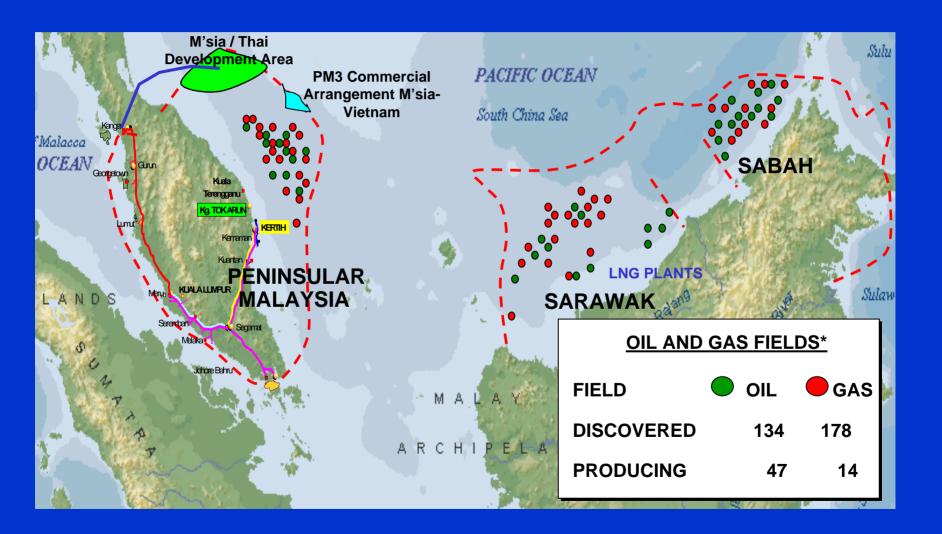
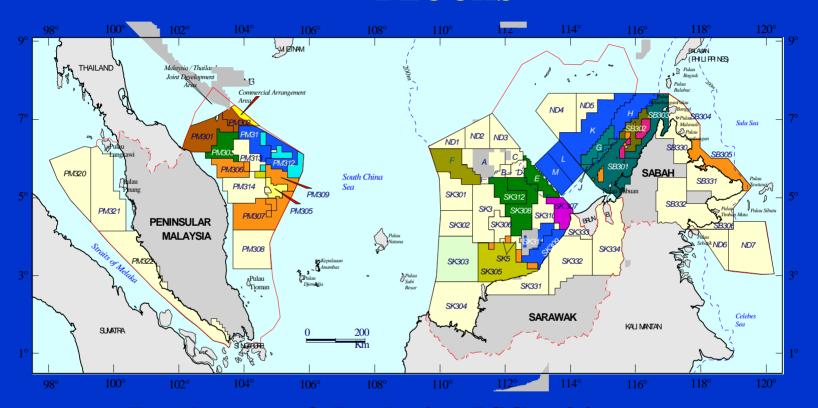
Overview of Malaysian PSC



FIELD LOCATION MALAYSIA

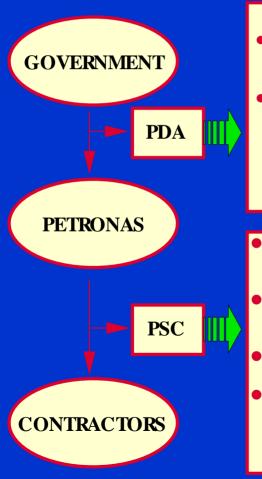


MALAYSIA EXPLORATION AND PRODUCTION BLOCKS



Development & Producing PSCs: 24

CONCEPT OF PRODUCTION SHARING CONTRACT (PSC)



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

- 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.
- 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.

- 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

Revenue-over-cost (R/C)

DEEPWATER PSC

To attract new foreign investment through smart partnership concept

1985 PSC

To attract other oil companies besides ESSO and SHELL

Target for big players with deepwater experience

Convert existing
Concession into PSCs

1976 PSC

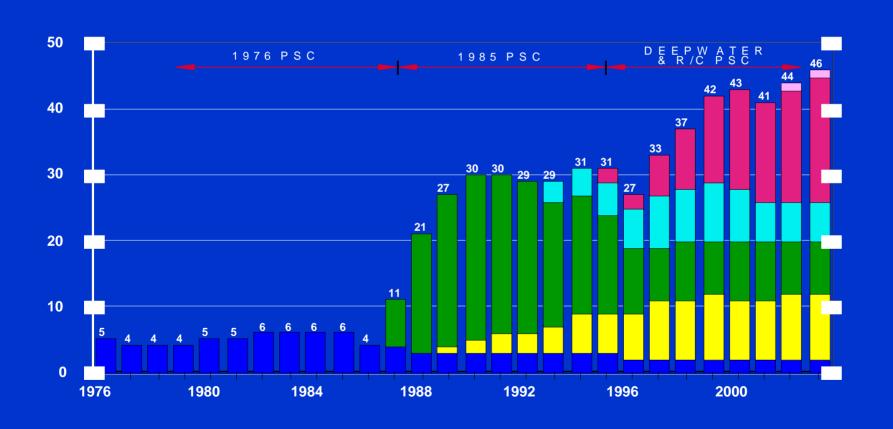
CONCESSION AGREEMENT

Oil companies and State government

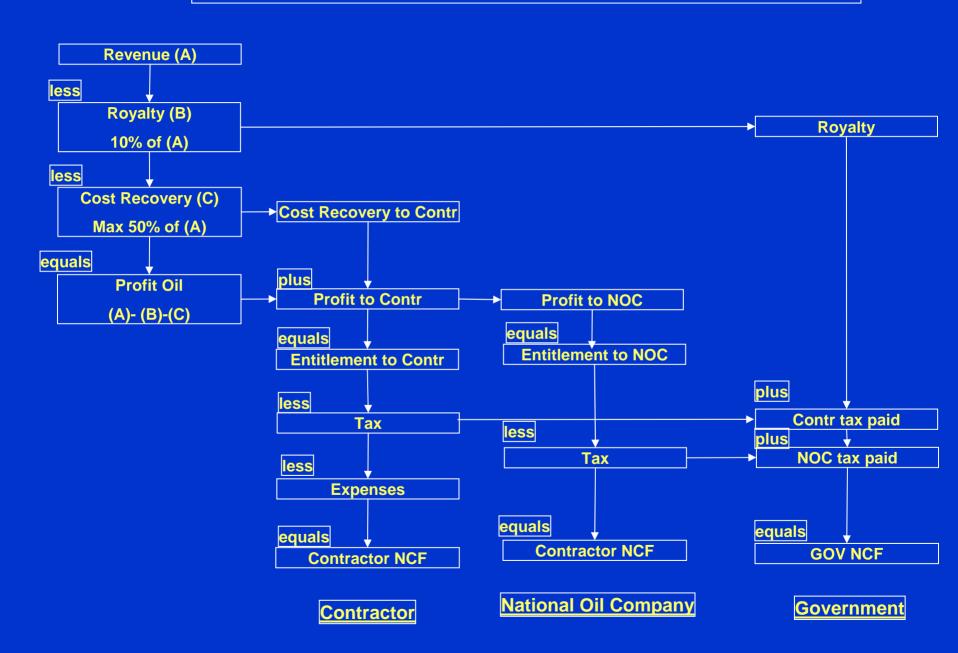


PSCs IN OPERATION IN MALAYSIA

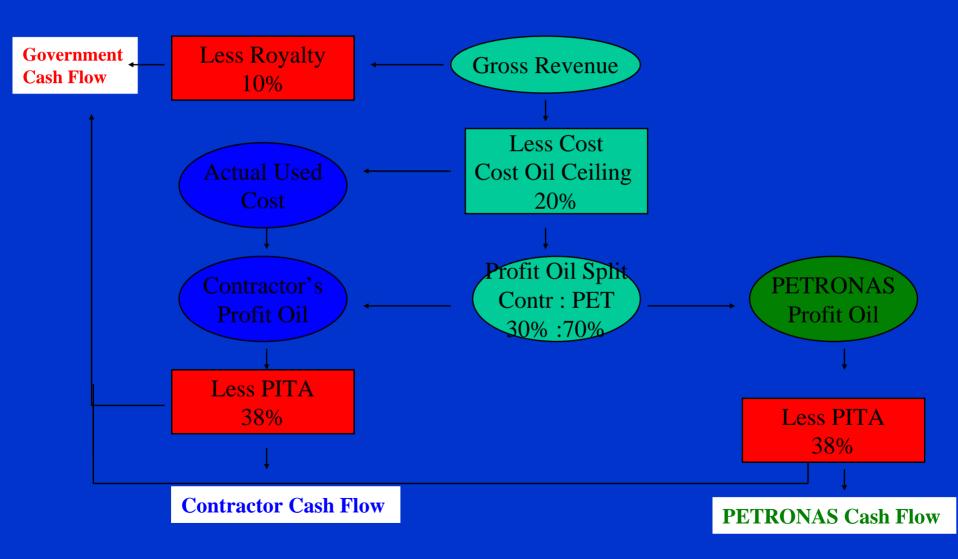
(As at January 2004)



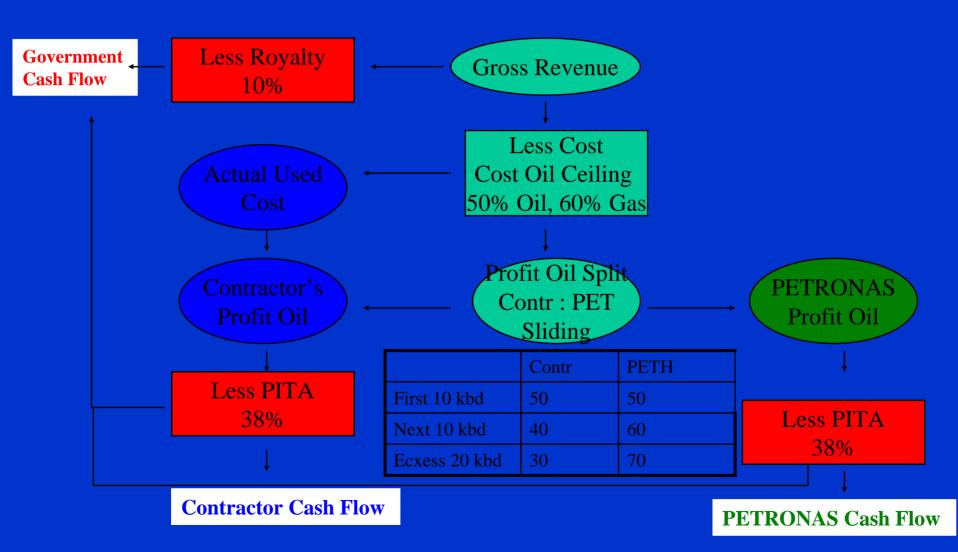
SPLIT OF THE BARREL UNDER PSC



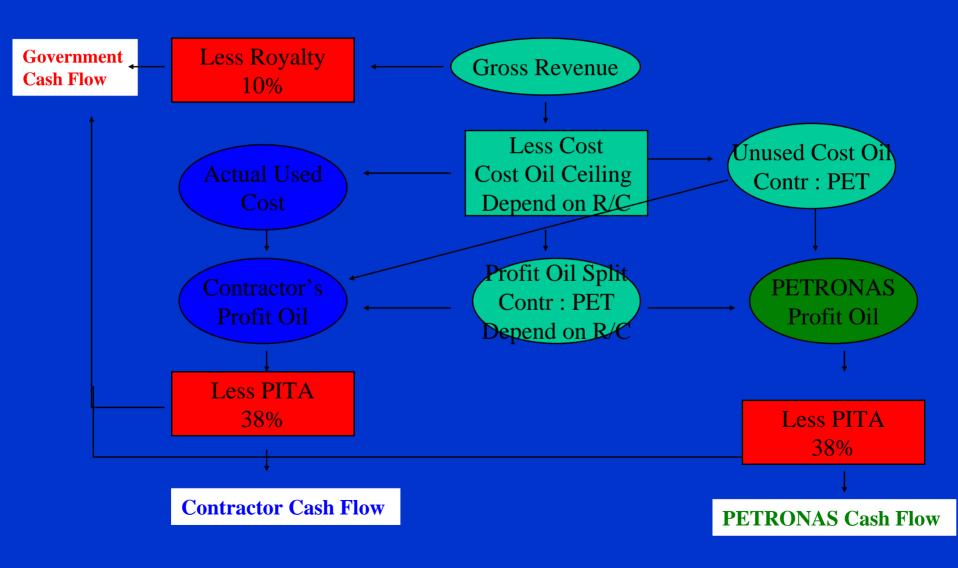
76 PSC



85 PSC



ROC (Revenue Over Cost) PSC

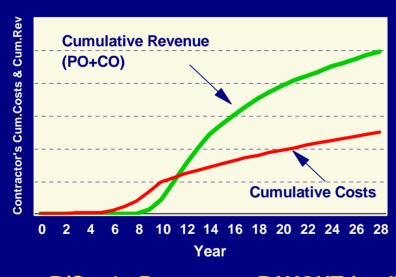


APPROACH: REVENUE-OVER-COST (R/C) INDEX

 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 Index = Contractors' Cumulative Cost Oil +Profit Oil From The Effective Date

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

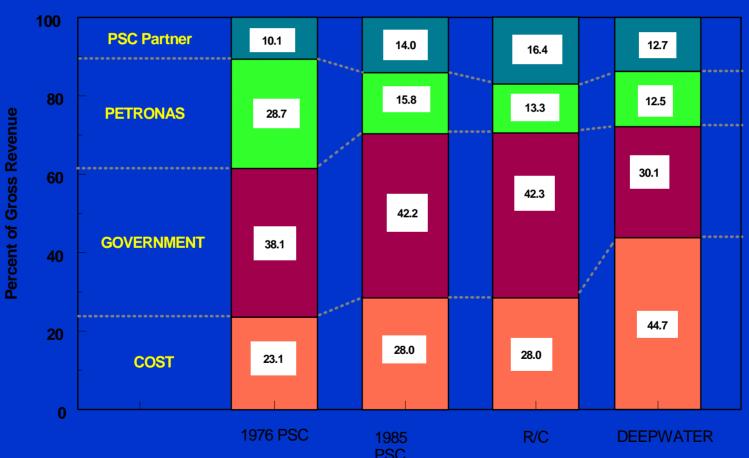
R/C TABLE

Contractor's R/C Ratio	COST OIL	PROF	TT OIL
	Cost Oil Ceiling	Unused Cost Oil PET : Cont	Profit Oil PET : Cont
0.0 < R/C <= 1.0	70%	N.A.	20:80
1.0 < R/C <= 1.4	60%	20:80	30:70
1.4 < R/C <= 2.0	50%	30:70	40:60
2.0 < R/C <= 2.5	30%	40:60	50:50
2.5 < R/C <= 3.0	30%	50:50	60:40
R/C > 3.0	30%	60:40	70:30

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

COMPARISON OF PSC - OIL



Note: 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.



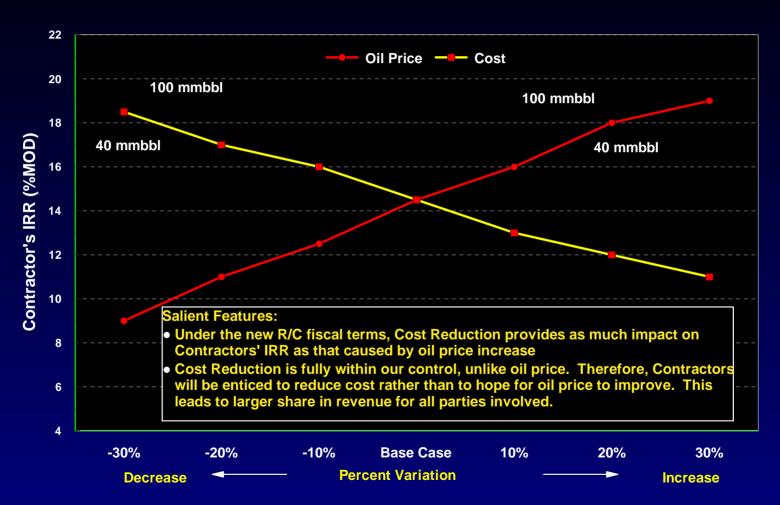
2. Higher Contractor's share of Profit Oil/Gas is given when Contractor's Profitability is low and decreases as Contractor's Profitability increases.





Salient Features of ROC PSC

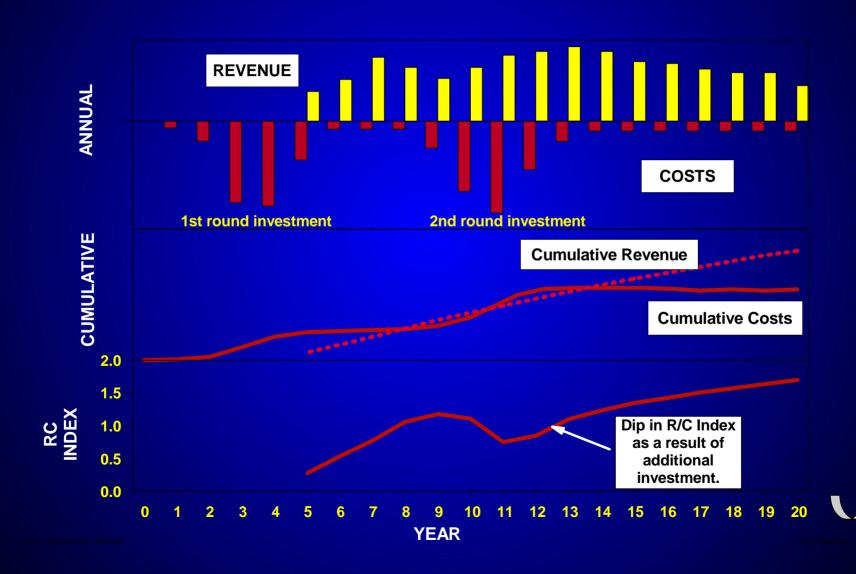
- Sensitivity of IRR on Oil Price and Cost





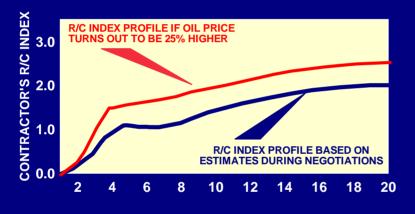


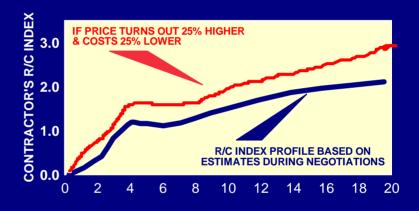
PROFITABILITY BASED FISCAL REGIME: Sensitive to Re-investment

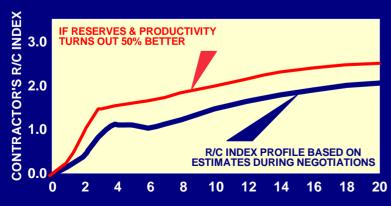


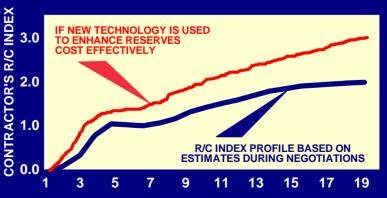
R/C IS SELF-ADJUSTING

- 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

