LNG trains with a total processing capacity of 50 million tonnes per year.

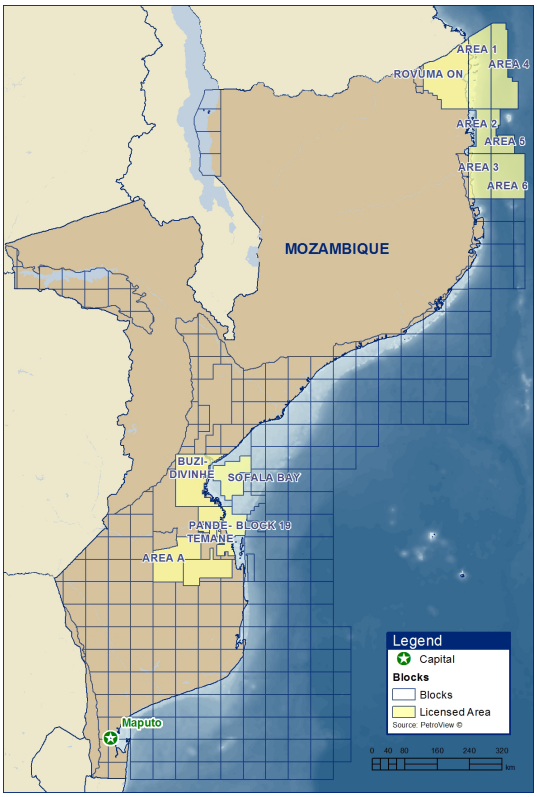
A number of transactions in relation to the offshore discovery blocks were announced during 2013:

- In July Eni announced that it had sold 28.57% of its stake in Eni East Africa to CNPC. This equates to a 20% indirect interest in offshore Area 4. Consideration was approximately US$ 4.2 billion.
- In August, Anadarko announced the sale of a 10% interest in offshore Area 1 to ONGC Videsh India Ltd for US$2.6 billion approximately.
- In January 2014, ONGC Videsh and Oil India Ltd announced completion of the purchase of 100% of the share capital of Videocon Mozambique Rovuma I Ltd which holds a 10% interest in offshore Area 1 for approximately US$ 2.5 billion.

Mozambique's blocks are currently licensed as follows:

| Operator | Block Name | Partners |
|---|---|---|
| ANADARKO | AREA 1 | MITSUI AND CO, ONGC, ENH, BHARAT PET CORP LTD, PTTEP, OIL INDIA LTD |
| | ROVUMA ON | MAUREL ET PROM, ENH, WENTWORTH RESOURCES, PTTEP |
| ENERGI MEGA PERSADA | BUZI-DIVINHE | ENH |
| ENI | AREA 4 | PETROCHINA, GALP, KOGAS, ENH |
| PETRONAS | AREA 3 | TOTAL, ENH |
| | AREA 6 | TOTAL, ENH |
| SASOL | AREA A | ENH |
| | TEMANE FIELD | ENH |
| | PANDE FIELD | ENH |
| | BLOCK 19 | PETRONAS, ENH |
| | PANDE-TEMANE | ENH, WORLD BANK |
| | SOFALA BAY | ENH |
| STATOIL | AREA 2 | INPEX, TULLOW OIL PLC, ENH |
| | AREA 5 | INPEX, TULLOW OIL PLC, ENH |

Source: PetroView®




Source: PetroView®

### 3.4 Regulatory environment

The fundamental law governing upstream activities is the Petroleum Law No. 3/2001 which vests in the state ownership of hydrocarbons onshore, in the territorial sea and exclusive economic zone. The law and related regulations set out the conditions under which exploration and exploitation activities may take place. State control over upstream activities is exercised via 3 state bodies: the Ministry of Mineral Resources (which exercises overall supervision and deals with policy issues); Instituto Nacional de Petróleo (INP – the national petroleum institute) which deals with regulatory matters; and the state oil and gas company, ENH (Empresa Nacional de Hidrocarbonetos de Mocambique), which holds the state's share in EPCCs and participates in other commercial activities.

Exploration and production concession contracts (EPCCs) have been signed with a number of foreign oil and gas companies and a model EPCC is available on the website of INP (see http://www.inp.gov.mz/Legal-Framework/EPCC-Model). EPCCs currently in effect have been approved by the Cabinet of Ministers which gives them the force of law. The model EPCC is a form of production sharing agreement.

The Petroleum Law is under revision and according to the draft of the new law which was approved by the Government (but still requires the approval of the Mozambican Parliament and of the President of the Republic) companies must be registered in Mozambique (through a subsidiary or branch) in order to be able to hold an exploration license or an interest under an EPCC.

Under the Private Public Partnership (PPP) Law which regulation was approved in July 4 2012, new EPCCs have to be consistent with the PPP Law. The PPP law provides the following:

- Term of agreement: up to 30 years
- Assignment: any party to a concession contract in order to cede its contractual position (partially or in its entirety) has to request written pre-approval from the Mozambican State
- Local participation is required (either of Mozambican individuals or companies): 5% to 20% of the shares via a listing on the local stock market. EPCCs executed before the entry in force of the PPP Law are not obliged to comply with this. However, the Government reserves the right not to renew an EPCC, if the partners in the project have not included Mozambican participation.
- The operator is required to provide benefits (training, resettlement, environmental, social responsibility) and a minimum financial return/ benefit not lower than 35% of the annual profit for the Government (this includes the corporate income tax due at 32% of the profits).
- Signature bonus is to be between 0.5% and 5% of the value of the assets. This implies that there will be signature bonuses for future EPCCs (though how the value of new licenses will be determined is not clear).
- Concession fixed fees between 2% and 5% of the fair value of the assets. Again it is not clear how these are to be determined in the case of an EPCC.
- "Extraordinary benefits" arising from a sale of an EPCC should be shared with the State. It is not clear whether this means via taxes or some additional mechanism

### 3.5 Taxation of oil and gas projects

As noted above, despite the use of the term "concession" to describe the arrangements entered into with oil and gas companies, the Mozambique fiscal regime for upstream projects is based on a production sharing mechanism with income and other taxes. In addition to the state's share of production the other elements of fiscal take are:

- Bonuses.
- Petroleum Production Tax ("PPT" analogous to royalty).
- Income Tax.
- Customs duties, VAT, payroll taxes, etc.

In addition to general taxes, production bonuses are specified in the EPCC model which are due on commencement of commercial production and when various levels of production are achieved. According to the draft Specific Taxation Regime for Petroleum Operation ("the Specific Regime") which is still under revision by the Parliament, the bonus amount varies as follows:

| Stage of Commercial Production | Production Bonuses Payable in USD |
|---|---|
| At the commencement of initial commercial production | 5 million |
| When production of the agreement area reaches for the first time, in a month period, a daily average of 25,000 BOE | 10 million |
| Each time that the production of the agreement area reaches, for the first time, in a month, an average additional tranche of 25,000 BOE daily | 20 million |

Once production commences PPT is due in cash or in kind. This is a liability of the Operator to be discharged before the calculation of production sharing. The current rate of PPT is 10% for Crude Oil and 6% for Gas. Rates vary for older contracts (see below).

The Petroleum Law No. 3/2001 provides that the Council of Ministers may approve modifications to the general tax regime for upstream activities. In an effort to kick-start investment in the upstream sector significant tax incentives were offered by the government up to 2007. The current tax regime applicable to oil and gas (based on Laws 12/2007 and 13/2007) has restricted the tax incentive that may be granted by the Government, though incentives under previous EPCCs have been grandfathered.

| | Concession signed before entry in force of Law 12 and 13 of 2007 (June 27, 2007) | | | Concession signed after entry in force of Law 12 and 13 of 2007 (June 27, 2007) | | |
|---|---|---|---|---|---|---|
| **Royalty/ Production Tax** | | Oil | Gas | No difference between Offshore and Onshore, or variation for depth | Oil | Gas |
| | Onshore | 8% | 5% | | 10% | 6% |
| | Offshore depth up to 100m | 7% | 4% | | | |
| | Offshore depth 100 to 500m | 5% | 3% | | | |
| | Offshore depth > 500m | 3% | 2% | | | |
| **Corporate Income Tax** | Concessionaire - 32% with reduction of 8% for projects approved before 2010 (for a limit period of time) | | | Concessionaire - 32% | | |
| | Foreign Subcontractors - withholding tax of 10% | | | Foreign Subcontractors - withholding tax of 20% | | |
| **Tax benefits** | Accelerated depreciation:<br>Exploration cost – 100%<br>Development and Production costs – 25%<br>Operating costs – 100% | | | Subject to the general tax depreciation rates. (NB the EPCC model prescribes accelerated depreciation rates which are not consistent with the Law[1] . | | |
| | Customs duties, excise duties and VAT exemption on import of goods for the Petroleum Operations | | | Exemption from customs duties, excise duties and VAT on import of goods classified as capital goods for a period of 5 years from the date of approval of the development plan. | | |
| | Losses can be carried forward for 6 period | | | Losses can be carried forward for 5 years | | |
| | Other benefits may be granted:<br>Property transfer tax reduction to 50%<br>Stamp duty exemption<br>Training incentives | | | No other tax benefits are provided | | |

[1] In accordance with Specific Taxation Regime for Petroleum Operation Draft Law, the following straight line depreciation rates will be introduced:

- Exploration costs – 100%
- Development costs - 25%
- Assets for petroleum production – 20%
- Petroleum Rights costs – 10%
- Other assets – 10%.

In addition, in December 2013, the new general depreciation chart which entered into force in January 2014 approved the following specific tax depreciation rates:

- LNG infra-structures – 10%
- Pipelines – 5%

The general tax laws and regulations currently apply to EPCCs subject to any specific provisions on taxation in the concessions. The 3 main pieces of legislation are:

- The Corporate Income Tax Code, 2007;
- The Value Added Tax Code, 2007; and
- The Individual Income Tax Code, 2007

The Specific Regime will establish the taxes and benefits for the companies which are carrying out petroleum activities under an EPCC.
The responsibility for administering taxes in Mozambique rests with the Mozambican Revenue Authority.

An EPCC contractor is subject to corporate income tax on sales of profit oil or gas and cost recovery oil or gas with deductions as set out in the Corporate Income Tax Code (as modified by the EPCC and the Specific Regime). This calculation is entirely separate from the production sharing formula in the EPCC and any income tax payable is due from the contractors' share (i.e. it is not carved out of the state share). If the contractor consists of more than one legal entity each is required to calculate its income tax separately and submit a separate tax return

Mozambican companies are taxed on their worldwide income at a flat rate of 32% (though older EPCCs provide for a reduction to 24% for a limited period). Dividends paid to a non-resident shareholder are subject to tax withholding at the rate of 20% (unless reduced under a double tax treaty). Dividends to resident shareholder are not subject to withholding tax if they hold more than 20% of the payer's equity for more than 2 years or intend to hold at least for this period (if not 20% is applied). In accordance with the draft Specific Regime, only companies incorporated and registered in Mozambique will be permitted to hold an interest in an EPCC and carry out activities in Mozambique. It seems that the possibility of operating though a branch (termed a "permanent establishment" for tax purposes) will be no longer allowed. Branches are also taxed at 32% but there is no branch remittance tax.

Mozambique does not provide fiscal consolidation for companies under common control. Each legal entity is responsible for submitting its own tax return and paying its own tax. There is no provision allowing one company to use losses from a related party to reduce its taxable income. Losses may be carried forward for 5 years. In 2012, the Corporate Income Tax Code was reviewed and the ring fencing rule was introduced for mining and oil concession. Following this change, income of one EPCC cannot be reduced by losses from another if they are held by the same company.

According to the draft Specific Regime, transactions relating to petroleum operations including exploration, development and production activities shall be taxed separately from any other business activities of the taxpayer (including activities which take place beyond the delivery point designated under the EPCC).

The income tax law includes transfer pricing provisions but the implementing regulation is still under preparation. EPCCs generally include their own transfer pricing rules for determination of cost recovery. It is not clear if the same transfer pricing rules should be applied for determination of costs deductible for income tax purposes.

The last draft version of the Specific Regime establishes some limitation on the deductibility of the costs for tax purposes, for example abortive exploration and some costs related to expatriates.

The Mozambican Government has also approved changes to the tax rules affecting cross-border M&A activities to take effect from 1 January 2013. These are awaiting parliament's approval at the time of writing. Following a number of high profile transactions in the natural resource sector recently, the new rules clarify the basis of taxing such transactions and increase the potential tax liability significantly:

1. Transactions between non-residents will be explicitly taxable where they relate to assets located in Mozambique, even if the buyer and seller have no presence in Mozambique. Taxable transactions will include sales of shares and other interests or rights.
2. The tax rate applicable to such transactions will be the regular rate of 32%. Previously a "taper relief" had been available to reduce the tax charge in the case of assets held for period longer than 12 months.

It is expected that non-residents with no presence in the country will register in Mozambique in order to pay the related taxes. To guarantee the collection of the capital gain tax, it is prescribed in the draft Specific Regime that the acquirer will be jointly liable for the payment. The tax should be paid within 30 days after the sale of petroleum rights.

The model EPCC provides that costs are deductible either in the year that the cost is incurred or in the year that commercial production commences, whichever year is the later. Exploration and operating costs are subject to a 100% deduction. Development and production capex is deductible on a straight-line basis at a rate of 25% per year. There is a mechanism for total or partial deferral of depreciation at the discretion of each taxpayer constituting the EPCC contractor. As noted above these rates are not consistent with the current income tax rules and it is not clear whether an EPCC based on the model would take precedence over the law. Provisions for decommissioning and environmental restitution are deductible for income tax purposes.

The draft Specific Regime states that the following costs will be deductible for tax purposes:

- Operating Costs (including the capture, collection, treatment, storage and transport of Petroleum from the Petroleum Deposit, to the Point of Delivery;
- Service costs;
- Costs of investments into social infrastructure, provided that these are foreseen in the EPCC;
- Costs relating to the training of Mozambican employees;
- Cash contributions to the fund for closure and decommissioning and demobilization costs; and
- General and Administrative Expenses limited to a percentage of the total cost incurred which varies from 1.5% to 5% depending of the level of the costs incurred.

Some of the older EPCCs also provide a 10% rate for foreign subcontractors.
Mozambique implemented a VAT system in 2002 and the standard rate for goods and services is 17%. Exports are generally zero-rated for VAT. Imports of services are subject to a reverse charge mechanism similar to that which operates in the EU. Imports of goods are generally subject to import VAT in addition to customs duties.

Older EPCCs provide a blanket exemption from import duties and import VAT on goods for use in petroleum operations (as defined in the EPCC). Law 13/2007 restricts the categories of goods which are eligible for relief and limits the period relief is given to the 5 year period from the date of approval of a development plan. Input VAT incurred during exploration and development is, in principle, recoverable on a claim for repayment from the tax authorities, but such claims are very time consuming and involve tax audits.

Payroll taxes consist of 2 elements: personal income tax which is deducted at source (up to 32%) and social security payments (contributions are 4% from the employer and 3% from the employee). Non-residents are taxable only on their Mozambican source income at 20%. Under some older EPCCs, non-resident employees are exempt from personal income tax. From 2014, residents who earned only employment income will be taxed monthly as a final tax (which varies from a sliding scale) but the annual tax return will still be required.

# 4 Tanzania

## 4.1 Overview

The United Republic of Tanzania is a federation which comprises the mainland (the former British colony of Tanganyika, which became independent in 1961 – now referred to as Mainland Tanzania) and the island state of Zanzibar (which retains a significant degree of autonomy with its own parliament and president). In the 60s and 70s the first president, Julius Nyerere, pursued a socialist agenda, with the banning of all political parties apart from Chama cha Mapinduzi (CCM - Party of the Revolution in Swahili) in 1977. Nyerere's economic policies were disastrous for the country, and since his resignation in 1985 successive governments have pursued economic reform and promotion of foreign investment, particularly in the mining sector. A multi-party system was restored in 1995. Despite the failure of his economic policies, Nyerere is highly regarded for his espousal of a Tanzanian national identity which is seen as a major contributor to Tanzania's political stability. Since 1995 Tanzanian politics has continued to be dominated by CCM which has won every election for the presidency and the legislature. The next presidential election will take place in 2015.

Though Tanzania remains one of the poorest countries in the World, it enjoys high growth rates and its mineral wealth has the potential to transform its economy in the next decade. Given its demographic profile, job creation and the improvement of the agricultural sector are seen as critical elements of government policy.


Source: PetroView®

## 4.2 Key facts

**Population:** 48.2 million (July 2013 estimate)
**Median age:** 17.3 years (2013 estimate)
**Currency (code):** Tanzanian shilling (TZS)
**Exchange rate at 1 March 2014:** TZS 1631 = US$ 1 (Bank of Tanzania)
**Exchange controls:** none
**GDP (purchasing power parity):** US$79.29 billion (2013 estimate)
**GDP per head of population:** US$1,700 (2013 estimate)
**GDP growth:** 7% (2013 estimate)
**Principal industries:** agricultural processing (sugar, beer, cigarettes, sisal twine); mining (diamonds, gold, and iron), salt, soda ash; cement, oil refining, shoes, apparel, wood products, fertilizer
**Official languages:** English, Kiswahili
**Unemployment rate:** not available
**Hydrocarbon production:** 860 million cu m of gas (2011 estimate)
**Petroleum product usage:** 43,310 barrels per day equivalent (2011 estimate)
**Legal system:** based on English common law.
**Head of State:** President Jakaya Kikwete
**Head of Government:** Jakaya Kikwete
**Transparency International corruption perception index 2013:** 33 (placed 111)

Sources:

- BBC country profile (http://www.bbc.co.uk/news/world-africa-13681341);
- CIA World Factbook (https://www.cia.gov/library/publications/the-world-factbook/geos/ke.html);
- Transparency International (http://cpi.transparency.org/cpi2013/results/)

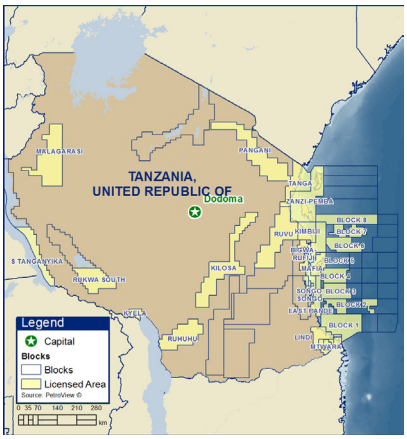
## 4.3 Industry overview

Tanzania has no commercial oil discoveries but there are 2 small producing gas fields (Songo Songo and Mnazi Bay) and a number of promising gas discoveries in the deep water offshore blocks. The producing fields are small and took decades to bring to commercial production because of the lack of a local market and the impracticability of export (in view of the limited reserves). The Songo Songo field has been in production since 2004 and provides gas to generate a significant proportion of Tanzania's electricity. Gas is also used by a number of industrial and commercial customers in the Dar es Salaam area.
Exploration success since 2010 has raised Tanzania's profile as a potential supplier of LNG to Asian markets, along with its neighbour, Mozambique. Following exploration success in the Albertine Graben there is also interest in the analogous geology of Lake Tanganyika.

A 36 inch pipeline linking the Mnazi Bay field to Dar es Salaam is currently under construction. This project includes a 24 inch spur line to Songo Songo. Construction is being carried out by an affiliate of CNPC and is financed by China Exim Bank. This is due to start operation in 2015 and may provide a transport option for domestic sales of the recent offshore gas discoveries.

In October 2013, Tanzania launched its fourth licensing round which included 7 offshore deep water blocks and the North Lake Tanganyika block. The round closes on 15 May 2014.

Current PSA holders are as follows:




Source: PetroView®

| Operator | Block Name | Partners |
|---|---|---|
| AFREN | TANGA | PETRODEL |
| AMINEX (NDOVU) | KILIWANI N | RAKGAS, BOUNTY OIL AND GAS |
| | LINDI | SOLO OIL |
| | MTWARA | SOLO OIL |
| | NTORYA | SOLO OIL |
| | NYUNI | RAKGAS, BOUNTY OIL AND GAS |
| BEACH ENERGY | S TANGANYIKA | - |
| BG GROUP | BLOCK 1 | OPHIR, PAVILION ENERGY |
| | BLOCK 3 | OPHIR, PAVILION ENERGY |
| | BLOCK 4 | OPHIR, PAVILION ENERGY |
| DODSAL RESOURCES | RUVU | - |
| HERITAGE OIL | KYELA | - |
| | RUKWA SOUTH | - |
| JACKA RESOURCES | RUHUHU | - |
| MAUREL ET PROM | BIGWA-RUFIJI | HOLLICK TRADING, PETROQUEST |
| | MAFIA | HOLLICK TRADING, PETROQUEST |
| | MNAZI BAY | WENTWORTH RESOURCES |
| | MNAZI BAY PD | WENTWORTH RESOURCES, TPDC |
| MOTHERLAND HOMES | MALAGARASI | - |
| NOR ENERGY | ZANZI-PEMBA | - |
| OPHIR ENERGY | BLOCK 7 | MUBADALA |
| | EAST PANDE | RAKGAS |
| ORCA | SONGO SONGO | - |
| PETROBRAS | BLOCK 6 | SHELL, STATOIL |
| | BLOCK 8 | SHELL |
| PETRODEL RESOURCES | KIMBIJI | - |
| | LATHAM | HERITAGE OIL |
| SHELL | BLOCK 9 | ** |
| | BLOCK 10 | ** |
| | BLOCK 11 | ** |
| | BLOCK 12 | ** |
| SIGNET PETROLEUM | MNAZI BAY N | - |
| STATOIL | BLOCK 2 | EXXON MOBIL |
| SWALA ENERGY | PANGANI | OTTO ENERGY LIMITED |
| | KILOSA | OTTO ENERGY LIMITED |

*Under Application

Source: PetroView®

### 4.4 Regulatory environment

Tanzania has adopted free market economic policies and lifted foreign currency controls. The government retains a critical role in the economy however, particularly in the energy sector. The lack of reliable electric power is a major barrier to economic growth and this is high on the government's agenda in any discussions about the development of gas discoveries. A natural gas policy, which was issued towards the end of 2013, emphasises the use of recent large gas discoveries for the domestic market, though the size of the discoveries also appears adequate to support a major LNG export project.

The foundation legislation for the upstream industry is the Petroleum (Exploration and Production) Act which was passed in 1980. This applies to Mainland Tanzania and Zanzibar (including the continental shelf) and vests ownership of any petroleum resources in the United Republic. The 1980 act lays down the machinery for the granting licenses for exploration and development. It also empowers the Minister of Energy and Minerals to enter into Production Sharing Agreements ("PSAs") on behalf of the United Republic.

Tanzania has asserted its rights over the continental shelf up to 200 nautical miles in accordance with the Law of the Sea Convention. Currently it is seeking to further extend this zone. This has given rise to some friction with the Zanzibar government which has disputed the validity of exploration licenses issued by the Ministry of Energy and wishes to take a more direct role in oil and gas exploration around the islands. The two key government entities involved in the upstream industry are the Ministry of Energy and Minerals and the Tanzania Petroleum Development Corporation (TPDC). In addition to upstream activities, the Ministry is also responsible for downstream, the electricity sector and mining.

TPDC was set up in 1969 and its responsibilities include oversight of the upstream sector as well as commercial participation as formal holder of exploration and production licenses and direct participant in PSAs. Its long term vision is to become an integrated oil and gas company and it also has downstream activities. There is no separate regulator responsible for the upstream sector and this role has been entrusted to TPDC, for example it carries out audits of recoverable costs under PSAs.

The TPDC website provides 3 model PSAs (MPSAs) dated 2004, 2008 and 2013. The 2004 MPSA is the basis for many of the PSAs currently in effect. The 2013 MPSA was posted on the website in November 2013 and is planned to form the basis for PSAs in respect of the 8 blocks which are the subject of Tanzania's fourth licensing round. The 2013 MPSA is generally more prescriptive than its predecessors and represents a significant tightening of the fiscal and other terms, and some industry analysts have suggested that the government share of profits under the new PSA might be as high as 94% in certain cases.

Key features include the following:

- Like the 2008 MPSA, the 2013 MPSA does not provide any measure of fiscal or legislative stabilization. The 2004 model provides a standard economic stability provision: "If at any time or from time to time there should be a change in legislation or regulations which materially affects the commercial and fiscal benefits afforded by the Contractor under this Contract, the Parties will consult each other and shall agree to such amendments to this Contract as are necessary to restore as near as practicable such commercial benefits which existed under the Contract as of the Effective Date."
- Both the 2008 and 2013 MPSAs provide a minimum TPDC equity entitlement of 25% with a carry arrangement on favorable terms. Older PSAs provide much lower equity entitlements, mostly in the range of 10 – 15%.
- Annual license rentals are significantly higher under the 2013 MPSA.
- The 2013 MPSA is the first to include bonuses:
  - Signature bonus: not less than US$ 2.5 million;
  - Production bonus: not less than US$ 5 million on commencement of production from each development license area in the contract area. The MPSA does not explicitly state that production for these purposes is commercial production.

- Under most PSAs currently in force, royalty is payable out of TPDC's share of profit hydrocarbons. The 2008 and 2013 MPSAs provide for settlement out of gross-production before operation of the sharing formula. The rate specified is 7.5% (as opposed to the 5% provided for under the PSA model gas terms, formerly provided on the TPDC website).
- Cost recovery is limited to 50% of production (net of royalties) in any period. The model gas terms provided a more generous 70%.
- Profit hydrocarbons are shared based on production volumes as in previous MPSAs.
- The 2013 MPSA, like its 2008 predecessor, includes an "Additional Profits Tax" based on an R-factor calculation. This is actually a contractual obligation rather than a tax which is enshrined in the tax laws.
- There are no fixed targets in the 2013 MPSA for local content, but there are formal reporting requirements and a clear emphasis on maximizing local content, local capacity building and technology transfer.
- Though Tanzanian PSAs do not provide detailed tax rules, the 2013 MPSA provides specific rules on the taxation of transfers of PSA interests (see section 5 below)
- As in the case of the older MPSAs, the Contractor and its sub-contractors are entitled to relief from import taxes on goods to be used in Petroleum Operations. However, unlike some of the older PSAs in force this is limited to those cases where relief is also provided in legislation (generally not available to subcontractors).
- TPDC is given a right of first refusal over any PSA interests to be transferred.
- The MPSA addresses disposals of interests in the PSA or of a majority of shares in a Contractor Party. It does not explicitly require consent where a change of control is indirect (for example in the case of the takeover of a Contractor Party's ultimate shareholder).
- A party which is transferring an interest retains a secondary obligation in respect of abandonment for assets in place at the date of the assignment. (This presumably kicks in only if the assignee defaults.) It is required to put in place adequate security and presumably evidence of this will be required prior to approval of the transfer.

### 4.5 Taxation of oil and gas projects

Tanzanian PSAs usually contain some specific tax rules, but these tend to be of narrow application and their validity is unclear (see discussion below). For most purposes the general tax laws and regulations will apply. The 3 main pieces of legislation are:

- The Income Tax Act, 2004;
- The Value Added Tax Act, 1997; and
- The East Africa Community Customs Management Act, 2004 (adopted by all the EAC member states).

Tax policy is managed by the Ministry of Finance but day to day administration of the tax system is dealt with by the Tanzania Revenue Authority (TRA) which enjoys considerable autonomy.
At the time of writing a new VAT Bill had been issued by the Ministry of Finance though it was not clear when this would be enacted.

A PSA contractor will be subject to income tax on sales of profit oil or gas and cost recovery oil or gas with deductions as set out in the Income Tax Act. This calculation is entirely separate from the production sharing formula in the PSA and any income tax payable is due from the contractors' share (i.e. it is not carved out of the state share). If the contractor consists of more than one legal entity each is required to calculate its income tax separately and submit a separate return.

Tanzanian companies are taxed on their worldwide income at a flat rate of 30%. Dividends paid to a non-resident shareholder are subject to tax withholding at the rate of 10% (unless reduced under a double tax treaty). It is possible for a foreign legal entity to hold an interest in a PSA and carry out activities in Tanzania via a local branch (termed a "permanent establishment" for tax purposes). Branches are also taxed at 30% and there is an additional tax of 10% levied on profits deemed repatriated to the head office.

Tanzania does not provide fiscal consolidation for companies under common control. Each legal entity is responsible for submitting its own tax return and paying its own tax. There is no provision allowing one company to use losses from a related party to reduce its taxable income. The 2013 Finance Act introduced ring fencing for upstream projects so under current law, income of one PSA may not be reduced by losses from another if they are held by the same company.

The income tax law includes transfer pricing provisions and these are applied in practice by the TRA. At the time of writing, the tax authorities and Ministry of Finance were working on detailed regulations to guide taxpayers. These are to be issued in 2014. PSAs generally include their own detailed transfer pricing rules.

Tanzanian source income of foreign legal entities which do not have a branch in the country is taxable via a withholding mechanism. The usual rate is 15%. Payment for imports of goods is generally not subject to withholding but payments for services may be depending on the facts. There is a long standing dispute with the TRA over whether payment for services provided outside Tanzania should be subject to Tanzanian tax.

Tanzania implemented a VAT system in 1997 and the standard rate for goods and services is 18%. Exports are generally zero-rated for VAT. Imports of services are subject to a reverse charge mechanism similar to that which operates in the EU. Imports of goods may be subject to import VAT in addition to customs duties.

Although Tanzania has had modest hydrocarbon production since 2004, the tax framework of law and practice is not well developed. There are few specific rules in the Income Tax Act to deal with upstream projects so there is nothing to cover situations like farm-in agreements, development carries, or other sorts of M&A activities. There are also no specific rules to cover the treatment of decommissioning costs for offshore projects, and although losses may be carried forward indefinitely, there is no loss carry-back. Exploration and development capex is eligible for tax depreciation at the rate of 20% per annum on a straight line basis.

Under the current VAT Act a special relief is available to companies in the exploration phase to eliminate VAT on procurement of goods and services. (The VAT Bill proposes to restrict this relief to goods only.) Though the precise cut-off point is unclear, this relief will not be available for development costs. This gives rise to the potential for significant Tanzanian input VAT to be incurred during the development and production phase. Even once sales begin to be made by a project most of these are likely to be exports and therefore zero rated, leaving companies with excess input VAT. Though most E&P companies that have made VAT repayment claims so far have eventually been paid by the TRA after an audit, there is a high risk that the process will slow once the size of the claims increases.

The VAT Act does not specifically address activities under a JOA. This is not addressed in the VAT Bill either. This gives rise to uncertainty over how VAT applies, for example it is not clear whether a JV billing is a VAT-able transaction or whether the operator is entitled to recover all VAT on behalf of the JV. Many other areas of uncertainty are likely to emerge as development programmes move forward.

The East Africa Community Customs Management Act provides specific relief for imports of goods (apart from motor vehicles) for use in exploration and development. This relief also applies for VAT purposes. Eligibility is restricted to licensed companies (i.e. PSA contractors) and TPDC approval is required. Most PSAs also provide this exemption but extend it to subcontractors. This extension has not been accepted by the TRA in practice because it is not explicitly stipulated in the law.

Payroll taxes consist of 3 elements: personal income tax which is deducted at source (the marginal rate is 30% for residents); social security payments (contributions are 10% from the employer and an equal amount from the employee) and skills and development levy (a 5% levy on the employer). Most benefits in kind are taxable. Non-residents and short term residents (< 2 years) are taxable only on their Tanzania source income.

Tanzanian PSAs are not accepted by the TRA as overriding domestic tax legislation unless they have been "legalized" by way of a government notice. The government has so far been reluctant to provide such a formalization of its contractual obligations and this is becoming a more and more pressing issue as projects move towards development.

Like other East Africa countries, Tanzania has become increasingly aggressive in taxing transfers of interests in mineral extraction projects, including indirect transfers. For example, a change in the underlying ownership of a Tanzanian entity of more than 50% triggers a deemed disposal of assets and liabilities. Direct disposals will generally give rise to stamp duty, VAT and income tax issues.

The tax legislation does not provide specific rules on acquisitions and disposals of PSA interests. Some older PSAs (based on the 2004 MPSA) provide an exemption from "transfer of related taxes, charges or fees". This has been interpreted as a blanket exemption, but its vagueness and the lack of references to specific laws or taxes, mean that the tax authorities have refused to accept this as effective.

The 2013 MPSA provides more detailed guidance than its predecessors on the tax consequences of assignments of interests: there is also an explicit requirement to pay stamp duty on the transfer (applicable at the rate of 1%). In the event that stamp duty is not paid, a transfer fee is chargeable at the following rates:

- Consideration up to US$ 100 million: 1%;
- Additional consideration up to US$ 200 million: 1.5% of the additional amount;
- Additional consideration in excess of US$ 200 million: 2% of the additional amount.

The term "consideration" is not defined so it is unclear whether it would include the value of a carry arrangement. It is also not clear whether the fee should be paid by the assignor or assignee. Presumably in most cases the parties are likely to opt to pay stamp duty.

# 5 Uganda

## 5.1 Overview

Uganda is a former British colony which gained independence in 1962. During the 1970s it was ruled by a military dictator, Idi Amin, whose policies resulted in economic collapse and a disastrous war with Tanzania. Amin fled in 1979 but instability continued until 1986 when the current president, Yoweri Museveni, seized power at the head of the popular National Resistance Army. Museveni's policies stabilized the economy and there was a return to multi-party politics following a referendum in 2005. The 2011 presidential election saw Museveni returned to office for a fourth presidential term, but subsequent economic problems have weakened his authority. The political opposition to Museveni has remained fragmented, though noisy and he is likely to be successful in his bid for re-election in 2016.

Uganda's population is largely dependent on agriculture and its major export is coffee. The service sector is rapidly growing especially telecommunications, construction and tourism. In 2006, exploration drilling revealed the existence of commercial hydrocarbon reserves in the Lake Albert area. It is anticipated that commercial production could commence in 2017 though a number of key issues need to be resolved before this can happen.


Source: PetroView®

## 5.2 Key facts

**Population:** 34. 7 million (2013 estimate)
**Median age:** 15.5 years
**Currency (code):** Uganda shilling (UGX)
**Exchange rate at 1 March 2014:** 2527 UGX = 1 USD
**Exchange controls:** none (though persons repatriating the equivalent of more than UGX 50 m (approximately USD 20,000) require tax clearance)
**GDP (purchasing power parity):** US$ 54.37 billion (2013 estimate)
**GDP per head of population:** US$ 1,500 (2013 estimate)
**Principal industries:** sugar, brewing, tobacco, cotton textiles; cement, steel production
**Official language:** English
**Unemployment rate:** 5.4% (2009)
**Hydrocarbon production:** nil
**Petroleum product usage:** 16,930 barrels per day equivalent (2011 estimate)
**Legal system:** mixed system based on English common law.
**Head of State:** President Yoweri Museveni
**Head of Government:** Yoweri Museveni
**Transparency International corruption perception index 2013:** 26 (placed 140)

Sources:

- BBC country profile (http://www.bbc.co.uk/news/world-africa-13681341);
- CIA World Factbook (https://www.cia.gov/library/publications/the-world-factbook/geos/ke.html);
- Transparency International (http://cpi.transparency.org/cpi2013/results/)

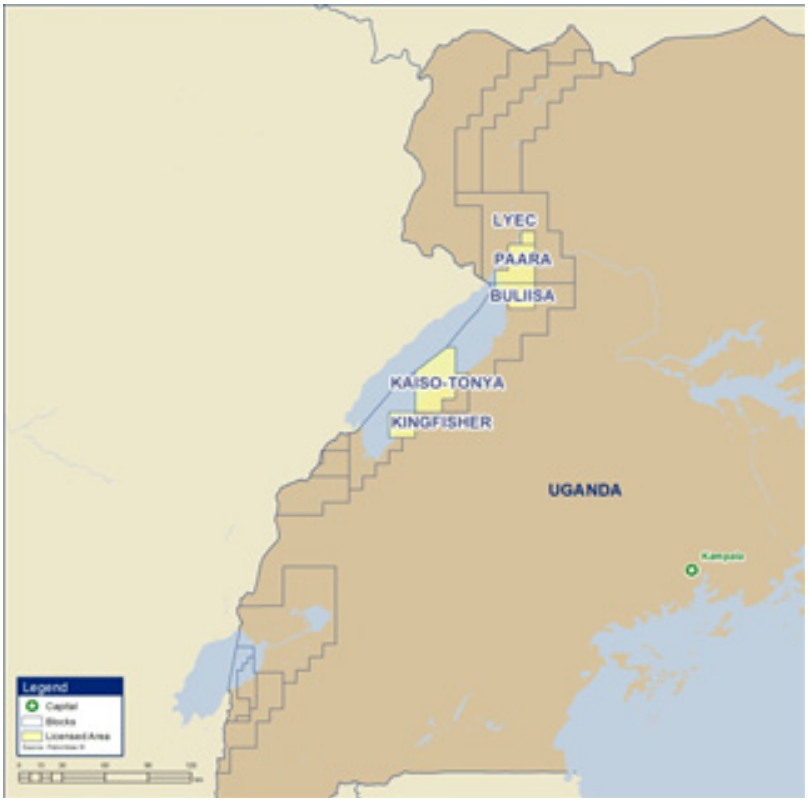
## 5.3 Industry overview

Though commercial discoveries of oil in Uganda were first made in 2006, the presence of hydrocarbons in the Lake Albert area has been known for generations with local fishermen using the result of local seepages to caulk their boats. Since 2006, there has been an almost unbroken series of successful wells. In its 2013 full year results, Tullow Oil estimates that recoverable oil resources are around 1.7 billion barrels, while the Government of Uganda has suggested 3.5 billion barrels total recoverable reserves. The discoveries are in a remote and environmentally sensitive area, which will add to the cost and complexity of the development. An additional problem is posed by the waxy nature of the oil which is solid at room temperature and therefore would require a heated and insulated pipeline to transport.

It seems likely that there will be additional resources in the Democratic Republic of Congo (DRC), on the other side of Lake Albert, though the political instability of the DRC makes future exploration efforts uncertain.

The landscape of the industry in Uganda has changed significantly since late 2009. At that point Heritage Oil Plc. was the operator of Blocks 1 and 3A and held 50% of each, the remainder being held by Tullow which also held 100% of the intervening block, 2A. On 18 December 2009, Heritage announced its intention to sell its Ugandan operations to ENI for USD 1.5 billion. Early in 2010, Tullow Oil exercised its pre-emption rights and subsequently announced a plan to farm down 2/3 of the combined project to Total and CNOOC. Implementation of the farm-down and field development plan became a long-drawn out process, mainly as a result of disputes over the taxation of the various transactions.

A major breakthrough was achieved during February and March 2012, with the finalization of the Tullow farm-down to CNOOC and Total. The farm-down agreement saw resumption of exploratory drilling through the close of 2013, when the companies submitted their proposed field development plans for further acquisition of production licenses. The Kingfisher field, operated by CNOOC, has already been awarded a production license, with the other licenses expected soon.




Source: PetroView®

Another contentious issue has been how to deal with the oil. One option would be to transport by pipeline to the coast for export, with the possibility that some might be used as feedstock for the Mombasa refinery or a new refinery at Lamu. Uganda's national oil and gas policy, however, stipulates the development of a petrochemical industry based around an oil refinery. The refinery plan creates several questions, in particular, how it will be financed, whether it will find a ready market for its production and what the impact will be on export plans.

A recent MoU signed between the Government of Uganda and Tullow, Total, and CNOOC stipulates that the government will pursue a refinery with an initial capacity of 30,000 barrels per day, while the three partners will construct an export pipeline. At the time of writing, a tender is underway for a firm to construct the refinery, with the winner to be announced mid-2014.

In addition to the blocks with commercial discoveries, 2 further blocks have been licensed in Uganda. In the far north, EA5 was operated by Neptune Petroleum, a subsidiary of AIM-listed Tower Resources. The company has drilled 3 dry holes in 2009 – 12 and relinquished its licence in March 2014. In the south west, Dominion Petroleum (now a subsidiary of Ophir Energy Plc.) operated EA4B. Dominion drilled a single well in 2010 which was dry, and is understood to have closed its operations. It is anticipated that the Ugandan government will announce a new licencing round as early as 2014.

Uganda's blocks are currently licensed as follows:

| Operator | Block Name | Partners |
|---|---|---|
| CNOOC | KINGFISHER | TULLOW OIL, TOTAL |
| TOTAL | LYEC | TULLOW OIL, CNOOC |
| | PAARA | TULLOW OIL, CNOOC |
| TULLOW OIL | BULIISA | TOTAL, CNOOC |
| | KAISO-TONYA | TOTAL, CNOOC |

Source: PetroView®

### 5.4 Regulatory environment

The Petroleum Exploration and Production Department (PEPD) is the government body directly responsible for the supervision of the Oil and Gas industry. PEPD is a department of the Ministry of Energy and Mineral Development (MEMD).

The current regulatory and fiscal regime for the petroleum sector is based on the following legislation and policy:

1. The National Oil and Gas Policy, 2008
2. Petroleum (Exploration, Development and Production) Act, 2013
3. Petroleum (Refining, Gas Processing and Conversion, Transportation and Storage) Act, 2013

Other relevant statutes and guidelines include the Income Tax Act, the Land Act and the National Environment Management Authority (NEMA) regulations.

On the basis of powers set out in an earlier Petroleum (Exploration and Production) Act, the government has entered into a number of Production Sharing Agreements. Though no model agreement has been made available on the internet, Deloitte received a copy of a 2006 Model which was made public in 2009. This is similar to PSAs which have actually been signed and key terms are summarised in the Appendix. At the time of writing it is understood that PEPD is working on a new model PSA in preparation for a new licensing round, but this has not yet been made public.

The two laws passed in 2013 call for the establishment of the Petroleum Authority and a National Oil Company. This process is reported to be underway as of the time of writing. It is expected that a new licencing round will follow the adoption of regulations to the new laws. The regulations are also expected to clarify the "local content" clause in the Exploration, Development and Production Act that currently states that goods and services not originating in Uganda are to be delivered via joint-venture arrangements with Ugandan companies.

### 5.5 Taxation of oil and gas projects

Petroleum Operators are taxed in accordance with the provisions of the general tax legislation below:

- The Income Tax Act, Cap 340;
- The Value Added Tax Act, Cap 349; and
- The East Africa Community Customs Management Act, 2004 (adopted by all the EAC member states).

Where there are no specific rules under provisions relating to the taxation of petroleum operations, the general provisions of the acts apply.
Subcontractors are taxed under the general provisions of the law.

Ugandan companies are taxed on their worldwide income, generally at a flat rate of 30%. Dividends paid to a non-resident parent are subject to tax withholding at a rate of 15% under general rules. This rate may be reduced if a shareholder is resident in a country with which Uganda has a double tax treaty.

In principle it is possible for foreign legal entities to hold interests in PSAs and carry out other types of business activities in Uganda via branches. Branches are also usually taxed at 30% and there is an additional tax of 15% which effectively applies to profits repatriated to the head office.

Ugandan tax law does not provide any fiscal consolidation for companies which are under common control: each is taxed separately and there is no ability to offset profits of one company against losses incurred by an affiliate. There is also ring-fencing of contract areas so that profits arising from one PSA cannot be sheltered from income tax by losses arising in a separate PSA held by the same taxpayer.

The Income Tax Act includes basic transfer pricing rules and although these have not been applied extensively in the past, the URA is starting to conduct audits focused on the pricing of related party transactions. More detailed regulations were introduced during 2011 and documentation requirements published in 2012. Ugandan PSAs generally have specific transfer pricing and valuation rules.

Uganda has a VAT system. The standard rate is 18%. Certain goods and services are exempt including petroleum products while others (such as exports) are zero-rated. For goods to be exported, they have to be delivered to a place outside Uganda while services have to be used and consumed outside Uganda. A company which sells exempt goods and services is not able to recover VAT on related goods and services which it purchases. Where goods and services are standard or zero-rated, the related input VAT may be recovered by offset or refund. A business which imports services will be required to "self-charge" input VAT on the related cost (the so-called reverse charge mechanism). Oil and gas projects require significant capital investments over a number of years before they start to generate revenue. In such a situation prior to the 2011 VAT Amendment Act, the oil company could register as an "investment trader" which gave it the right to refund of VAT on goods and services it consumed even though it has no sales revenue. This facility was abolished with effect from 1 July 2011, creating a significant cost implication. We understand that the URA has subsequently de-registered the upstream companies operating in Uganda for VAT purposes.

In addition, effective 1 July 2012 VAT on imported services accounted for through the reverse mechanism, cannot be offset against output VAT. It is therefore a cost to the recipient of the foreign services in Uganda.

The importation of plant and machinery is exempt from VAT as an incentive to investment.

The upstream oil industry is heavily taxed in most places and Uganda is no exception. The government has opted for Production Sharing Agreements (PSAs) as the mechanism to collect economic rent. A model PSA, issued in 2006, is in the public domain, though the government has never formally issued this. Although the PSAs which have been signed remain confidential, it is reported that the overall government take from the existing PSAs is likely to be in excess of 80%.

The existing PSAs are subject to the following taxes and levies:

- Bonuses are provided for on signing the PSA;
- Licence rentals based on the area covered by the licence;
- Royalties (which are calculated based on production volumes);
- State share of profit oil (understood to be calculated based on volumes produced); and
- Corporate income tax (at the standard rate of 30%)
- Taxes will also apply on repatriation of profits (via branch profits tax or dividend withholding tax)

PSAs often contain an element of "stabilisation" protecting the oil companies from changes in law after the signing of the PSA which may adversely affect project economics. It is understood that the current Ugandan PSAs contain such a provision. On the other hand, it is not clear that the terms of PSAs override domestic legislation in the event of a conflict, as they do not have the force of law.

A customs duties and withholding tax exemption is available for equipment imported for upstream operations.

Complex rules were introduced in 2010 governing the tax treatment of disposals of interests in PSAs. The approach is, broadly, to tax any gains arising, but to prevent the acquirer from obtaining a compensating step-up in basis for purposes of calculating future tax depreciation. The rules are effective from the date the Income Tax Act itself came into force (1 July 1997) and it is not clear whether holders of a PSA pre-dating the 2010 changes will be subject to the new rules or protected by the economic stabilisation provision of the PSA.

Companies are obliged to withhold income tax at source from salaries. Individual tax rates are progressive and the maximum rate (30%) applies to annual income in excess of approximately USD 2,000. In addition to the 30%, an additional tax of 10% is payable on employment exceeding approximately USD 4,000 per month. Most types of benefit-in-kind are taxable. Residents are in general taxable on worldwide income, whilst non-residents and short-term residents (< 2 years) are taxable only on Uganda source income.

In addition to income tax, employers are usually required to withhold 5% of wages paid to an employee which is allocated to the National Social Security Fund (NSSF). Employers make an additional contribution equivalent to 10% of employee remuneration.

# 6 Comparison table of key terms of model PSAs

The table below shows a comparison of the key terms of some East African model petroleum contracts:

| Jurisdiction | Ethiopia | Kenya | Mozambique | Tanzania | Uganda |
|---|---|---|---|---|---|
| Principal legislation | The Petroleum Operations Proclamation No 295/1986; the Petroleum Operations Income Tax Proclamation No 296/1986. | Petroleum (Exploration and Production) Act 1986 | Law no. 3/2001 of 21 February 2001 and Decree No. 24/2004 of 20 August 2004. New laws are expected which will revoke the main legislation. | Petroleum (Exploration and Production) Act 1980 | Petroleum (Exploration and Production) Act 2013 |
| Government bodies | The Ministry of Mines ("MoM"). Currently there is no NOC. | Ministry of Energy and Petroleum,<br>National Oil Corporation of Kenya (NOCK) | Ministry of Mineral Resources (MIREM),<br>INP – regulator<br>ENH – NOC | Ministry of Energy,<br>Tanzania Petroleum Development Corporation (TPDC) | Ministry of Energy and Mineral Development, Petroleum Exploration and Production Department |
| Form of agreement | Petroleum Production Sharing Agreement (PPSA)<br>(Model PPSA of 26 August, 2011 is available on the Ministry's website: http://www.mom.gov.et) | Petroleum Sharing Contract (model downloaded from http://www.nockenya.co.ke | Exploration and Production Concession Contract (EPCC) (model downloaded from INP website - http://www.inp.gov.mz/Legal-Framework ) | Production Sharing Agreement (2013 Model Agreement downloaded from TPDC website: http://www.tpdc-tz.com/tpdc/)<br>NB Licences are issued in the name of TPDC. | Petroleum Sharing Agreement (2006 Model Agreement obtained 2009) |
| Parties | MoM on behalf of the Federal Democratic Republic of Ethiopia; the Contractor. There is currently no NOC. | The Republic of Kenya (represented by the Ministry of Energy and Petroleum); the Contractor | The Republic of Mozambique (represented by MIREM), ENH and the Concessionaire | The United Republic of Tanzania (represented by the Ministry of Energy); TPDC; the Contractor. | The Republic of Uganda (represented by the Ministry of Energy and Mineral Development); the Contractor |
| Term of agreement | Model PSA does not fix the period for exploration; the Proclamation indicates up to 4 years with the option to extend for an additional 4. The Proclamation provides for a 25 year period for development and production with the option to extend for up to 10 years. | Exploration period: negotiable<br>Development and production: 25 years | Exploration period: up to 8 years<br>Development and production: up to 30 years. | Exploration period: up to 11 years<br>Development and production: 25 years with a possibility to extend for a further 20. | Exploration period: up to 6 years<br>Development and production: up to 30. |

| Jurisdiction | Ethiopia | Kenya | Mozambique | Tanzania | Uganda |
|---|---|---|---|---|---|
| Legal status | MPSA provides that the Contractor is subject to Ethiopian law. | Not clear which would prevail in the event of a conflict. PSCs are not formally laws so prima facie the law would prevail | Pre 2007 agreements approved by the Council of Ministers which effectively gives the force of law. More recent agreements cannot override the law. | PSAs which have not been formally gazetted do not have the force of law, so legislation overrides. | Not clear which would prevail in the event of a conflict. PSAs are not formally laws so prima facie the law would prevail. |
| Annual fees | Negotiable | Negotiable | Not specified | Exploration: US$ 50 – 200 per sq. km. Development and production: USD 500 per sq. km (NB these are indexed) | Negotiable |
| Dispute resolution | UNCITRAL rules, but location is for negotiation. Ethiopian Law applies. | UNCITRAL Arbitration Rules, in Nairobi. Kenyan law applies to the PSA. | ICSID. Location to be negotiated. Mozambique law applies to the EPCC. | Arbitration under International Chamber of Commerce Rules of Conciliation and Arbitration, in Dar es Salaam. Tanzanian law applies to the PSA. | UNCITRAL Arbitration Rules, in London. Ugandan law applies to the PSA. |
| Bonuses | MPPSA provides for negotiable signature and production bonuses. | Negotiable signature bonus | Signature bonus is to be between 0.5% and 5% of the value of the assets (determination of the value of the licences is not clear) Concession fixed fees between 2% and 5% of the fair value of the assets. Again it is not clear how these are to be determined in the case of an EPCC.<br>Under the proposed Specific Regime, production bonuses on commencement of commercial production and when various levels of production achieved production bonus is specified. | Signature bonus: US$ 2.5 million minimum<br>Production bonus: US$ 5 million minimum on commencement of production | Negotiable signature bonus |
| Royalties | Negotiable on a sliding scale with maximum amounts achieved at production of 100,000 bopd or 200, mmcfpd | None specified | Petroleum Production Tax (PPT):<br>Gas: 6%<br>Oil: 10% | 12.5% of gross production for onshore areas; 7.5% for offshore areas. | Negotiable on a sliding scale with maximum rate reached when production > 7,500 bopd. Rate for gas to be negotiated. |

| Jurisdiction | Ethiopia | Kenya | Mozambique | Tanzania | Uganda |
|---|---|---|---|---|---|
| Production sharing | Cost recovery cap is negotiable. Profit oil/gas split is also negotiable. Based on volumes produced. | Cost recovery cap to be negotiated. Profit oil split is also subject to negotiation and is to be based on volumes produced. Capex recovery limited to 20% pa (not clear whether this is straight line or declining balance basis). | Cost recovery cap to be negotiated. Profit oil split is also subject to negotiation and is to be based on an R-Factor calculation. Capex recovery limited to 25% pa (straight line). PPT is allocated before production sharing is calculated. Under the Specific Regime:<br>• Cost recovery is limited to 60% of the available petroleum. Interest and financial costs are not eligible for recovery.<br>• Profit oil split is defined. The state % varies from 15% to 60% depending on the R- factor. | Cost recovery is limited to 50% of production per period (net of royalty). Older PSAs include higher caps. Profit oil/gas split is subject to negotiation based on volumes produced. | Cost recovery cap to be negotiated (separately for oil and gas). Profit oil/gas split is subject to negotiation and to be based on volumes produced. Royalty is allocated before production sharing is calculated. |
| Income tax | Contractor and subcontractors taxable in accordance with general law at a rate of 30%. Income tax rules are contained in Proclamation 296/1986.<br>Expatriate employees are exempt from income tax under the MPPSA and Proclamation 295/1986. | Resident companies: 30% on net income as adjusted for tax; allocated out of the state's share.<br>The Ninth Schedule of the Income Tax Act contains detailed rules for upstream activities. | Resident companies and branches: 32% on net income as adjusted for tax; payable by the Concessionaire.<br>EPCCs generally contain detailed tax rules. A new law on taxation of upstream projects is under review. | Resident companies and branches: 30% on net income as adjusted for tax; payable by the Contractor.<br>There are few specific provisions covering upstream activities in the tax law. | Resident companies and branches: 30% on net income as adjusted for tax; payable by the Contractor. Net income cannot be less than Contractor's share of profit oil/gas in the relevant period. Part IXA of the Income Tax Act applies to upstream activities. |
| Trigger for tax depreciation on capex | Later of period assets are brought into use and commencement of "regular production" | Later of date asset brought into use and date production commences. | Later of date asset brought into use and date production commences. EPCC provides for deferral of tax depreciation. | Date the asset brought into use. | Later of date asset brought into use and date commercial production commences. |

| Jurisdiction | Ethiopia | Kenya | Mozambique | Tanzania | Uganda |
|---|---|---|---|---|---|
| Tax losses | 10 year loss carry forward is provided in Proclamation 296/1986. There is no provision for loss carry back. | Carry forward is limited to 4 years. Carry back is permitted for 3 years if incurred in the final year of production. | Losses may be carried forward for up to 5 years. No carry back in permitted. | Losses may be carried forward indefinitely. No carry back is permitted. | Losses may be carried forward indefinitely. No carry back is permitted |
| Branch profits tax (BPT) / dividend withholding | There is no branch profits tax. Dividends are exempt from WHT under Proclamation 296/1986, though general tax rules provide a 10% WHT. | The income tax rate for branches is 37.5% (rather than 30% for resident companies).<br>Dividend WHT is 10%<br>Both allocated out of the state's share. | No branch profits tax provided in the law or the EPCC.<br>Dividends to a non-resident parent company: 20% | BPT: 10% of profits deemed to be repatriated<br>Dividends to a non-resident parent company: 10% | BPT: 15% of profits deemed to be repatriated<br>Dividends to a non-resident parent company: 15% |
| Additional tax on income, etc | Not applicable | No additional tax is applied, but a "second tier" profit share is allocated to the state when the oil price exceeds a specified threshold. | Not applicable. | Additional profits tax, based on an R - factor, is provided in the model PSAs issued in 2008 and 2013 but is not in law. (NB: it is not provided in the 2004 Model PSA.) | Not applicable |
| Ring fencing | Ring fencing applies for production sharing but not for income tax | Ring fencing applies for calculation of production sharing and but not explicitly for income tax. | Ring fencing applies for calculation of production sharing and income tax. | Ring fence applies for production sharing and income tax purposes. | Ring fencing applies for calculation of production sharing and income tax. |
| Tax treatment of assignment | No specific rules in the MPPSA. Proclamation 296/1986 provides that disposal proceeds are taxed as receipts from petroleum operations (implying that undepreciated capex, losses etc. may be offset). Assignee may tax depreciate consideration given. VAT exemption may be available. Stamp duty applies to transfers of property at a rate of 2%. | Gains on assignments are taxable as income (capital gains tax is suspended). Consideration in the form of a work obligation is not taxable. Direct and indirect disposals are also subject to withholding at the rate of 10% (or 20% in case the sale is to a non-resident which is not tax registered in Kenya).<br>VAT exemption may be available.<br>Stamp duty will apply at a nominal rate. | No specific rules in the PSA or tax acts. In general disposer will be taxed on gains with assignee getting a step-up in basis. VAT exemption may be available. Indirect disposals also subject to tax at 32% (even if neither party is registered in Mozambique). | No specific rules in the PSA or tax acts. In general disposer will be taxed on gains with assignee getting a step-up in basis. Change of control of contractor may trigger a deemed disposal of assets held at market value for income tax. VAT exemption may be available.<br>Stamp duty due at 1% of consideration. | No specific rules provided in the PSA. The Income Tax Act provides detailed rules on taxation of assignments: disposals are taxable without a step-up in basis. VAT exemption may be available. |

| Jurisdiction | Ethiopia | Kenya | Mozambique | Tanzania | Uganda |
|---|---|---|---|---|---|
| Customs exemptions | Both the PSA and Proclamation 295/1986 provide exemptions for both the Contractor and subcontractors in respect of goods imported for petroleum operations. | Exemption under PSA for goods imported by Contractor and subcontractors. Under general law applies **only** to the Contractor. | Exemption is available for import of specified goods for 5 years from the date of development plan approval. | Exemption under PSA for goods imported by Contractor and subcontractors. Under general law applies **only** to the Contractor. | Goods imported by a PSA holder are mostly exempt, under general law. No specific model PSA provision. |
| VAT exemptions | Goods: as for customs duties<br>Services: no exemption. Reverse charge mechanism is provided. | Goods and services are subject to VAT exemption under general law in the case of the Contractor. The model PSA also applies this to subcontractors. | Goods: as for customs duties. Services are exempt from VAT in the exploration phase. | Goods and services are subject to VAT remission (similar to zero rating) in the exploration phase. Imports of capital goods are exempt under law at any time.<br>Proposed VAT legislation may reduce the scope of these reliefs. | Goods: as for customs duties<br>Services: no exemption available under current law or the model PSA. |
| Financing costs | In general, cost recoverable and tax deductible subject to limits. | In general, cost recoverable and tax deductible, subject to limits. | In general, tax deductible, subject to limits.<br>Under the draft Specific Regime, financing costs are not cost recoverable. | Not cost recoverable, but tax deductible subject to limits | In general, cost recoverable and tax deductible, subject to limits. |
| Economic stabilization | In the event of changes in law, etc., which substantially impact the Contractor's economic interest the parties can renegotiate terms to restore the status quo. | In the event of changes in law, etc. which substantially impact the Contractor's economic interest the parties can renegotiate terms to restore the status quo | In the event of introduction of new taxes, which substantially impact the Concessionaire's economic interest, the parties can renegotiate terms to restore the status quo. | No stabilization is provided under the 2013 MPSA (though the 2004 model and most PSAs in force provide this). | In the event of changes in law, etc. which materially impact the Contractor's economic interest the parties can renegotiate terms to restore the status quo. |
| State carried interest | The state (or its nominee) has the right to take a share in a development. The percentage is subject for negotiation. It is required to meet its share of development (but not exploration) costs. The states may require the Contractor to lend it money to meet its share of costs. | The state (or its agent, presumably NOCK) has the right to take a negotiable percentage in the exploration phase and to be carried. It can also elect to take an interest in a development (again negotiable), but must meet its own costs. | The State (or its nominee) has the right to take a share in a development. It is required to reimburse exploration costs. Exploration costs will be paid by the Concessionaire and cost recovered with interest at USD LIBOR. | TPDC has the right to take a share of at least 25% in developments. It may pay its share of development costs, but is not required to reimburse exploration costs. If TPDC opts to be carried through development its share of costs is cost recoverable by Contractor with interest. | The State (or its nominee) has the right to take a share of up to 20% in a development. It is not required to reimburse exploration costs. Development costs will be paid by the Contractor and cost recovered with interest at LIBOR. |

| Jurisdiction | Ethiopia | Kenya | Mozambique | Tanzania | Uganda |
|---|---|---|---|---|---|
| Title to fixed assets | Government entitled to acquire for zero consideration when the PPSA expires. | No provisions. | Government entitled to acquire for zero consideration when the EPCC expires. | May pass to TPDC once 50% of cost recovered on payment of the balance recoverable. | Shall pass to the government on earliest of full write off for tax, cost recovery, or expiration of the PSA. |
| Domestic market obligation | The government may require the Contractor to supply the domestic market in certain circumstances. This should be paid for at market prices. | The government may require Contractor to supply the domestic market in certain circumstances. This should be paid for at market prices. | The government may require Concessionaire to supply the domestic market in certain circumstances. This should be paid for at market prices. | Contractor to supply a proportionate share of production to the domestic market. This should be paid for at market prices. | The government may require Contractor to supply the domestic market in certain circumstances. This should be paid for at market prices. |
| Local content | Local content is to be encouraged by the Contractor and subcontractors, but no minimum percentage is prescribed. | Local content is to be encouraged by the Contractor, but no minimum percentage is prescribed. | Employment of nationals encouraged by the Contractor, but no minimum percentage is prescribed. No requirements re goods and services. | Local content is required to comply with the national policy (as yet unpublished) but no minimum percentage is prescribed. | Local content is to be encouraged by the Contractor, but no minimum percentage is prescribed. |
| Decommissioning | No requirement to establish a decommissioning fund or reserve. Actual costs incurred are cost recoverable and tax deductible (though there is no loss carry back), | Abandonment reserve to be established. Accruals are cost recoverable, but for income tax purposes only deductible when incurred. | Decommissioning fund to be established. Contributions tax deductible and cost recoverable | Abandonment fund to be established. Contributions tax deductible (apart from offshore costs) and cost recoverable. | Site restoration is required but there is no provision in the model for setting up a fund. The Income Tax Act provides for deductions for allocations to a reserve |
| Foreign currency | MPPSA prescribed USD accounting. Ethiopia retains currency control regulations but these are relaxed under the MPPSA and Proclamation 295/1986. | Accounting in US dollars. Kenya does not have currency controls at present. | Accounting in local currency and US dollars.<br>Mozambique has currency controls. The EPCC provides certain relaxations. | Accounting in local currency and US dollars. Dollars prevail under the model PSA. Tanzania does not have currency controls at present. Accounting for tax is generally in local currency. | Accounting in local currency and US dollars. Dollars prevail under the model PSA. Uganda does not have currency controls at present. |
| Specific rules for natural gas | Specific provisions are included in the MPPSA to deal with gas discoveries | Little specific to gas in the model PSA. | Little specific to gas in the model EPCC. | The 2013 MPSA provides some terms specifically for gas. | Little specific to gas in the model PSA. |

# 7 Working with the global Oil and Gas industry

Deloitte is a global network of member firms with more than 200,000 practitioners in 150 countries. We provide a wider range of services to the upstream industry than any other professional services organization.

## 7.1 Global services

### Consulting

**Strategy & Operations**

- Program Leadership
- Strategy
- Globalization and Market Entry Strategy
- Customer Experience & Insights
- Product Development
- M&A and Restructuring
- Supply Chain Strategy
- Operations
- Shared Services
- Finance Strategy
- Enterprise Cost Management and Restructuring
- Capital Program Management

**Technology**

- Business Analytics/Information Management
- Platform Architecture & Infrastructure
- Systems Integration
- IT Strategy
- Vendor packages implementation (Enterprise Applications)

**Human Capital**

- Actuarial and Advanced Analytics
- Strategic Change and Org Transformation
- HR Transformation
- Talent, Performance & Rewards

### Audit and Assurance Advisory

- Financial Statement & Internal Control Audit
- Accounting Advisory
- Assurance Services
- Integrated Services

### Energy and Resources Specialty Businesses

- Petroleum Services Group
- Resource Evaluation & Advisory (REA)
- ProcessPartners
- MarketPoint
- Venmyn Deloitte

### Financial Advisory Services

**Corporate Finance Advisory**

- Debt & Capital Advisory
- Deloitte Analytics (Business Modeling)
- Lead M&A Advisory, Management Advisory and Private Equity Advisory
- Economic Advisory
- PPP and PFI and Infrastructure Advisory

**General Financial Advisory**

- Real Estate Consulting
- Restructuring Services

**M&A Transaction Services**

- Transaction Advisory and Diligence
- Integration Execution
- Transaction Execution
- M&A Strategy

**Valuation Services**

- Fairness Opinions
- Business Valuation (Valuation / Management & Valuation / Intellectual Property (IP))
- Engineering and Construction Consulting

Forensic & Dispute Services

- Analytic & Forensic Technology (Forensic Technology)
- Anti-Fraud Consulting (Forensic Advisory & Investigations)
- Anti-Money Laundering(Forensic Advisory & Investigations)
- Business Intelligence Services
- Corporate Investigations(Dispute Services)
- Discovery
- Foreign Corrupt Practices Act (FCPA) Consulting
- Litigation & Dispute Consulting

## Enterprise Risk Services

- Consulting
- Strategy & Operations
- Program Leadership
- Strategy
- Globalization and Market Entry Strategy
- Customer Experience & Insights
- Product Development
- M&A and Restructuring
- Supply Chain Strategy
- Operations
- Shared Services
- Finance Strategy
- Enterprise Cost Management and Restructuring
- Capital Program Management
- Technology
- Business Analytics/Information Management
- Platform Architecture & Infrastructure
- Systems Integration
- IT Strategy
- Vendor packages implementation (Enterprise Applications)
- Human Capital
- Actuarial and Advanced Analytics
- Strategic Change and Org Transformation
- HR Transformation
- Talent, Performance & Rewards

## Integrated Market Offerings and Propositions

- Deloitte Analytics
- Finance Transformation
- Mergers & Acquisition
- Governance, Risk and Compliance
- Infrastructure & Capital Projects

## Tax and Legal

- Legal Services
- Global Business Tax Services
- R&D, Government Incentives
- Business Tax
- Private Company Services (PCS)
- Tax Management Consulting
- Indirect Taxes
- VAT
- Customs & Global Trade
- Financial Transaction Tax
- Global Employment Services
- International Assignment Services
- Global Compensation & Benefits
- Global Equity Consulting
- Global HR Technology Solutions
- Cross-Border Tax
- International Tax: Compliance
- Mergers & Acquisitions (Tax)
- Transfer Pricing

## 7.2 Our Oil and Gas specialty services

**Upstream**

### Petroleum Services Group

Deloitte's Petroleum Services Group helps companies to gain greater market insight and competitive advantage through a suite of subscription based Information Solutions.

- **PetroReports®**: A set of comprehensive reports focusing on Oil and Gas activity at country, company and asset levels, including industry activity, asset regimes and benchmarking.
- **PetroView®:** A Geographic Information System which provides spatial data for analysis for exploration, new ventures and upstream business planning.
- **PetroScope®:** A discounted cash-flow modelling framework, which can be supplied with fiscal models for over 80 tax and asset regimes worldwide.

### Resource Evaluation & Advisory (REA)

Deloitte Resource Evaluation & Advisory (REA) helps companies grow strategically through merger and divestitures.

- REA is recognized for its technical abilities in the preparation of corporate reserves and resources of unconventional reservoirs such as shale gas, coal bed methane, tight gas and heavy oil.
- Its technical staff includes 44 engineers, geologists, and technicians.
- As an accredited Independent Qualified Reserves Evaluator, REA and all senior staff are registered to perform in their respective fields of expertise by the Association of Professional Engineers, Geologists, and Geophysicists of Alberta. (APEGGA).

### Process Partners

- Process Partners provides a range of services to upstream companies including:
  - Strategy and Operations.
  - Human Capital Advisory Services, i.e. building organizational scalability – handling change and growth in a safe, reliable and compliant manner, leadership development, compliance in an oil and gas context.
  - Technology solutions such as Enterprise Resource Planning, Performance and Risk Management System selection and implementation support, Maximo/SAP – project management.

**Market Analysis/Price Forecasting**

**Across the value chain**

### Deloitte MarketPoint

- **Deloitte MarketPoint™** is a decision – support Solutions Company focused on fundamental market analysis and price forecasting.
- Their solutions include software applications, such as **MarketBuilder™**, economic models, market data, and consulting services.
- **MarketBuilder™** is a premier energy market solution for fundamental analysis and price forecasting to assist customers in making strategic decisions.
- It helps companies manage the complexity and volume of data required for fundamental market analysis.

### Upstream Oil and Gas Advisory

Deloitte upstream Oil and Gas advisory provides services across all sub – sectors, offering global lead advisory on acquisitions, divestitures, project financing and farm-ins.

### Global Back Office Support Services

- Deloitte offers a comprehensive umbrella of back office advisory and support services that clients need to operate efficiently and effectively in a competitive global environment.
- Services include – Tax advisory and compliance, Expatriate Tax Service, International Human Resources, Custom Duties and Tariffs, Book Keeping, Statutory Reporting, Integrity Due Diligence.

### Joint Venture Support Services

- Joint Venture Support Services assists clients with a range of activities which enable the successful initiation, establishment, management and operations and disbandment of joint ventures.
- Services include – Financial Support, Reporting and Control, Operational Support considering JV Partners' standard Operating Procedures (SOPs), Internal Controls Design, Review and Compliance, External Compliance with Reporting, HR, Tax and other regulatory requirements.

### 7.3 Selective global credentials

- Addax and Oryx Group Ltd.
- Alliance Oil Company Ltd.
- Anadarko Petroleum
- Baker Hughes
- Cairn Energy Plc.
- CEPSA
- China National Petroleum Corp.
- China Petrochemical Corp.
- CPC Corp. (Taiwan)
- Ecopetrol
- El Paso Corp.
- Encana Corp.
- ENI SpA
- EOG Resources, Inc.
- Gazprom
- GS – Caltex Oil Corp.
- Husky Energy Inc.
- Kinder Morgan Inc.
- McDermott International, Inc.
- Oil and Natural Gas Corporation Ltd.
- Perenco
- Pemex (Petroleos Mexicanos)
- Petrofac Ltd.
- PKN Orlen
- Quicksilver Resources Inc.
- Repsol – YPF S.A
- Rosneft oil Company
- Rowan Companies
- Sasol Group
- Statoil ASA
- Suncor Energy Inc.
- Talisman Energy Inc.

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