

سوناطراك



sonatrach

Legal and Tax framework for investment in Algeria

New hydrocarbon law
(in the approval process)





Algeria overview

Oil & Gas sector overview

Institutional framework

Legal framework

Tax framework for investment

2.38 millions km² of land

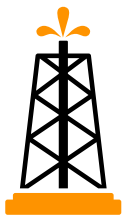
**1.55 million km² mining acreage
(6% offshore)**

42.2 million population

22.5 million < 30 years

**1.7 million students at the
university**





Huge unconventional oil &
natural gas potential to
develop

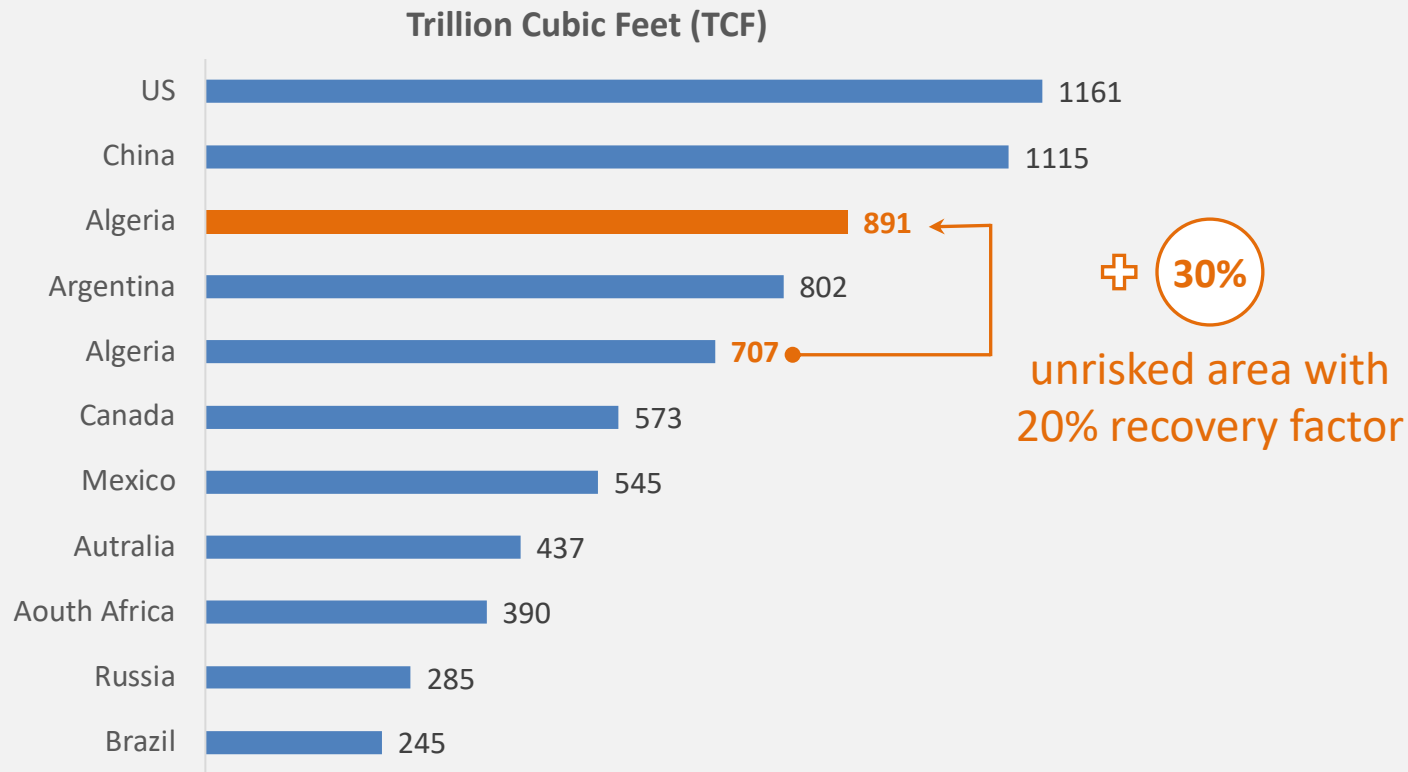


Offshore E&P
Exploration program in
the Algerian offshore



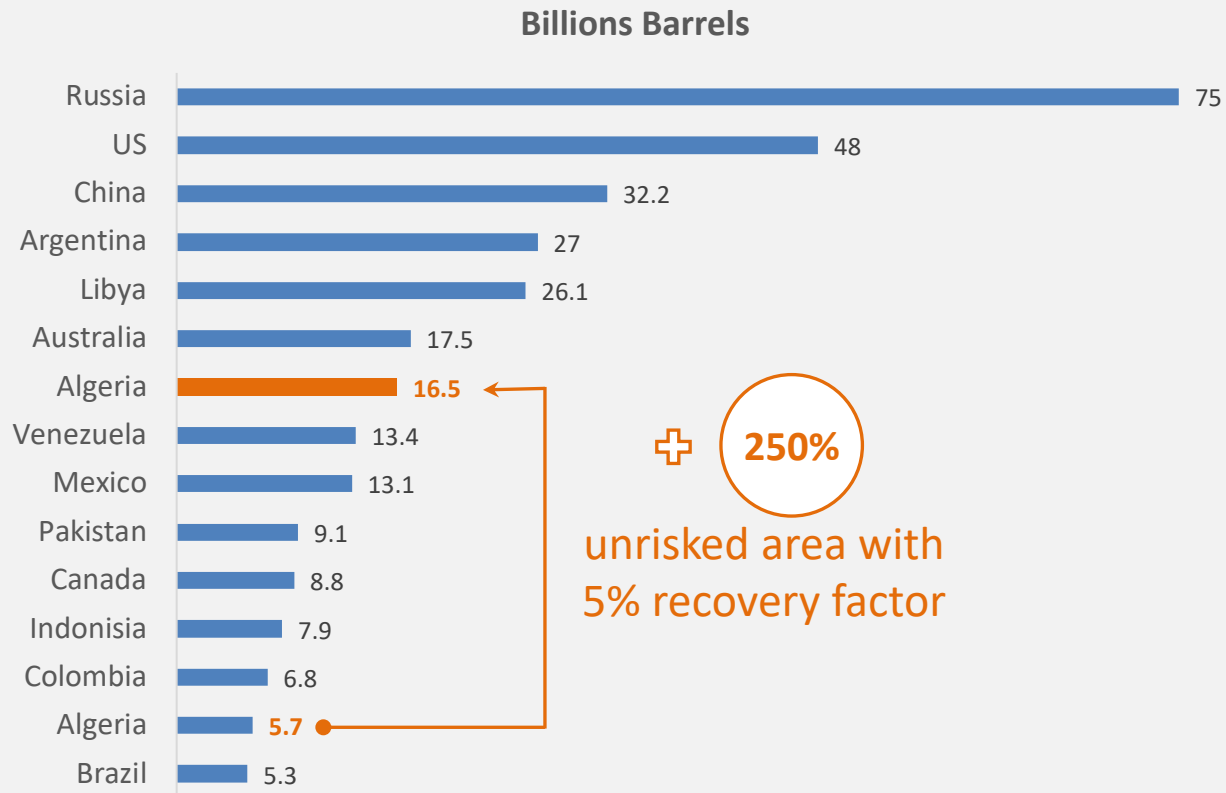
Shale Gas Resources, Technically Recoverable

EIA vs. ALNAFT assessment



Shale Oil Resources, Technically Recoverable

EIA vs. ALNAFT assessment



INVESTORS' PERCEPTION

- **Rigid institutional framework, source of delays and over-costs.**
- **Unstable legal framework.**
- **Complex and unattractive tax system.**
- **Contractual framework not adapted to international standards.**



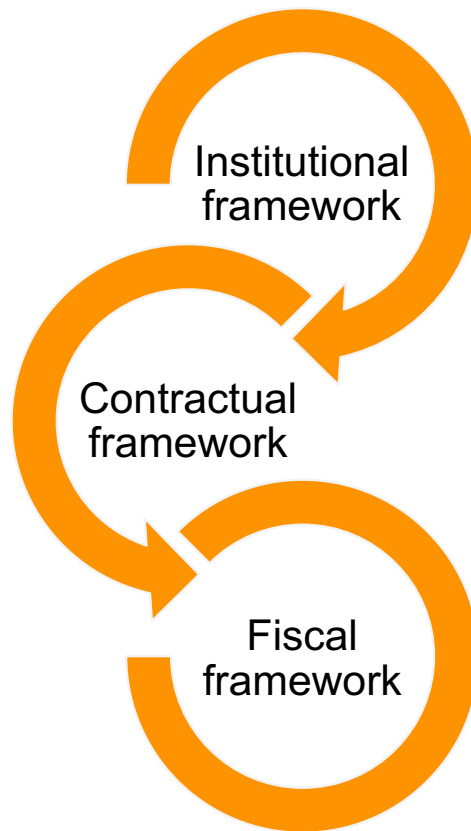
Improving the regulatory framework

- A stable legal, institutional and fiscal environment
- An attractive, clear and simple law

Improving tax attractiveness

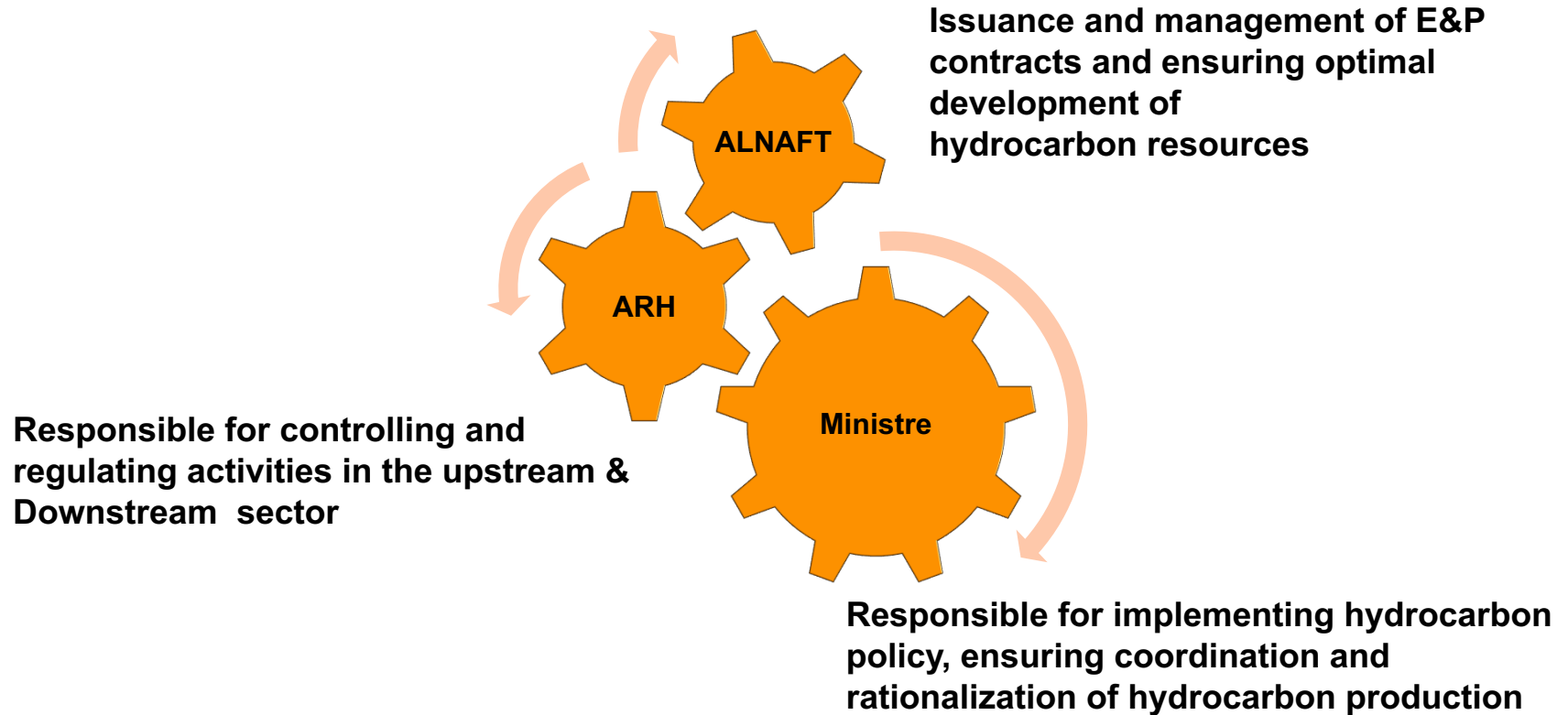
- Reduction of taxation
- Simplification of the tax system
- Improvement of the conditions to develop hydrocarbon resources, particularly offshore and unconventional.

AREAS REFORM



INSTITUTIONAL FRAMEWORK

MAIN INSTITUTIONS



INSTITUTIONAL FRAMEWORK

THE CHANGES MADE

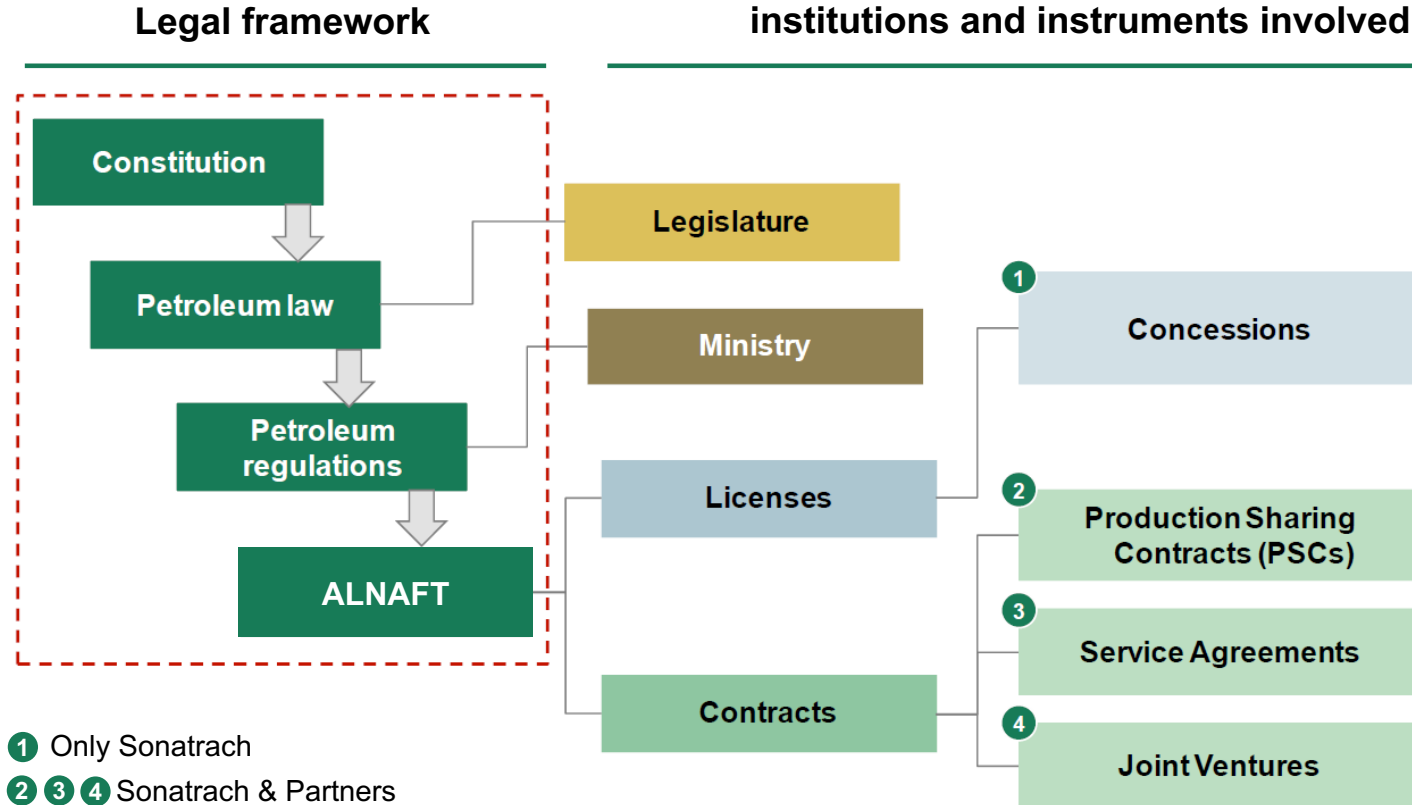
- Express affirmation of the independence of the agencies
- Reduction in the use of Minister's approvals
- Reinforcing the regulatory and supervisory powers of the Agencies
- The HRA authority is the only institution responsible for providing the necessary permits to carry out the Upstream & Downstream activities (permitting)
- The ARH authority is empowered to coordinate with the institutions and administrations concerned all aspects related to environmental protection and industrial safety

INSTITUTIONAL FRAMEWORK

THE CHANGES MADE

- Separation and clarification of the roles of ALNAFT and SONATRACH in the E&P contracts
- SONATRACH is the only one to sign E&P contracts with investors
- ALNAFT delivers “attribution acts” to carry out E&P activities
- E&P contracts are awarded by way of a call for tenders issued by ALNAFT or by direct negotiation with Sonatrach
- E&P contracts and “attribution acts” are approved in a ministerial council through a presidential decree published in the State Gazette

FRAMEWORK FOR INVESTMENT IN THE UPSTREAM SECTOR



CONTRACTUAL ASPECTS OF E&P ACTIVITY

Participation Contract

- Tax Royalty system
- Sonatrach's min share 51%

Production Sharing Contract

- No share limit
- Cost recovery + Profit Oil
- Share of foreign partner does not exceed 49% of production

Risk Services Contract

- No share limit
- Cost recovery + Profit
- Share of foreign partner does not exceed 49% of revenues

CONTRACTUAL TERMS

Prospection (2 + 2 years)



Hydrocarbons contract (30 + 10 years)



MORE FLEXIBILITY IN CONTRACTS

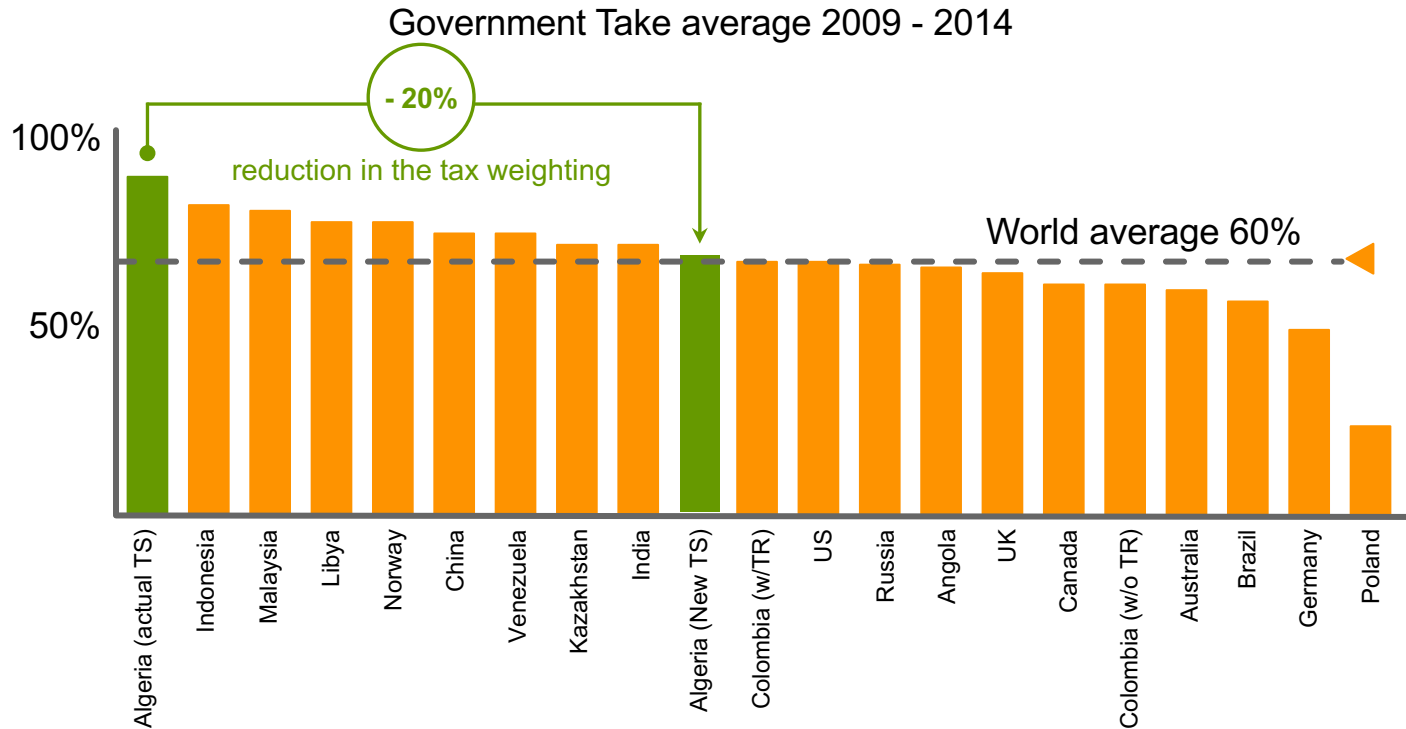
Except legal issues, which are expressly provided by law, operational and economic topics will be defined in the contract :

- exploration minimum work commitments
- terms & conditions for moving from one exploration phase to another
- economic terms for PSC & RSC contracts
- joint operating agreement (JOA)

LAW AND DISPUTE RESOLUTION

- **E&P contracts are governed exclusively by Algerian law**
- **Possibility of international arbitration for the settlement of disputes between SONATRACH and foreign investors**
- **Any actions against the agencies will fall within the competence of national courts.**

IMPROVING TAX ATTRACTIVENESS



THE NEW LAW TAX SYSTEM

Land tax

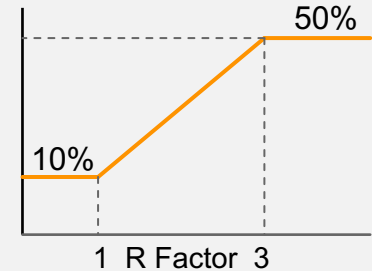
- Exploration phase
 - 1st to 4th year : 7,000 DA (58 US\$)/km²/year
 - 5th to 7th year : 14,000 DA (116 US\$)/km²/year
- Production Phase
 - 30,000 DA (250 US\$)/km²/year

Royalty

- Fixed rate
- **10%** on the Production Value (PV)
- Production Value = sales revenues less transport & liquefaction costs

Petroleum tax

$$R = \frac{\sum(PV - Tax)}{\sum Capex + Opex}$$



Income tax

- Fixed rate
- **30%** on the Income (results after costs deduction)

THE NEW LAW TAX SYSTEM : TAX ALLOWANCE

The investor may benefit from a reduction in the royalty and Petroleum tax rates in the following situations that could impact the project's economy:

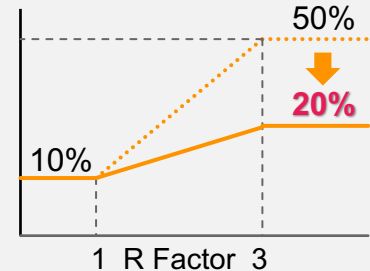
- geological complicity of the perimeter
- extraction and production difficulties
- very high Capex and Opex
- trend decline in prices

Royalty

- **5%** on the Production Value (PV)
- Production Value = sales revenues less transport & liquefaction costs

Petroleum tax

$$R = \frac{\sum(PV - Tax)}{\sum Capex + Opex}$$



THE NEW LAW TAX SYSTEM :

TAX ON PROFIT OIL

For PSC and RSC Contracts, the foreign investor is subject to a single tax on his Profit Oil of **30%**.

All others tax will be payed by Sonatrach

Contractor's Share "Cost Oil + Profit Oil after tax" must not exceed **49%** of total production or total revenues

PARTNERSHIP IS OUR CHOICE



Algeria has a huge hydrocarbon potential

Mining sector is still under-explored

Partnership is a strategic choice to develop hydrocarbon resources

New law provides a flexible and attractive framework for hydrocarbon exploration and production in Algeria