

Transfer Pricing for Upstream Oil & Gas in Africa

January 2014



The current landscape

Challenges

- Transfer pricing (“TP”) is high on the tax agenda especially in African countries.
- Extractive industries are the focus of most African Governments.
- Consequently, tax authorities continue to rise to the challenge through increasing their capacity e.g. increasing personnel dedicated to TP, training, etc.
- At the same time, tax authorities in developed countries (e.g. US, UK) expect to see returns on interaction with local exploration, development and production (“EDP”) affiliates e.g.
 - time-writing - through mark-up on services rendered; and
 - financing - interest on loan financing.

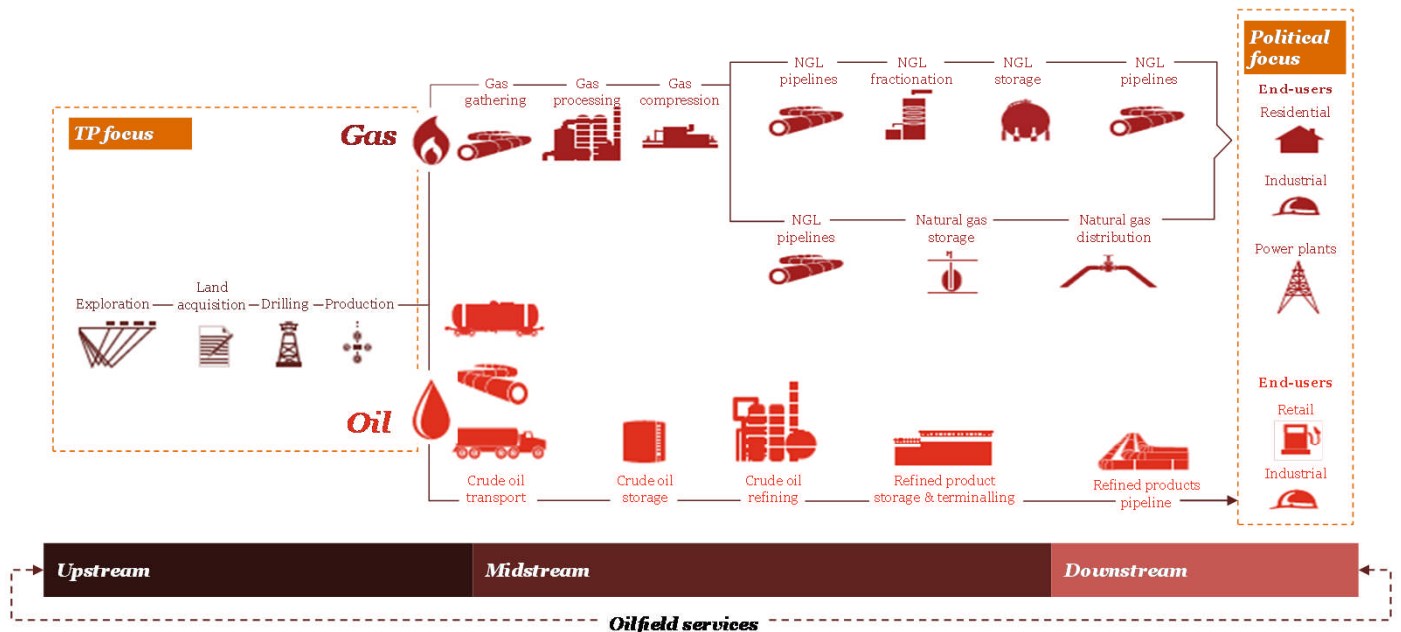


Transfer pricing for exploration and production oil and gas

We provide end-to-end solutions tailored to your needs (internal processes, resources etc.). We can also provide you with dedicated support or work in conjunction with your in-house tax personnel.

Our TP network has been gathering considerable experience in Africa and is ready to offer support to our clients.

Oil and gas value chain



Services PwC can offer

We have considerable experience in design, implementation and defence.

Our offer – Time-writing

Time-writing

We can help with you in the design, implementation and defence of your time-writing TP policy e.g.

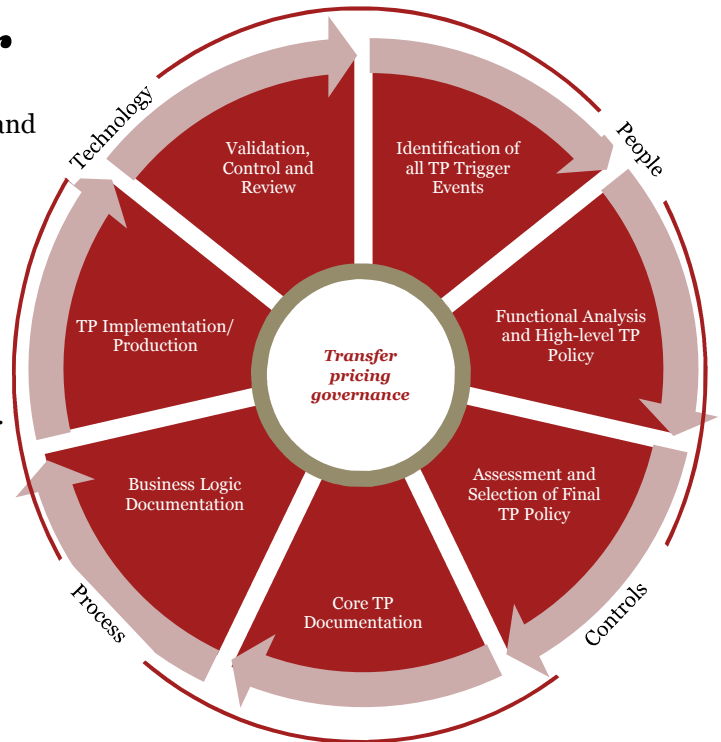
- **Cost analysis:** Identification of the cost base and classification of costs to be recharged to service recipients.
- **Benefits assessment:** Identification of benefits received, which aims to support deductibility for recipients of the charges.
- **Benchmarking:** Execution of benchmarking using commercially available databases and a review of internal comparable data.

Setting up TP policies that comply with the arm's length principle:

- Coordinated TP planning advice, including health checks to identify and analyse priorities and develop policies.
- Providing guidance or detailed advice to companies that do not have dedicated in-house resources.
- Helping to resolve particularly complex TP problems and implement solutions. Often these will involve more than one country and require coordination of worldwide TP efforts.
- Advance pricing agreements and rulings to agree the pricing policy with the tax authorities in advance.

Defending a tax authority challenge:

- We can help you be prepared in case of disputes by identifying and managing tax risks from the outset.

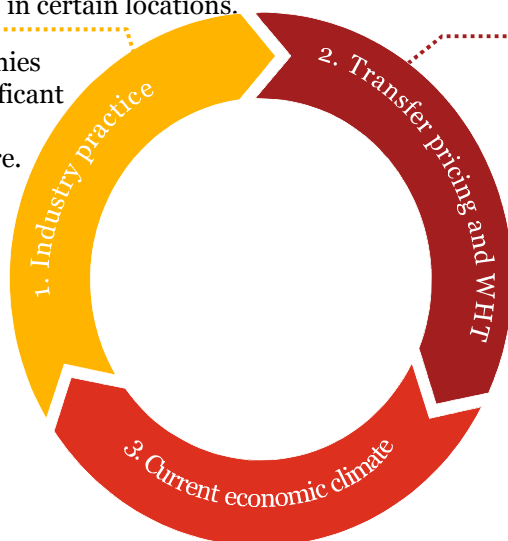


Our offer - financing

TP considerations for Quasi-equity funding

Quasi-equity is used to finance local E&D operations. A common issue with this funding is whether tax authorities will accept arguments for interest free lending to affiliates. In Africa this can also have WHT implications on deemed interest payments in certain locations.

Oil companies incur significant capital expenditure.



In order to assess whether some or all of the funding would have been provided in the form of a loan at arm's length, it is necessary to consider all of the facts and circumstances including:

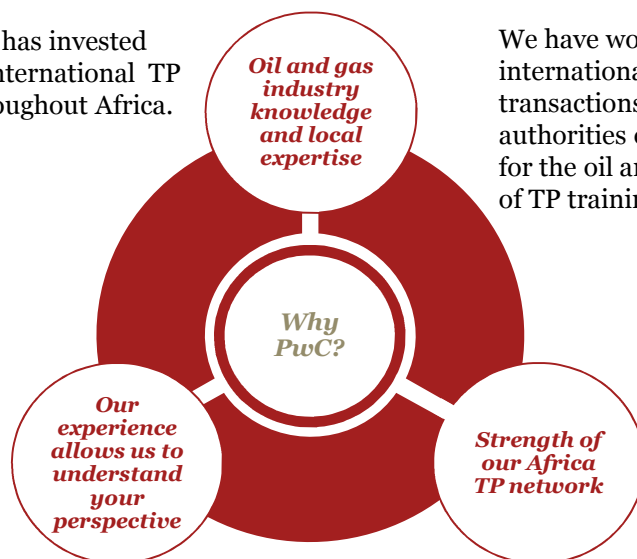
- the borrowing company's production projections and projected net cash flows from assets with proven reserves;
- the nature and terms of the funding, including the purpose of the loan, the quantum of the loan, the specific uses to which the funding was put by the borrowing entity and any other relevant terms;
- any existing third party funding within the group, including examples where third party funding has been sought and declined and the reasons; and

In the absence of adequate documentation, funding companies are likely to experience some resistance from tax authorities regarding any quasi-equity filing position that is adopted.

We have considerable experience in designing financing policies, documenting these and defending the outcomes.

Why PwC?

For the past 10 years PwC has invested heavily in developing its international TP network, in particular throughout Africa.

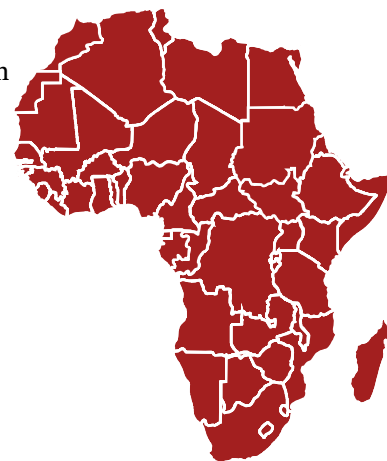


We have worked extensively with African and international oil companies involved in cross border transactions. This has included discussions with tax authorities on legislative changes on issues relevant for the oil and gas industry, as well as the provision of TP trainings.

Within Africa's unique operating environment, understanding the industry is essential, as such understanding our individual client's needs is our priority.

Our TP network has considerable experience in Africa. As such, we understand the unique economic environment you operate in as well as the distinctive tax and TP legislation which you to comply with. We will help you navigate through these as well as the practical issues of implementation of your TP policy. We are have designed processes to help you manage your TP efficiently from TP policy design, documentation to implementation and are happy to discuss further with you.


The PwC tax network is the strongest and largest tax practice in Africa and offers the most comprehensive coverage. To spearhead the activities of our practice, we recently established a dedicated Africa Desk in Johannesburg, manned by professionals from East, West and Southern Africa. The Tax Desk ensures seamless and coordinated pan-African tax services to clients with interests on the continent.




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