

Granting Documents

Upstream Contract Models with Governments

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What Governments and Investors are expecting out of upstream Contracts?

INVESTOR GOALS:

- **Maximum economical development of hydrocarbons reserves;**
- **Be compensated by risks taken;**

GOVERNMENT GOALS

- **Maximum use of petroleum resources of the country;**
- **Keep control of petroleum activities.**

Contracts with Governments:
Minimum requirement by investors

- **Be compensated by risks taken;**
- **Exclusive exploration and production rights on the block;**
- **Sole discretion on economic viability beyond minimal exploration commitment;**

Contracts with Governments: **Minimum requirement by investors**

- **Marketing of petroleum production at international market price;**
 - **Right to keep proceeds from production exportation abroad;**
 - **Fiscal and Economic stability.**
- *For Gas Production in general it is sold at domestic market condition, in case there is no volume to economically justify a LNG Plant.*
 - *For onshore Joint Ventures it is usual to have a Gas Balance Agreement, for adjustment among partners due to lack of market for one or more partner.*

Most Common Contract Models

Between Government and Companies

for petroleum exploration and production:

- Production Sharing (PSA or PSC)
- Concession (Tax and Royalties)
- Service
- Buy-Back (only in Iran)
- Transfer of Rights Agreement (only in Brazil)

Concession Contracts

- The Concession Contracts is a way to make the high risk upstream economic activity closer to the other economic activities from the fiscal standpoint.
- All expenses (development investments, operating cost, etc.) are made directly by the investor, with no part of revenue reserved for cost recovery.
- All operating assets (rigs, FPSOS, etc.) are owned by the investor, and shall be taken away after the contract termination.



Production Sharing Contracts

- A certain percentage of the gross revenue is allocated for Cost Recovery. The remain is shared between Government and IOC as Profit Oil, following contractual specifications.
- All recognized expenses shall be recovered through the Cost Oil. In other word, the IOC will be expending Government money, for which it shall be reimbursed during production phase.
- The IOC may be subjected to some form of taxation from its share of the Profit Oil.
- In most of the countries there royalties are charged before the Cost Oil and Profit Oil calculations. The royaltie them function as a minimum government take.
- All goods subject to Cost Recovery will belong to the government at the end of the Contract.

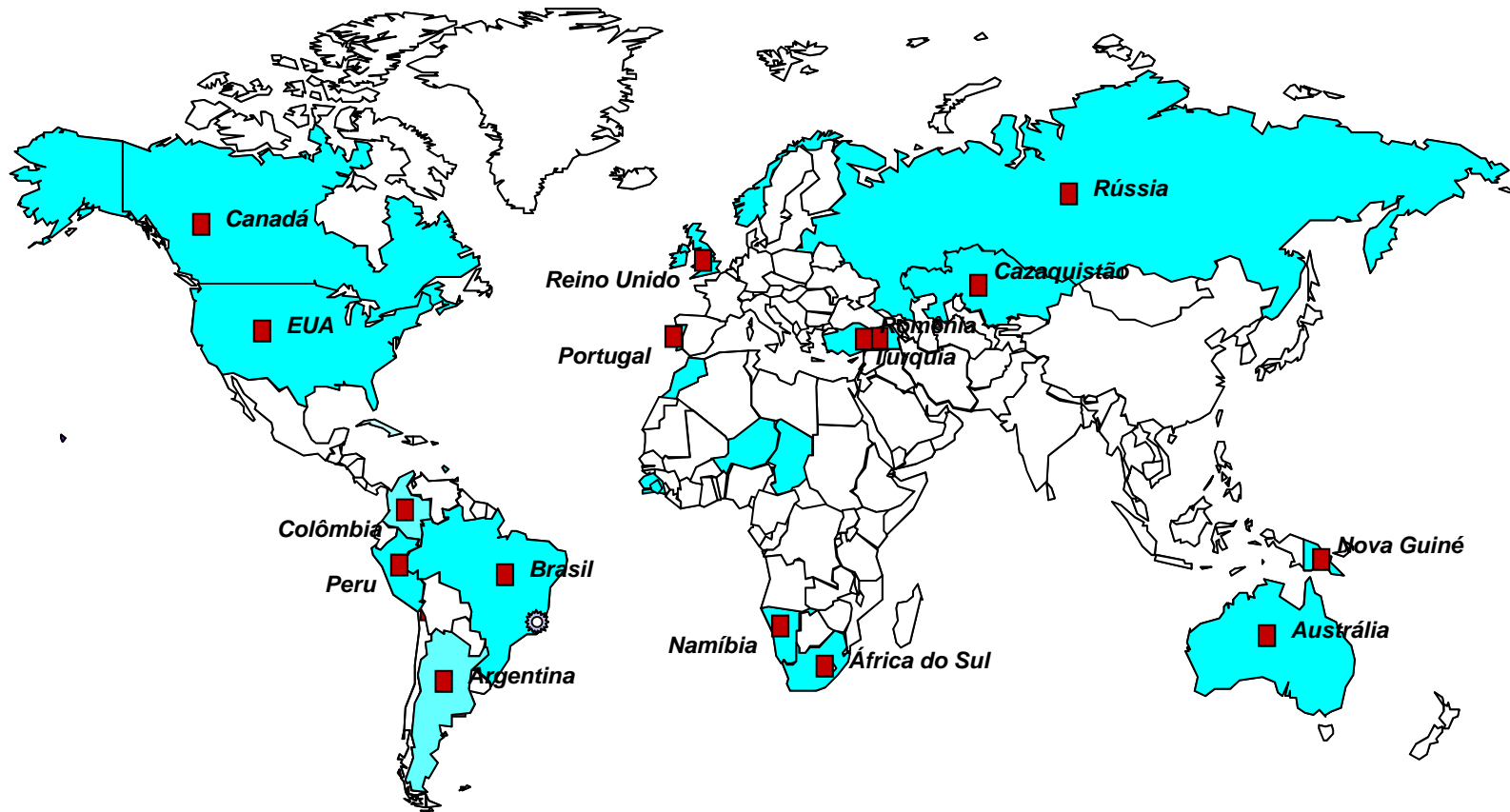
Service Contracts

They are characterized by a negotiated mark up upon all expenses. There is no additional gain as a result of better reservoir performance due to technology applied or additional reserves discovered.

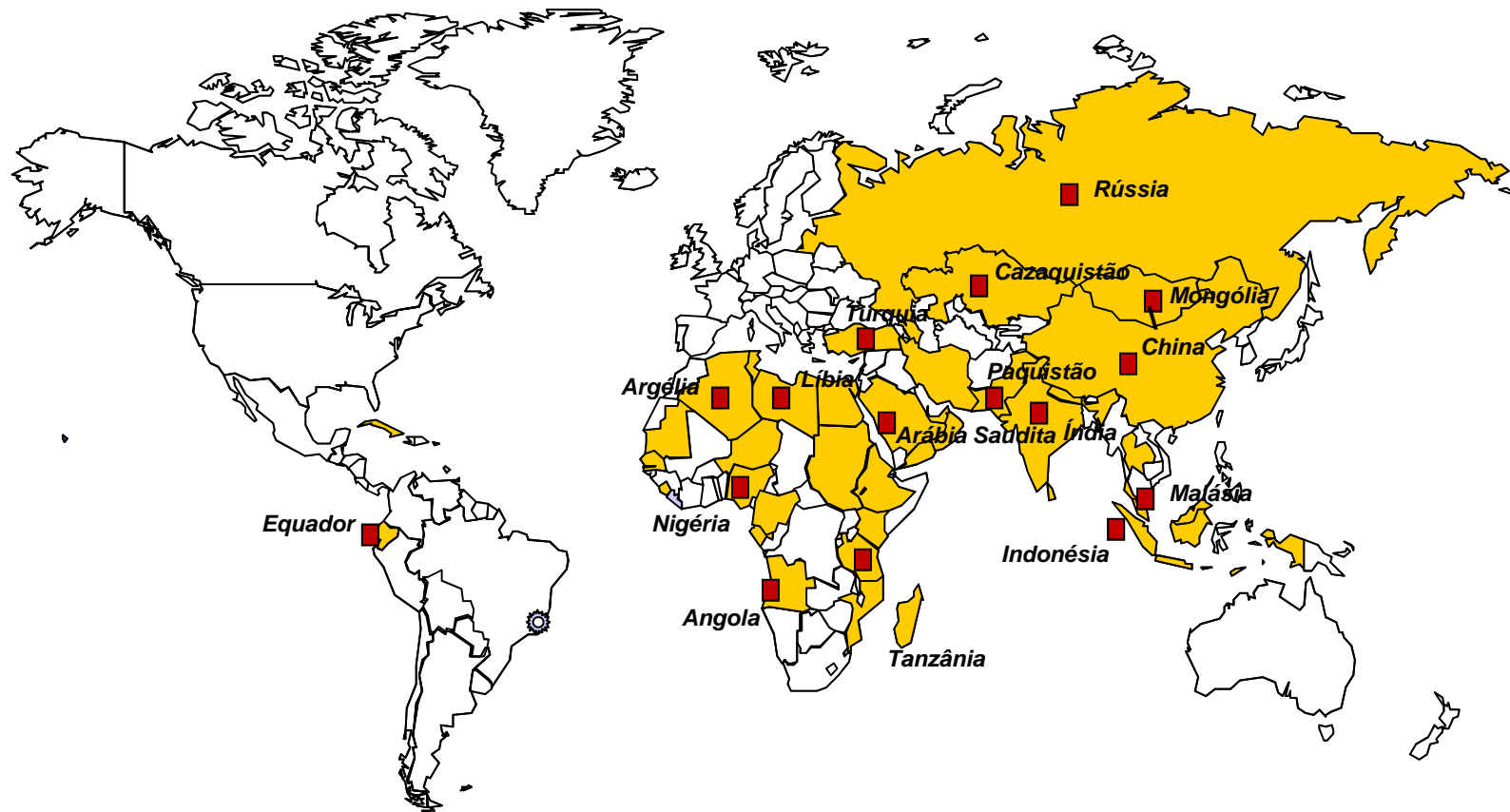
Examples:

- **Mexican Service Contract**
- **Buy Back in Iran**
- **Venezuelan Service Contract**

Concession Contracts (2010)



Production Sharing Contracts (2010)



Both Contracts (2010)



Service Contracts (2010)



ANGOLA - PSC

NO ROYALTIES

GR – GROSS REVENUE

COST RECOVERY: FROM 50% TO 65% PROFIT OIL

DEV OP EXPL COMPANY GOV

PROFIT IR: 50%



In this order!

COST RECOVERY

- DEV ■ DEVELOPMENT (Uplift 50%)
- OP ■ OPERATING
- EXPL ■ EXPLORATION

GOVERNMENT TAKE

- IR ■ INCOME TAX
- GOV. ■ GOVERNMENT SHARE

SIGNATURE BONUS NOT RECOVERABLE

PROFIT SHARING	
RATE OF RETURN (%)	CONTRACTOR'S PROFIT SHARE (%)
0-15	80
15-25	60
25-30	40
>30	20

Mozambique PSC



Recovery Ceiling

Royalty	
hydrocarbon	tax
Oil	8%
Gas	5%

CAPEX + OPEX	
Cost Recovery	
Water Depth	Maximum
up to 500m	65%
500m-1000m	75%
deeper than 1.000	85%

PROFIT OIL

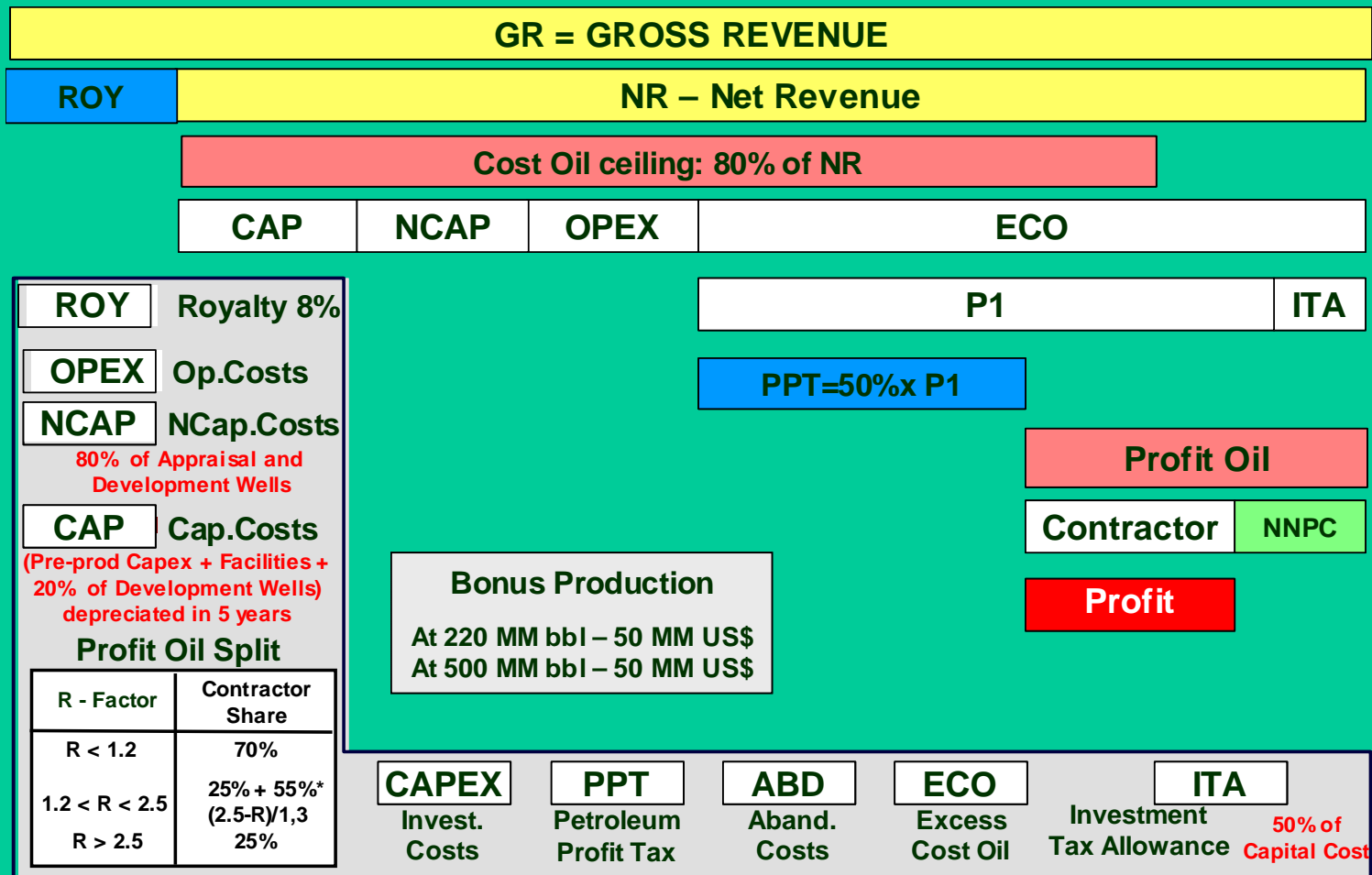
IOC GOV

R Factor	IOC
até 1.0	90%
1.0 - 1.5	85%
1.5 - 2.0	75%
2.0 - 2.5	60%
> 2.5	50%

ENH carried in 15% during Exploration

INCOME TAX: 32%

Nigeria - PSC



The End

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