

PRESENTATION TO THE PARLIAMENTARY PORTFOLIO COMMITTEE ON MINERALS

11 September 2013

ANADARKO SOUTH AFRICA (Pty) Ltd.

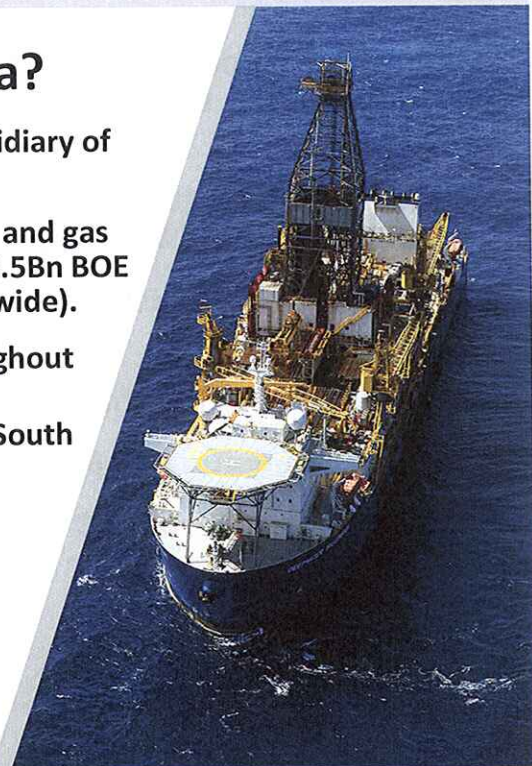


Anadarko Petroleum Corporation

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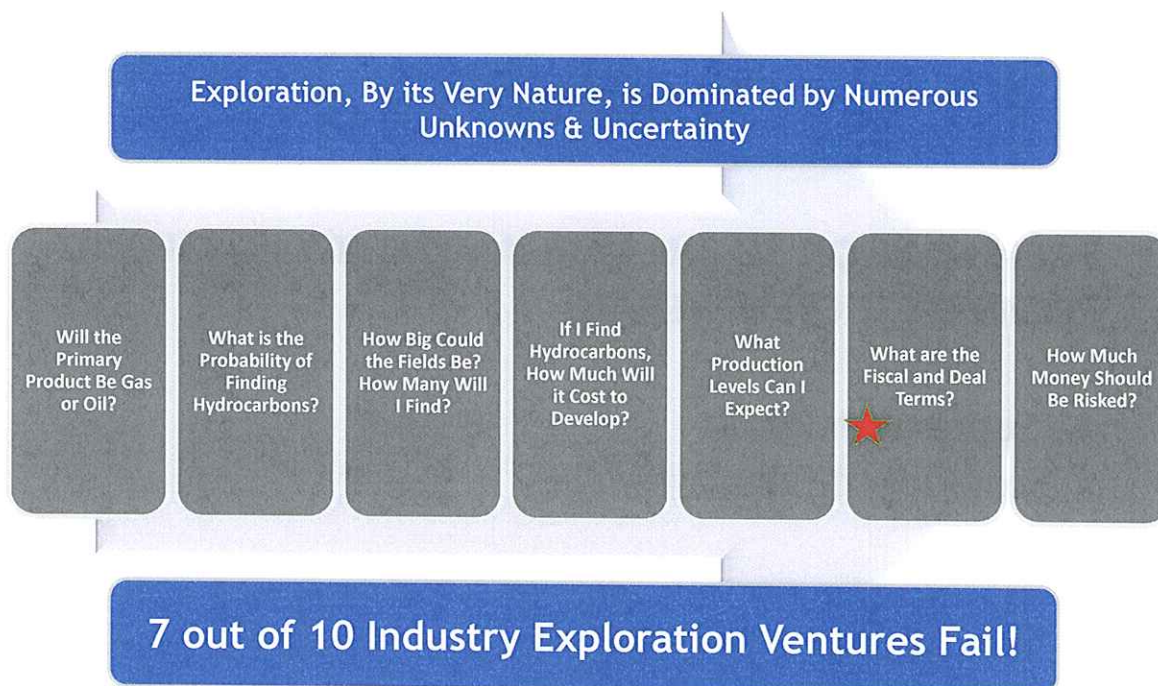
▪ **Who is Anadarko South Africa?**

- Anadarko South Africa is a wholly owned subsidiary of Anadarko Petroleum Corporation (“APC”).
- APC is one the world’s largest independent oil and gas exploration and production companies (over 2.5Bn BOE proved reserves, over 5,000 employees worldwide).
- APC has operations in various countries throughout Africa.
- Together with our partner PetroSA Anadarko South Africa has an Exploration Right in offshore Block 5/6 and Block 7, and has lodged an application for an ER over Block 2C.



Anadarko Petroleum Corporation

Basic Concepts: Key Questions



Investment Required – Deep Water (Per project)

Anadarko's experience with similar projects elsewhere in the world suggests the following order of magnitude of investments will be required;

- Estimated total exploration spend prior to producing a bbl of oil – US\$860 Million (R8.6 billion)
- Total investment in development to produce first oil – US\$4.0 billion (R40 billion)
- Total investment post first oil – US\$1.5 billion (R15 billion)
- Total exploration spend post first oil – US\$1billion (R10 billion)
- Total investment – US\$7.3 billion (R73 billion) (excluding Operating Costs)



**“Few industries combine such a dramatic contrast
between risk and reward.”**



Government’s Objective

Maximize wealth from it’s natural resources by encouraging appropriate levels of exploration and development activity.

- Promote exploration – **Keep oil companies interested.**
- Facilitate job creation and revenue generation for the State.
- Encourage field developments over a wide range of field sizes.
- Understand risks involved.
 - Geologic
 - Environmental (water depth, technology)
 - Commercial
- Appropriately share revenues between Government and Contractor.
- Contract structure must stand the “test of time”.
 - “Win-win” for host Government and Contractor
 - “Best practices” rewarded, not penalized
 - Competitive with other contracts in basins of similar geologic risk



Oil Company's Objective

Build equity and maximize wealth for shareholders by finding and producing oil and gas at the lowest cost and highest profit margin.

- All opportunities must compete on a worldwide basis for funds.
- Only best projects will get the \$\$\$\$
- Opportunities are ranked based on profitability, above ground risk, and how well risk can be managed throughout the project.
- Contract sanctity



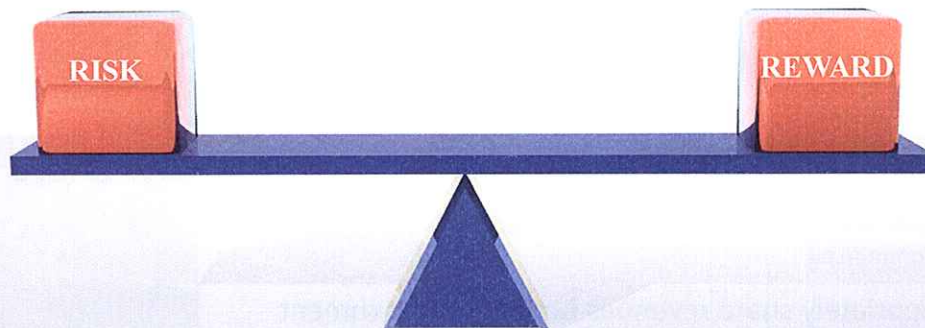
Oil Company vs. Government Objectives

Oil Company:

Accepts and manages all risks

Government:

Determines the potential reward using contract and fiscal terms



Risk must balance Reward



Potential Benefits to SA Inc.

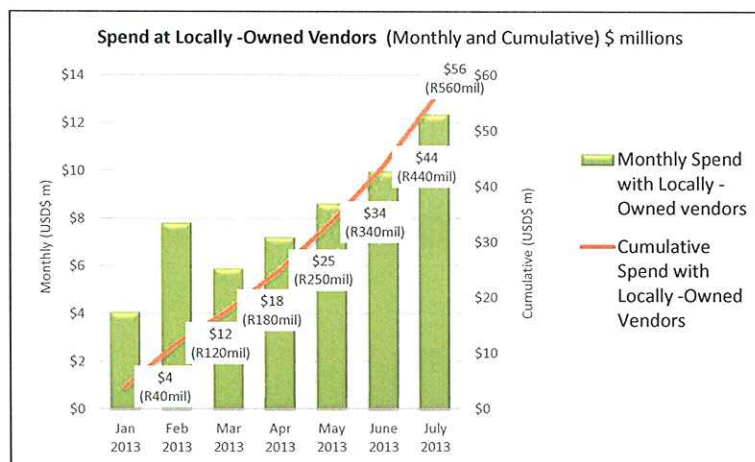
Depending on the size of the development;

- Direct revenues to the Treasury of R21 billion.
- Potential for the creation of over 100,000 new jobs annually (direct and indirect).
- Foreign Direct Investment of R45 billion.
- Large positive impact on SA's balance of payments due reduced oil imports.
- Change in the primary energy mix in the country.

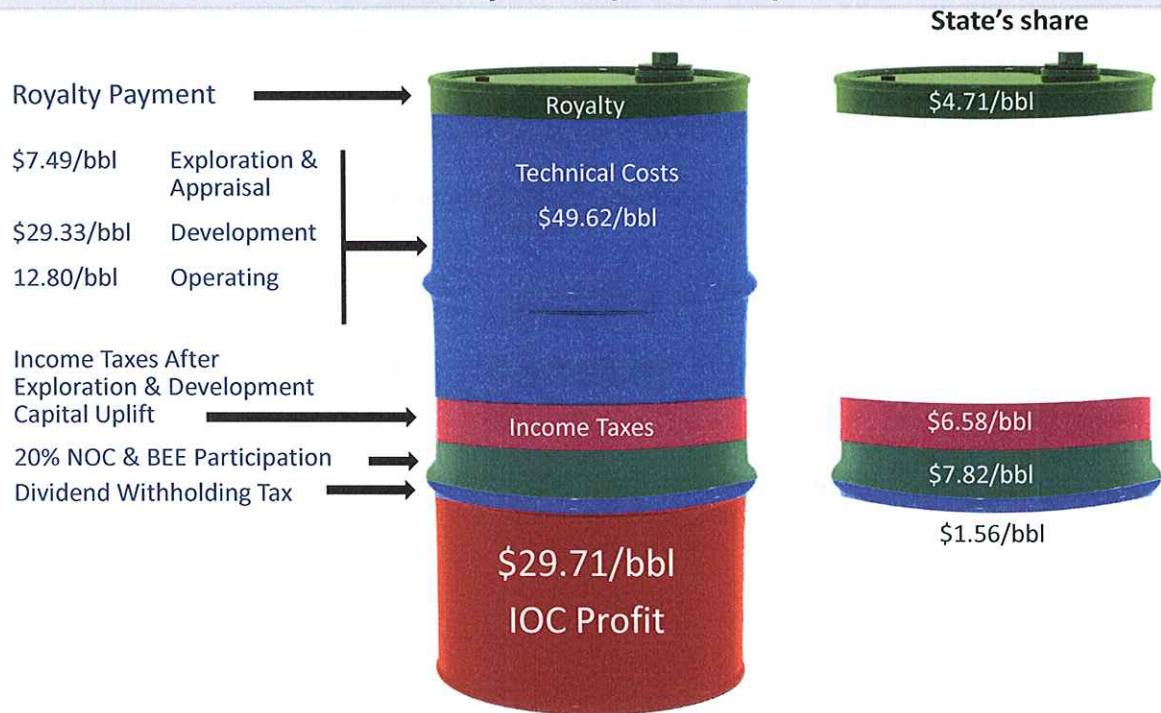


Potential Benefits for SA Inc. cont.

- Development and growth of local businesses through provision of materials and service to the industry.



Where does the Money Go? (\$100/bbl)



Primary Areas Of Concern with the Bill

- **FISCAL STABILITY**
- **FISCAL UNCERTAINTY**
- **DEDICATED REGULATOR TO DEAL WITH OIL AND GAS INDUSTRY**



FISCAL STABILITY

Fiscal stability is an important requirement;

The Bill lacks robust economic stability provisions to protect the rights and legitimate expectations of existing right and permit holders going from an Exploration Right to a Production Right.

- The current regulatory framework and settled practices should continue to apply to future Petroleum Rights granted pursuant to Petroleum Rights and permits that have been granted or applied for prior to the promulgation of the Bill.
- Provision in MPRDA or Right agreements should be included to protect the interest of existing holders or current applicants for a right.



FISCAL UNCERTAINTY

High Level of Discretion and Uncertainty With Respect To:

- **State Participation**
 - *The provisions are vague and provide the Minister wide ranging discretionary powers.*
 - *Level not defined, terms and conditions not defined.*
- **BEE Participation and Mining Charter**
 - *Relationship between HDSA participation and the State's free carried interest must be clarified.*
 - *Terms and conditions for 26% BEE participation could make deep water exploration unviable.*
 - *Absence of meaningful consultation with the offshore upstream petroleum industry on Mining Charter.*
- **Beneficiation**
 - *Quantity, price, delivery point and application (case by case or industry wide) are unspecified.*
- **Relinquishments**
 - *Requirements for relinquishment are unclear (percentages of area and shape of area undefined).*
- **Limitation on the transfer of shares in listed companies**
 - *Intention is not clear*
 - *Section 11 approval required only for transfer of "controlling interest"?*
 - *Only for unlisted companies?*



FISCAL UNCERTAINTY cont.

- **Duration and renewals of Exploration Right**
 - *Extend to 3 years for each renewal.*
- **Environmental management**
 - *Assessments should be commensurate with the work undertaken.*
 - *Holding guarantee for 20 years after Closure Certificate has been issued is unrealistic.*
- **Retention Period**
 - *Gas marketing is complex and 3 years is unrealistically short period.*
 - *Extend to max of 10 years.*



DEDICATED REGULATOR FOR OIL AND GAS INDUSTRY

- The upstream oil and gas industry is considerably different to the [onshore] mining industry.
- Usually falls under a separate Petroleum legislation with a dedicated regulator.
- A dedicated regulator ensures that there is a concentration of knowledge and skills
- Offers a single point contact where matters pertaining to the upstream industry are dealt with.
- A separate dedicated law governing the upstream oil and gas industry in South Africa together with a dedicated regulator staffed by personnel familiar with the upstream industry to administer and enforce this law will ensure that South Africa's oil and gas potential is realized in an efficient and effective manner.



Summary

- Anadarko is committed to establishing a mutually beneficial relationship with the South African state.
- Upstream oil and gas companies stand ready to make significant investments in South Africa.
- Anadarko and other oil and gas exploration companies need to manage our risks; both technical and commercial. The Bill is viewed as a major commercial risk.
- Legislation currently in force offers the correct balance between risk and reward and has attracted many new companies to South Africa.
- The Bill in its current form disturbs this balance and raises commercial risk to unacceptably high levels.
- Accept that the government has the right to amend legislation, however
- Need economic stability provisions to protect the rights and legitimate expectations of existing right and permit holders moving from an Exploration Right to a Production Right.



Summary cont.

- Current regulatory framework and practices should continue to apply to future Petroleum Rights granted pursuant to Petroleum Rights and permits that have been granted or applied for prior to the promulgation of the Bill.
- Dedicated regulator for petroleum industry.
- Need for meaningful consultation between companies and all spheres of government to arrive at mutually acceptable solutions that will promote upstream activity in South Africa.



Thank You.



Anadarko South Africa

**Supporting Slides to “FISCAL UNCERTAINTY”
Section**



State Participation (“Free Carried Interest”)

sections 80(7) and 84(6) and (7) of the MPRDA

- **Free Carried Interest- Definition requires clarity**
- **State Participation is not defined – could exceed 10%**
- **10% + would not be economically viable for investor**
- **Cost Liability (i.e. past and future costs)**
- **Appointment of Directors on Management Board**



Broad-Based Socio-Economic Empowerment Charter (“BEE”)

clause 55(b) of the Bill amending section 80(2) of the MPRDA

- **26% BEE Participation - Could make deep water exploration economically unviable.**
- **Uncapped State Participation and BEE Participation will probably negatively affect investment in South Africa.**
- **Liquid Fuels charter requirement should remain unchanged.**



Beneficiation

clause 21 of the Bill amending section 26 of the MPRDA, read with section 22 of the Amendment Act

- Unspecified Quantity.
- Price set by Minister not by Market.
- Minister may impose conditions on export of hydrocarbons.
- No clarity on delivery point.
- Unclear whether policy will be imposed industry wide or on a project by project basis.



Relinquishments

Amendment of sections 78 and 80 of the MPRDA

- **Relinquishment requirements unclear;**
 - *Percentages to relinquish not included*
 - *Contiguous or detached relinquishment*



Limitations of Transfer of Shares

Amendment of section 11 of the MPRDA

▪ Wording in Bill is unclear

- *Requirement to obtain approval in terms of section 11 appears to apply to the transfer of a “controlling interest” in a listed company.*
- *It appears that it is intended to apply only to such a transfer of any interest in an unlisted company.*
- *Limitation should be limited only to the South African entity.*



Duration and Renewal of Exploration Right

clause 28 of the Bill amending section 37 of the MPRDA; read with sections 38A and 38B as inserted by the Amendment Act

- Initial period increased three (3) to five (5) years - **Positive**
- Renewals limited to three (3) periods of two (2) years - **Negative**
 - *Reduction of time in renewals is problematic given nature of work required and physical conditions offshore.*
- Recommend renewal periods of three (3) years each.



Environmental

clause 28 of the Bill amending section 37 of the MPRDA; read with sections 38A and 38B as inserted by the Amendment Act

- Environmental assessments should be commensurate with exploration work to be done.
- Holder must maintain guarantee for a period of twenty (20) years after closure certificate has been issued.
 - *The requirement is not practical.*



Retention Period

clause 24 of the Bill amending section 31 of the MPRDA

- Gas marketing analysis limited to three (3) years is unreasonable.
- Gas marketing strategies are complex and require an extended period of time.
- Recommend ten (10) years.

