

ANNEXURE B

DEFINITIONS AND DESCRIPTIONS – PRICE STRUCTURE ELEMENTS

1. BASIC FUEL PRICE:

Calculation details are given in Annexure A. The underlying concept is that of “import parity” and the mechanisms employed are chosen to provide realistic, market-related costs of importing a substantial quantity of South Africa’s fuels requirements, and it is therefore deemed that such supplies are sourced from overseas refining centres capable of meeting South Africa’s requirements in terms of both product quality and sustained supply considerations.

2. GOVERNMENT IMPOSTS:

These are the various indirect taxes and levies applicable to fuels sold locally, for example Customs and Excise Duties, Fuel Levy, Equalisation Fund Levy, Road Accident Fund Levy, IP Marker Levy, Demand Side Management Levy.

3. PETROL PUMP PRICES:

Being the amounts charged by Service Stations to the general public, as published monthly by Government Notice, by the Department of Minerals and Energy. It is noted that such prices are quoted to the nearest whole cent per litre.

4. PETROL DEALER MARGIN:

Being the cents per litre amount which Service Stations are permitted to add to oil company wholesale prices, the sum of which in the total price displayed on petrol pumps.

Determination of the dealer margin amount is based on a model which is updated annually, the results of which are considered by the Department of Minerals and Energy and approved by the Minister for implementation in price structures.

5. WHOLESALE PRICES:

The maximum price levels which oil companies are permitted to charge service stations and their other clients for fuels. These maximum levels are set each month as

a result of implementation of these Working Rules, being the sum of all price structure elements except the petrol dealer margin.

6. WHOLESALE MARGIN:

Is the cents per litre gross marketing margin set for each fuel resulting from an annual oil industry profitability review in terms of the “M-PAR” profit monitoring mechanism, the resultant margin amounts being considered by the Department of Minerals and Energy, and approved by the Minister for implementation in price structures.

7. SERVICE DIFFERENTIAL:

Is a cost recovery factor for oil company depot operating and road delivery (from depot to customer) expenses, the amount of which is determined annually (based on actual average costs for the prior calendar year) by the oil industry, submitted for consideration of the Department of Minerals and Energy, and approved by the Minister for inclusion in price structures.

8. ROUTER DIFFERENTIAL:

Is a cost recovery factor for financing allowances passed on by oil companies to Illuminating Paraffin distributing agents to assist towards the financing of the latter’s distribution activities, the amount of which is determined annually by the oil industry and submitted for the consideration of the Department of Minerals and Energy, and approval by the Minister for inclusion in Illuminating Paraffin price structures.

9. ZONE DIFFERENTIALS:

These are the cents per litre amounts reflecting the cost of moving fuels from coastal port / refinery locations to inland distribution centres by pipeline, rail and road (as the case may be). These amounts are determined by individual Magisterial Districts, and which cost-recovery amounts are grouped into a series of “Magisterial District Zone Differentials”. These amounts are calculated by the oil industry and submitted for consideration by the Department of Minerals and Energy, and approved by the Minister for inclusion in oil company wholesale price structures.

10. PUMP ROUNDING FACTORS (PETROL ONLY), AND ROUNDING OF THE VARIOUS PRICE STRUCTURE ELEMENTS EXPRESSED TO ONE OR MORE DECIMAL POINTS

10.1. Petrol Pump Rounding:

The principle behind the “pump rounding” mechanism is the need to ensure that oil companies do not gain or lose as a result of the obligation to arrange their wholesale price levels for Magisterial District Zones at amounts which will result in pump prices being set in whole cents, and also ensure that service stations recover the full amount of the approved dealer margin (which is expressed to one tenth of a cent) in all instances.

The manner in which this is achieved differs in the case of

- (a) Zone 1A (Coast) Prices – the mechanism employed is described in 10.2 below, whereby changes to the Basic Price and other price structure elements expressed to one or more decimals of a cent are rounded to the nearest whole cent and the resultant rounding adjustment amount is accommodated in Unit Rate Slate schedules, and
- (b) All other (Inland) Zone Prices – here the mechanism used is called “Pump Roundings” and is required because amounts of Magisterial District Zone Differentials are expressed to one tenth of a cent and vary for each pricing zone, resulting in the need for differing pump rounding adjustments in each Zone.

This additional “pump roundings” mechanism by which this “oil industry neutrality” is achieved operates on the basis that oil companies record and report their sales each month by Zone, multiply these sales by the applicable pump rounding amounts (Zone 1A “pump rounding” always being zero), and the overall net Rand amounts of pump roundings are then entered as debits or credits (as the case may be) on the Cumulative Slates – in total for all oil companies.

The following is an example of Pump Rounding amounts:

| 93 Octane Petrol – cents per litre (5 October 2005) | | | |
|--|-----------|-----------|------------|
| Pricing Zone | 1A | 9C | 36J |
| Basic Wholesale Coast Price | 546.2 | 546.2 | 546.2 |
| Zone Differential | 0.2 | 13.4 | 34.6 |
| Pump Rounding | 0.0 | (0.2) | (0.4) |
| Oil Company Wholesale Price | 546.4 | 559.4 | 580.4 |
| Dealer Margin | 43.6 | 43.6 | 43.6 |
| Pump Price | 590.0 | 603.0 | 624.0 |

10.2. Petrol Pump Rounding:

All other roundings of Petrol price structure elements:

It is noted that the effects of having various other petrol price structure elements in the coast Zone 1A wholesale price expressed to one tenth of a cent (eg Service and Router Differentials, Dealer Margin, Fuel Levy, RAF Levy) or more (Basic Fuel Price and Wholesale Margin) are accommodated by arithmetically adjusting the oil company "Basic Wholesale Coast Price" in such a manner that the sum of the resultant Zone 1A Wholesale Price and the Dealer Margin result in pump prices expressed to whole cents.

The resultant financial consequences of such adjustments to basic coast wholesale price are then reflected in monthly Unit Rate Slate statements as comprising part of monthly cent per litre cost over or under recoveries. These Unit Rate recoveries in turn form the basis of the monthly Cumulative Slate calculation, which reflect the Rand values resulting from multiplication of the Unit Rate recoveries by monthly sales quantities.

10.3. Rounding of Diesels and Illuminating Paraffin price structure elements:

In the case of Diesels and Illuminating Paraffin for which retail margins are not fixed as is the case of petrol, there is no need for such pump roundings to inland prices. Also, the need for rounding of Basic Coast Wholesale Prices is minimized, because there is no constraint on the number of decimal points to which wholesale prices of these fuels need to be expressed. Convention has been to express price change amounts to one decimal of a cent, but currently wholesale prices of both diesel and illuminating paraffin are expressed to two decimals of a cent.

Consequently the financial impacts of price structure elements rounding (which are also reflected on Slates as described in 10.2 above) is minimal in the case of these fuels.

11. UNIT RATE SLATE SCHEDULES:

Monthly calculations are done for each fuel to determine the amounts of over or under recovery resulting from the determination of Pump and Wholesale prices in terms of these Working Rules, from which prices all the cost elements described above are deducted. These Unit Rate Slate schedules are prepared on a calendar month basis by the South African Petroleum Industry Association (Sapia). The resultant cents per litre over/(under) recovery amounts are recorded on the Cumulative Slates described below.

12. CUMULATIVE SLATES:

These are also compiled on a calendar month basis by Sapia, and provide a monthly and cumulative financial record, being basically the product of a calculation of actual fuels volume sold multiplied by Unit Rate Slate over and under recoveries. This schedule measures in Rand terms the degree to which price changes implemented (on the first Wednesday of each month) are adequate or not to recover the costs described above.

13. 1.0 C/L SLATE ADJUSTMENT FACTOR:

Applicability of this price structure factor is determined monthly as described in paragraph 5.2 of these Working Rules. The intent of this factor is to assist towards management of Cumulative Slate balances within acceptable levels.