GLOBAL FORUM

On Flaring and Venting Reduction and Natural Gas Utilisation

Improving Economics of Flare and Vent Reduction Projects

Fiscal Frameworks

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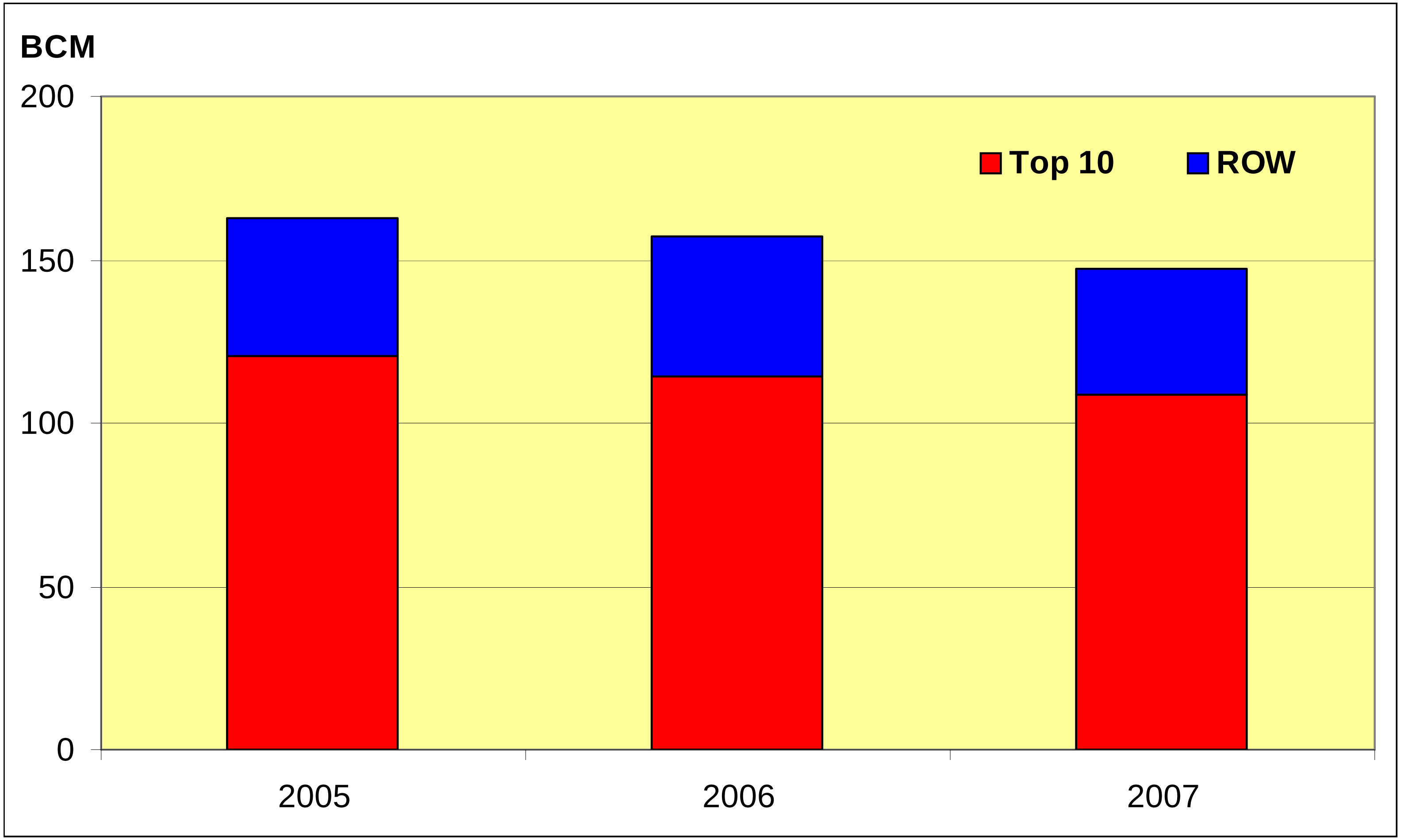
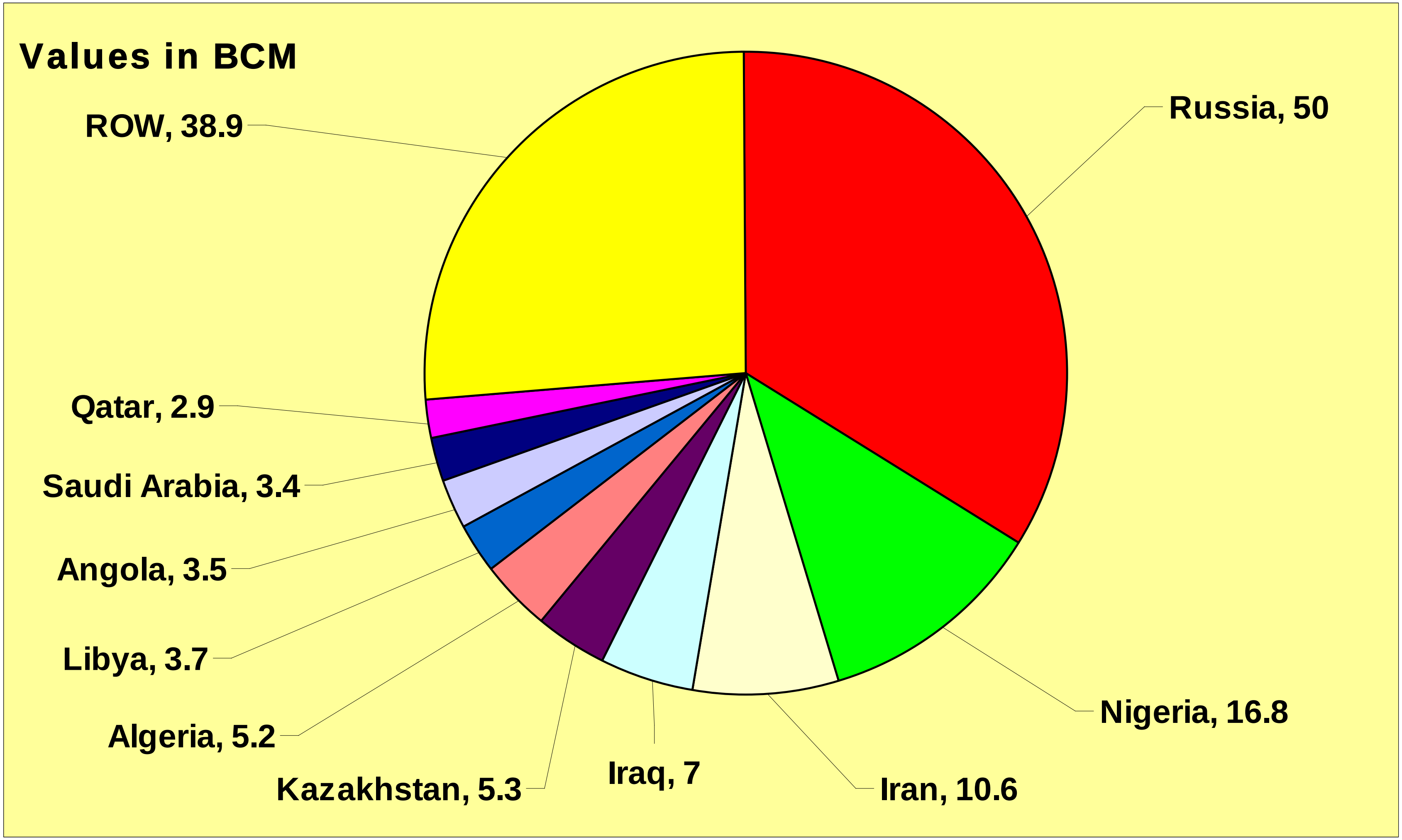
Top 10 Countries Account for 75% of Flaring



Source: GGFR

Russia is largest flaring contributor followed by Nigeria and Iran



Source: GGFR

How Fiscal Frameworks Provide Incentives for Associated Gas Recovery

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- Royalty
  - Royalty payable on flaring above permitted levels (*Penalty*)
  - Royalty waiver on gas utilised for on-site power generation

- Tax
  - Tax on Fuel/Flare (*Penalty*)
  - Separate ring fence (lower taxation) for associated gas projects
  - Associated gas capital expenditure allowed vs higher tax rates for oil

- PSC
  - Capital cost recovery offsets high marginal tax rate
  - Uplifts on eligible costs provide a return on investment
  - Higher profit share to contractor on gas development projects

Fiscal Terms Review: Brazil

- Under most fiscal regimes flared gas is not subject to royalty.
- In Brazil unauthorised flaring is subject to royalty.
  - ANP sets flaring targets for fields on annual basis
  - Flared gas volumes above approved limit are subject to royalty
- Royalty on flaring is in effect a tax on flaring

Fiscal Terms Review: Alberta, Canada

- Otherwise Flared Solution Gas Royalty Waiver Program
  - Uneconomic gas exempt from royalty
  - Gas used for on-site power generation is exempt from royalty

Fiscal Terms Review: Norway

- CO_2 tax on fuel (gas, oil and diesel) used in oil and gas operations
  - Currently US$0.11/litre for oil and US$0.11/SCM of gas burned
  - Deductible against Special and Income Taxes

Fiscal Terms Review: Algeria

- New Hydrocarbon Law (2006)
  - Flaring is prohibited. Flaring permitted only in exceptional circumstances
  - Non-deductible tax of US$1.15/SCM payable on any flared volumes

Fiscal Terms Review: Nigeria

- Associated Gas Framework Agreement
  - Separate ring fences for oil and associated gas developments
  - Capital expenditure for delivery of associated gas allowed against (85%) oil tax (PPT)
  - Associated gas profit (revenue – opex) taxed at 30% Income Tax
  - Lower gas royalty rate (5% vs 18.5%)

Fiscal Terms Review: Angola

- PSC terms
  - All gas owned by the State
  - All capital expenditure recoverable with (30% - 50%) uplift

- No-Flare Policy
  - Capital expenditure incurred by Contrators in storing and delivering associated gas to Sonangol is borne mainly by the host government

Enabling Fiscal Frameworks for Recovery and Utilisation of Associated Gas

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- Royalty
  - Royalty payable on flaring above permitted levels (*Penalty*)
- Tax
  - Non-deductible Tax on Fuel/Flare (*Penalty*)
  - Separate ring fence (lower taxation) for associated gas projects
  - Associated gas capital expenditure allowed vs higher tax rates for oil, where applicable
  - Accelerated depreciation
- PSC
  - Uplifts on eligible costs
  - Higher profit share to contractor on gas development projects

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