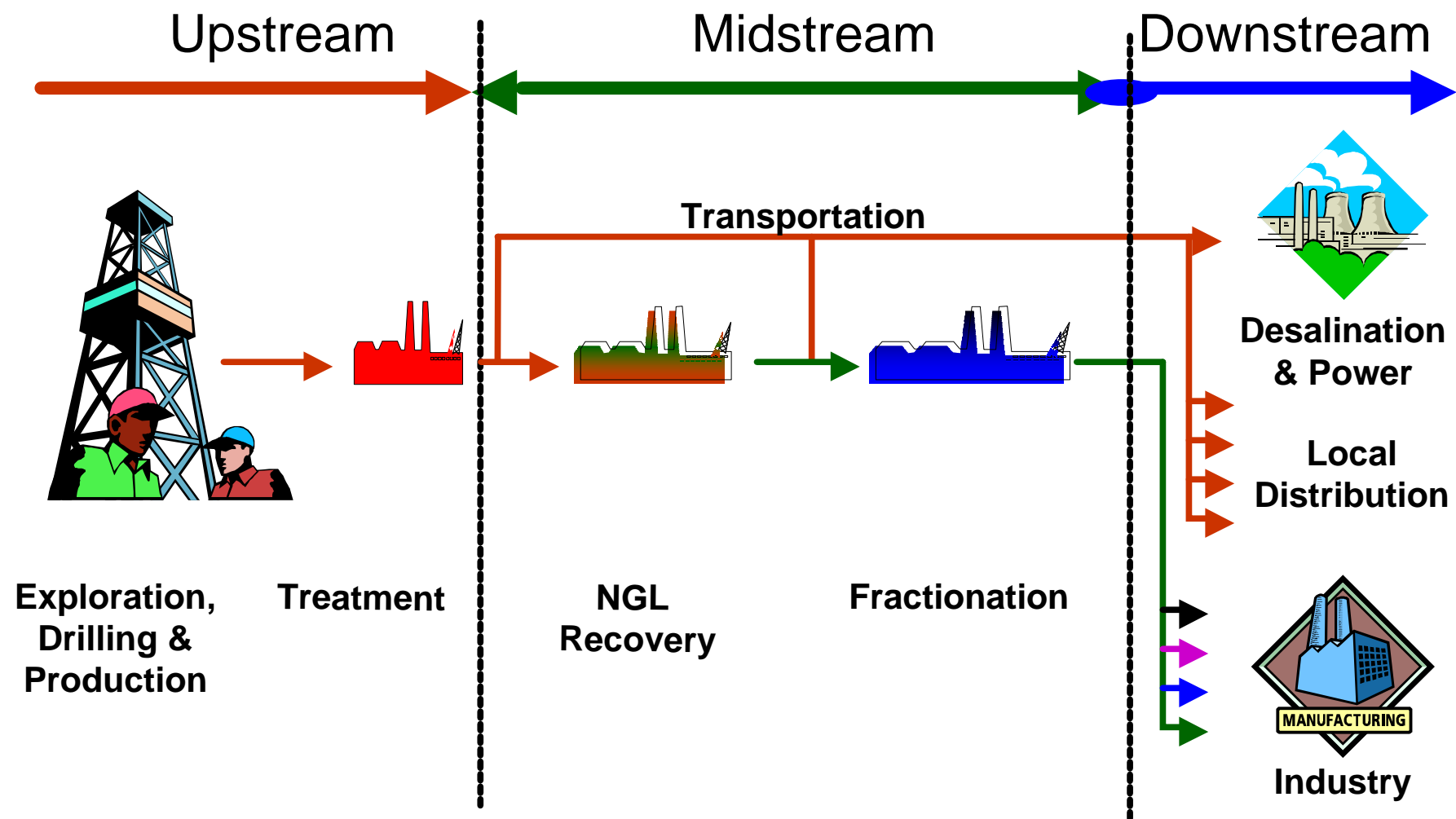


Gas Industry Regulatory Environment

Preamble

- The Kingdom has developed a comprehensive regulatory framework for its natural gas industry to transparently, fairly, efficiently and commercially enable the exploitation of the Kingdom's natural gas resources
- The regulations are designed to provide a stable platform for investment by companies
- These regulations cover all sectors of the natural gas and NGL businesses

Gas Industry Sectors



Gas Industry Regulatory Environment

- Technical Upstream Regulation
 - Technical regulation that Enables the companies to apply their technology and expertise
 - Provides the needed oversight over the Country's resources
 - Not a subject for this session
- Gas Sector Regulation
- Tax Regime

Gas Sector Regulation

Regulating the Gas Business

- A regulatory regime is needed for the gas industry that:
 - Must Reflect Industry Structure and Operations
 - Must Be Practical
 - Must Recognise Need for Change in the Future As the Industry Evolves

Gas Regulatory Model

- In developing the Gas Business Regulatory Regime, a model must be developed that takes into consideration:
 - Structure
 - Ownership
 - Access
 - Pricing
- This model has led to the development of the Gas Supplies and Pricing Regulation (GSPR)

Key Features of the GSPR

- Regulated Activities:
 - The GSPR regulates both the functions (sales and aggregation) and the facilities in the midstream sector
- Licensing
- Third Party Access
- Pricing
- Dispute Resolution

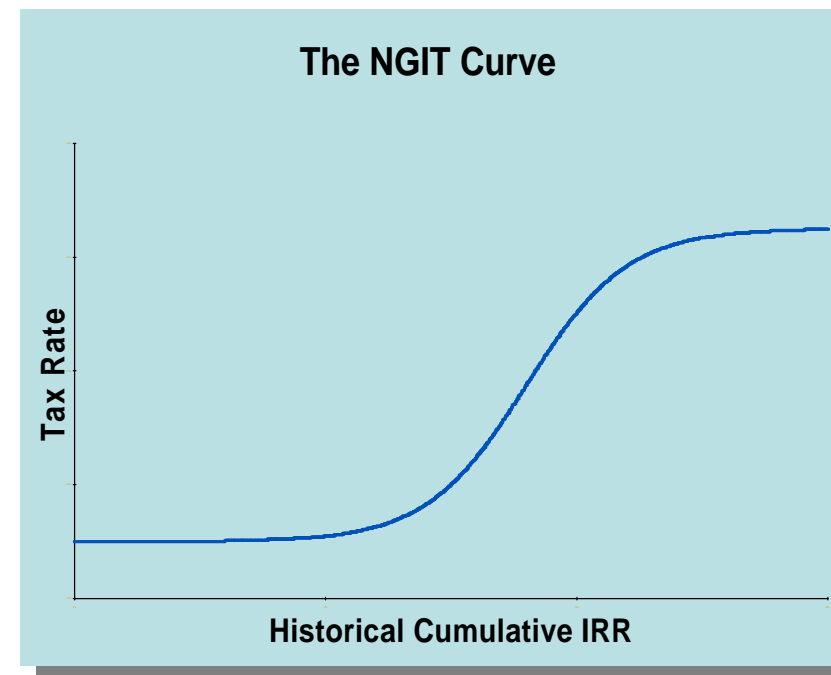
Tax Regime

Tax Regime Objectives

- Encourage rapid development of Kingdom's gas resources while providing appropriate incentives for continued investments in gas sector
- Encourage exploration, development and production not only of wet gas fields close to infrastructure, but also of dry fields in remote areas
- Optimise Government Take
- Minimise degree of complexity
- Be perceived as fair and consistent with international practice

Features of NGIT - Progressive

- The tax rate is based on achieved economics by indexing it to the Historical Cumulative IRR
- The progressive nature of the NGIT taxes projects at low rates while the projects need the support to become profitable
- The NGIT rate increases gradually at clearly commercial levels for more profitable fields



Features of NGIT – Ring Fencing

- In order to encourage further investments the ring fence was designed to encompass all investments in the value chain under the contract.
- Vertical ring fence
 - All activities in the Upstream and Midstream sectors
 - It is possible for facilities or plants for gas processing or fractionating, and for common carrier pipelines to apply to be licensed independent from the ring fence, which will subject them to a flat 30% tax
- Horizontal ring fence
 - All activities within an Exploration and Production Contract that fall within the vertical ring fence

The impact of increased gas
availability on economic
diversification in the Kingdom

Desired Market Development

- Gas production is expected to grow from about 7 BCFD today to over 12 - 14 BCFD with corresponding increases in Natural Gas Liquids and Condensate
- This will result in significant new investment in transportation pipelines, processing plants and fractionation plants to meet the growth in market demand
- What are the future investments that will be availed by the anticipated increase in production?

Gas Industry Regulatory Environment