Overview of Malaysian PSC
Development & Producing PSCs : 24
CONCEPT OF PRODUCTION SHARING CONTRACT (PSC)

**GOVERNMENT**
- Entire ownership of Nation's petroleum resources is vested to PETRONAS.
- PETRONAS has exclusive rights to exploit Nation's petroleum resources.

**PDA**

**PETRONAS**
- Converted Concession System to Production Sharing Contracts (PSC).
- Obligates Partners to provide all financing and insulate PETRONAS from risks.
- Provides a more equitable partnership.
- Stipulates contractual period, management of operations, recovery of costs, division of profit, obligations of parties.

**CONTRACTORS**

**PSC**
- PETRONAS, as a custodian, manages the petroleum resources of the Nation.
- Formulates relevant policy and guidelines.
- Provides necessary incentives and conducive investment environment for upstream petroleum business.
- Adds value to the petroleum resources.

- Plans and secures long term development of Nation's petroleum resource base.
- Promotes sustainable exploration, development and production of resources for the maximum benefit to the nation.
- Manages performance of PSC Partners.
- Brings in foreign investment and technology.
EVOLUTION OF PSC INLINE WITH CHANGING ENVIRONMENT

- **1976 PSC**
  - Convert existing Concession into PSCs
  - Oil companies and State government

- **1985 PSC**
  - To attract other oil companies besides ESSO and SHELL

- **DEEPWATER PSC**
  - Target for big players with deepwater experience

- **Revenue-over-cost (R/C)**
  - To attract new foreign investment through smart partnership concept

**CONCESSION AGREEMENT**

Oil companies and State government
76 PSC

Gross Revenue

Less Cost
Cost Oil Ceiling
20%

Less Royalty
10%

Actual Used Cost

Contractor’s Profit Oil

Less PITA
38%

Contractor Cash Flow

PETRONAS Profit Oil

Profit Oil Split
Contr : PET
30% : 70%

Less PITA
38%

PETRONAS Cash Flow
85 PSC

Gross Revenue

Less Cost
Cost Oil Ceiling
50% Oil, 60% Gas

Profit Oil Split
Contr : PET Sliding

Less PITA
38%

Contractor’s Profit Oil

Actual Used Cost

Less Royalty
10%

Government Cash Flow

Less PITA
38%

Contractor Cash Flow

PETRONAS Profit Oil

Less PITA
38%

PETRONAS Cash Flow

<table>
<thead>
<tr>
<th></th>
<th>Contr</th>
<th>PETH</th>
</tr>
</thead>
<tbody>
<tr>
<td>First 10 kbd</td>
<td>50</td>
<td>50</td>
</tr>
<tr>
<td>Next 10 kbd</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>Excess 20 kbd</td>
<td>30</td>
<td>70</td>
</tr>
</tbody>
</table>
ROC (Revenue Over Cost) PSC

Gross Revenue

Less Cost
Cost Oil Ceiling
Depend on R/C

Actual Used Cost

Contractor’s Profit Oil

Less PITA
38%

Less Royalty
10%

Government Cash Flow

Unused Cost Oil
Contr : PET

Profit Oil Split
Contr : PET
Depend on R/C

PETRONAS Profit Oil

Less PITA
38%

Contractor Cash Flow

PETRONAS Cash Flow
ApprOACH : REVENUE-OVER-COST (R/C) INDEX

- One of the "yardsticks" to gauge Contractors' profitability at any time is by the RATIO of Contractors' Cumulative REVENUE over Cumulative COSTS. We define the above yardstick as Contractors' R/C Index.

\[
R/C \text{ Index} = \frac{\text{Contractors' Cumulative Cost Oil + Profit Oil From The Effective Date}}{\text{Contractors' Cumulative Petroleum Costs From The Effective Date}}
\]

- \( R/C = 1; \) Represents PAYOUT (undiscounted), but true Payout (considering time value of money, tax payment, etc.) occurs when \( R/C \) is around 1.4.

Outline
<table>
<thead>
<tr>
<th>Contractor’s R/C Ratio</th>
<th>COST OIL</th>
<th>PROFIT OIL</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cost Oil Ceiling</td>
<td>Unused Cost Oil PET : Cont</td>
</tr>
<tr>
<td>0.0 &lt; R/C &lt;= 1.0</td>
<td>70%</td>
<td>N.A.</td>
</tr>
<tr>
<td>1.0 &lt; R/C &lt;= 1.4</td>
<td>60%</td>
<td>20 : 80</td>
</tr>
<tr>
<td>1.4 &lt; R/C &lt;= 2.0</td>
<td>50%</td>
<td>30 : 70</td>
</tr>
<tr>
<td>2.0 &lt; R/C &lt;= 2.5</td>
<td>30%</td>
<td>40 : 60</td>
</tr>
<tr>
<td>2.5 &lt; R/C &lt;= 3.0</td>
<td>30%</td>
<td>50 : 50</td>
</tr>
<tr>
<td>R/C &gt; 3.0</td>
<td>30%</td>
<td>60 : 40</td>
</tr>
</tbody>
</table>
FISCAL IMPROVEMENT

- Fiscal terms are tied to rate/volume level, NOT related to PROFITABILITY
  - Fixed Cost Oil/Gas is NOT sensitive to investment level especially in the early of the project life
- Fiscal terms applied to Contract Area (rather than field basis)
  - Higher profit split benefits accrue to First field. Subsequent development does not enjoy higher profit split.
- NO fiscal incentives to save costs
  - Any Unused Cost Oil/Gas becomes profit and share in a bigger proportion to PETRONAS
- NO fiscal incentives for re-investment
  - Additional investment will not enjoy the same benefit as in earlier investment
The 1976, 1985 and R/C PSCs are based on 40 million bbls crude oil reserve volume. The Deepwater PSC assumes a large oil discovery in excess of 1 billion bbls.
VARIABLE COST SHARING LEVELS AND PROFIT SPLITS

It allows Contractor to take more when its profitability is low and PETRONAS' take progressively increases when Contractor's profitability improves:

1. Higher Cost Tranche is given when Contractors' Profitability is low and decreases as Contractor's Profitability increases.

2. Higher Contractor's share of Profit Oil/Gas is given when Contractor's Profitability is low and decreases as Contractor's Profitability increases.
Salient Features of ROC PSC
- Sensitivity of IRR on Oil Price and Cost

Salient Features:
- Under the new R/C fiscal terms, Cost Reduction provides as much impact on Contractors' IRR as that caused by oil price increase.
- Cost Reduction is fully within our control, unlike oil price. Therefore, Contractors will be enticed to reduce cost rather than to hope for oil price to improve. This leads to larger share in revenue for all parties involved.
PROFITABILITY BASED FISCAL REGIME: Sensitive to Re-investment

Dip in R/C Index as a result of additional investment.
R/C IS SELF-ADJUSTING

- Costs, Reserves & Oil Price are estimated based on current conditions and current Technology when a Contract is negotiated and agreed.
- Estimates likely to change, New technologies may evolve over time.
Sliding Scale 85 PSC

ROYALTY (10%)

COST RECOVERY up to 50%

PS Cont. PROFIT OIL

PETT. PROFIT OIL

Below 50 MMbbls 50 : 50

Below 10 kbbl/d 50 : 50
20 %
20 %

Next 10 kbbl/d 40 : 60
16 %
24 %

Above 20 kbbl/d 30 : 70
12 %
28 %

Above 50 MMbbls 30 : 70
12 %
28 %