

Deepwater R/C PSC Term

A. Introduction

The Deepwater R/C PSC term is designed to suit the investor's risk appetite and increase competitiveness in Malaysia's deepwater acreages, while managing risk and reward expectations. Against the evolving industry landscape, this profitability-based term offers greater flexibility to investors through the self-adjusted mechanism, encouraging reinvestment in deepwater assets and driving cost efficiency to increase value for all parties.

More than **90**
deepwater exploration
wells drilled in Malaysia,
resulting in

>2 Bstb oil discovered

>8 Tcf gas discovered

Since the award of the first deepwater PSC in the 1990s, Malaysia's deepwater scene has grown significantly to become a key focus area in the oil & gas industry

Key milestones in Malaysia deepwater operations:



Gumusut-Kakap production facilities, Shell's first deepwater project in Malaysia



Shell's Malikai deepwater facilities, the first tension leg platform in Malaysia

- 1994:** Keabangsan Cluster was the first deepwater PSC awarded.
- 2002-2004:** Kikeh, Gumusut-Kakap & Malikai discoveries.
- 2007:** First deepwater production achieved from Kikeh.
- 2010:** Introduction of PITA incentive for deepwater development.
- 2014:** Gumusut-Kakap, Siakap North-Petai & Keabangsan achieved first production.
- 2016:** Malikai achieved first oil. Award of Limbayong PSC.
- 2018:** Tepat ultra deepwater discovery. Introduction of Deepwater R/C PSC term.
- 2021:** Rotan & Buluh fields (DW Block H) achieved first gas, supplying to PFLNG Dua.

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B. Illustration on the Fiscal Model



OIL Terms

R/C Index	Cost Ceiling	Below THV Contractor Profit	Above THV Contractor Profit
$0.0 \leq R/C \leq 1.0$	80%	80%	60%
$1.0 < R/C \leq 1.4$	80%	70%	50%
$1.4 < R/C \leq 2.0$	70%	60%	40%
$2.0 < R/C \leq 2.5$	70%	50%	40%
$2.5 < R/C \leq 3.0$	60%	50%	40%
$R/C > 3.0$	60%	50%	40%



GAS Terms

R/C Index	Cost Ceiling	Below THV Contractor Profit	Above THV Contractor Profit
$0.0 \leq R/C \leq 1.0$	80%	80%	60%
$1.0 < R/C \leq 1.4$	80%	80%	60%
$1.4 < R/C \leq 2.0$	70%	70%	50%
$2.0 < R/C \leq 2.5$	70%	60%	40%
$2.5 < R/C \leq 3.0$	60%	50%	40%
$R/C > 3.0$	60%	50%	40%

Cash Payment

Cash payment to the Federal and State Governments is 10 per cent of the gross production.

Cost Recovery Ceiling

The cost recovery ceiling will be self adjusted up to a maximum of 80% based on profitability. This will accelerate cost recovery during low profitability period.

Profit Sharing

The remaining production after cash payment and cost recovery is treated as profit that is shared between PETRONAS and contractor based on the self-adjusted profit-sharing mechanism. Contractor's profit share will be automatically self adjusted up to a maximum of 80% based on profitability, favorable share during low profitability period.

Threshold Volume (THV)

The THV for oil is 300 MMstb and for gas is 2 Tcf per PSC respectively, offering an attractive package for medium-sized discoveries while retaining position for larger discoveries.

Supplementary Payment

There is a temporary relief on supplementary payment where claw back on excess profit triggers only after reaching "breakeven" at R/C index of 1.2 for oil and 1.4 for gas.

The Deepwater R/C PSC term is geared towards a balanced and flexible fiscal model with self-adjusted mechanism, which enables a more equitable sharing of risk and reward across a wider range of prospectivity, to attract investments from capable players with deepwater expertise.

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C. The Benefits to Contractor

PETRONAS has taken into consideration the collective feedback from our investors and the current business environment, where deepwater activities have expanded beyond water depths of more than 1,200 metres and is becoming increasingly challenging from a technical & commercial perspective. Hence, the new fiscal term is designed to be more conducive to contractors across the asset lifecycle; to encourage more deepwater exploration, while catering to the higher level of risk and capital-intensive development in the event of any discoveries made.

As a regulator with a commercial mindset and being responsive to investor's needs, PETRONAS continuously aspires to provide a more robust, flexible and competitive investment landscape for its investors. The Deepwater R/C PSC term is applicable to all new deepwater PSCs awarded from June 2018 onwards and has been benchmarked to be at par or as competitive as other leading deepwater fiscal regimes worldwide.

Key Features of the Deepwater R/C PSC Fiscal Model

300 MMbbl

Oil Threshold
Volume (THV)

2 Tcf

Gas Threshold
Volume (THV)

Separate

Cost Bank for
Oil & Gas

R/C > 1.2

Oil
Supplementary
Payment

R/C > 1.4

Gas
Supplementary
Payment

- **Improved contractor's economics for medium-sized deepwater fields** while being adaptable to potentially larger deepwater discoveries.
- Block coverage of **deeper water depth** (>1500 meters).
- **Higher cost recovery and contractor profit share rate during initial production period** which will automatically reduce gradually based on project profitability.
- **Accelerated recovery** with favorable share during low profitability period.
- Revenue and cost "breakeven" takes into consideration **time value effect**.
- **Supplementary payment triggers only after "breakeven"** i.e. when R/C index of 1.2 for oil and 1.4 for gas.

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