PETRONAS Procedures and Guidelines for Upstream Activities (PPGUA 3.0)

FINANCE

VOLUME 9

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Executive Summary

This volume provides the procedures and guidelines for the operation of the Contract's requirements pertaining to:

a) Accounts and reporting
b) Related contractual payments and submission to PETRONAS
c) Cost recovery exercises

All sections in this volume are related to PS Contractors only, except for Section 5: Reporting Statements and Section 9: Cost Recovery Appeal Committee (CRAC), which are applicable for both PS and RS Contractors.

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Contact Information

All correspondence related to this volume shall be addressed to:

SUBJECT	CONTACT
PSC Contractual Payments	Senior Manager PSC Fiscal Management & Accounts PMU Finance & Accounts Petroleum Management Unit
Crude Oil Entitlement Percentage/Gas Entitlement Percentage and Crude & Condensate Allocation Sales Hydrocarbon/Crude Oil Sharing Entitlement	Senior Manager PSC Fiscal Management & Accounts PMU Finance & Accounts Petroleum Management Unit
PSC Surplus Material in Relation to Inter PSC Transfer/Disposal	Senior Manager Accounting & Financial Services PMU Finance & Accounts Petroleum Management Unit
Facilities Charging Mechanism	Senior Manager PSC Fiscal Management & Accounts PMU Finance & Accounts Petroleum Management Unit
Reporting Statements	Senior Manager PSC Fiscal Management & Accounts PMU Finance & Accounts Petroleum Management Unit
Provisional PSC Account Adjustment (PPAA)	Senior Manager PSC Audit PMU Finance & Accounts Petroleum Management Unit
PSC Account Restatement	Senior Manager PSC Audit PMU Finance & Accounts Petroleum Management Unit
Cost Recovery Appeal Committee	Senior Manager PSC Audit PMU Finance & Accounts Petroleum Management Unit
Appendix 1	Senior Manager PSC Audit PMU Finance & Accounts Petroleum Management Unit

Section 1: PSC Contractual Payments

1.1 Introduction

PSC Contractual Payments are the amounts that Contractor is liable to pay to PETRONAS as stipulated in the Contract. This procedure:

a) provides certainty on the basis and quantum of payment for both Contractor and PETRONAS
b) provides monitoring of payments and receipts, thereby establishing and meeting the required level of control

1.2 Supplemental Payment and Research Cess

Basis of Computation:

a) Contractor is required to make PSC Contractual Payments subject to respective Contract, on monthly or quarterly basis.

<table>
<tr><th>MONTHLY</th><th>QUARTERLY</th></tr>
<tr><td colspan="2">The calculation for monthly or quarterly payments at Cost Bank level and the total amount payable of all Cost Bank at Contract level shall be made using the following parameters:

• Crude Oil & Condensate Production/Gas Sales figures
• Profit Oil/Gas
• Price
• Exchange Rate
• Export Duty
(Contractor shall submit the amount paid for export duty to PETRONAS by 20th of the month, where applicable)</td></tr>
<tr><td>The data above will be based on the actual data for the first twenty (20) days of the month as the cut-off date.

PETRONAS shall issue a letter by the 27th of the month for payment to be paid before the end of the following month.</td><td>The data above will be based on the following:

• Actual data for the first two (2) months of the quarter and;
• Actual data for the first twenty (20) days of the final month of the quarter as the cut-off date.

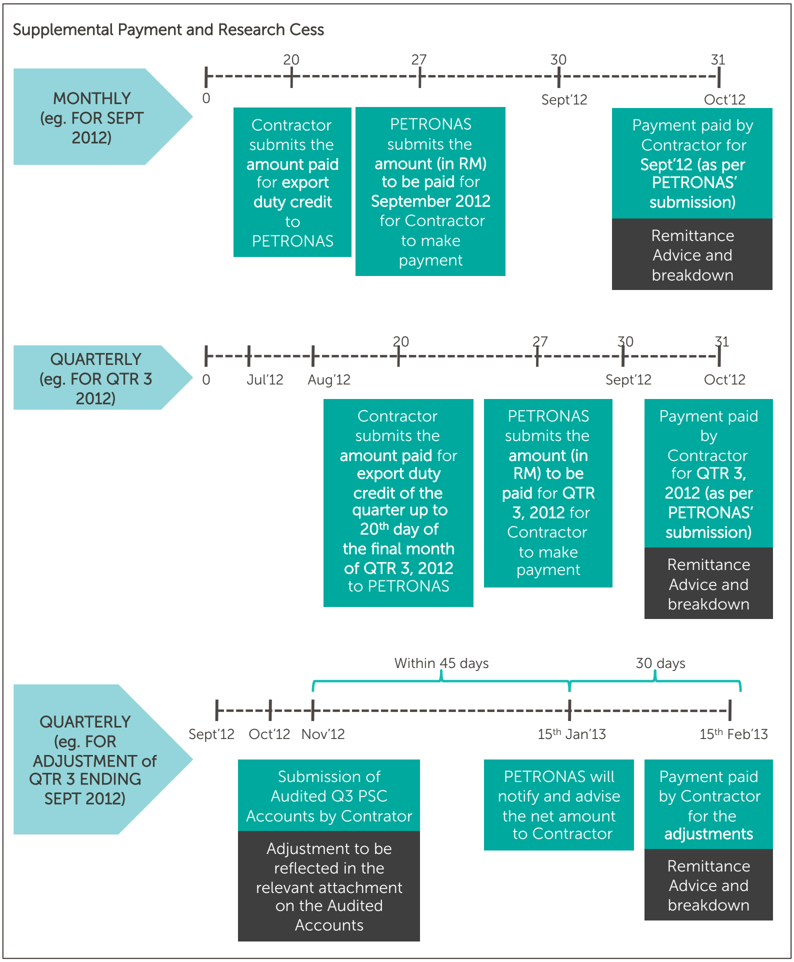
PETRONAS shall issue a letter by the 27th of each calendar quarter (March, June, September and December) for payment to be paid before the end of the following month.</td></tr>
</table>

b) Quarterly Adjustment
Contractor is required to determine the final amount payable as per the Contract and based on the actual entitlements in the Quarterly Audited Accounts (QAA). Contractor is required to comply with the details of the adjustment stated in the QAA.

PETRONAS will notify Contractor of any variance whether under or overpayment as a result of the above exercise. PETRONAS will advise the net amount payable within forty five (45) days from the submission of the QAA.

Any underpayment must be settled within thirty (30) days from receipt of the PETRONAS' notification whilst overpayments shall be deducted from future payments.

Figure 1: Stage Gate Process Flow for Supplemental Payment & Research Cess



1.3 Abandonment Cess, Signature Bonus and Commitment Payment

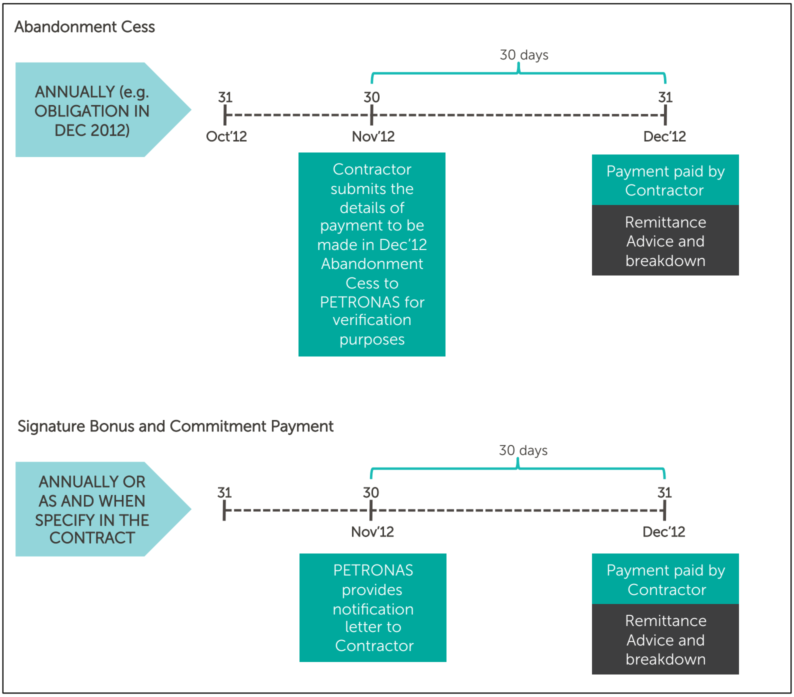
a) Abandonment Cess

Contractor must provide the calculation and relevant supporting documents to PETRONAS for verification purposes thirty (30) days before payment is made.

b) Signature Bonus and Commitment Payment

Contractor is required to pay the signature bonus and other payment in accordance with the Contract. PETRONAS will provide Contractor with a letter of notification to make the payment.

Figure 2: Stage Gate Process Flow for Abandonment Cess, Signature Bonus and Commitment Payment



1.4 Remittance Advice and Breakdown of Payment

a) Payment breakdown

Contractor is to provide a remittance advice for all of the above payments and a breakdown of the payment, which shall include the following items:

- Amount to be paid by each Contract and its respective Cost Banks
- Payment date
- Currency & exchange rate (where applicable)
- Purpose of payment

b) Mode of Payment

All payments shall be made via Telegraphic Transfer (TT) or any other mode as advised by PETRONAS.

Section 2: Crude Oil Entitlement Percentage (COEP)/Gas Entitlement Percentage (GEP) and Crude & Condensate Allocation Sales Hydrocarbon (CA$H)/Crude Oil Sharing Entitlement (COSE)

2.1 Introduction

Crude Oil Entitlement Percentage (COEP) refers to the provisional entitlement to the production of crude and condensate, whilst Gas Entitlement Percentage (GEP) refers to the provisional entitlement of natural gas sold. They are both calculated on a quarterly basis for the purpose of determining the Contract's parties' entitlement and specifically for COEP, to allow forward planning of the respective parties' crude oil lifting programme.

COEP and GEP are issued by PETRONAS prior to the beginning of each quarter.

Crude & Condensate Allocation Sales Hydrocarbon (CA$H) and Crude Oil Sharing Entitlement (COSE) are established frameworks and standard operating procedures designed to record and allocate revenue from oil and condensate for each party in the respective Contract. In addition, it facilitates the standardisation of allocation and the distribution of sales revenue (oil and condensate) for each party in the respective Contract. However, CA$H and COSE are not applicable to gas, which is done through GEP.

2.2 Quarterly COEP and GEP

Unless otherwise advised by PETRONAS, the Contractor shall provide the following to PETRONAS not less than seventy five (75) days prior to the beginning of each quarter:

a) Quarterly Forecast Expenditure
b) Quarterly Forecast Price
c) Quarterly Forecast Production

2.2.1 GEP Reconciliation

GEP is only a provisional entitlement and should not be considered as the final allocation of gas entitlement. Therefore, the monthly allocation of gas revenue, which is based on GEP, is to be adjusted to the actual entitlement as reported in the QAA. Contractor is hereby advised to issue a Debit Note (DN)/Credit Note (CN) on the related adjustment within fourteen (14) days of the submission of the QAA.

2.3 CA$H

CA$H for each month shall be calculated in accordance to the following formula:

CA$H	**=**	**[**	**Provisional Crude Oil Entitlement**	**x**	**Monthly Forecast Production**	**]**	**+**	**Provisional Closing Stock of the preceding applicable month**

Whereby:

a) Monthly Forecast Production	=	Contractor shall submit the Contract's monthly production volume by the 20th of the month (namely: 20 days of actual production and the forecast production for the remaining days of the month as agreed by all parties)		
b) Provisional Closing Stock of the preceding applicable month	=	Latest QAA closing stock	+	Provisional Production Data and actual sales data following the month of QAA up to the preceding of lifting month. The Provisional Production Data will be the monthly update based on the latest revised production by PETRONAS

PETRONAS shall issue the CA$H to all Contractors no later than the 27th of the month as their sales portion for the month.

By using CA$H, Contractor's actual sales distribution volume and price for the accumulated three (3) months' period will become the basis for the Quarterly Weighted Average Price (QWAP) computation. Consequently, Contractor's equivalent monthly distributed volume shall flow to the Stock Statement in the QAA.

2.4 COSE

Contractor using the COSE mechanism must refer to the respective Marketing Agency Agreements (MAA) for guidance.

Section 3: PSC Surplus Material in Relation to Inter PSC Transfer/Disposal

3.1 Introduction

It is a requirement for Contractor to seek approval from the relevant PMU Line Departments for transfer of equipment and assets outside the contract area, for example transfer outside PSC areas or inter PSC transfer.

3.2 Type of Transfer

Under Section 13A (1A) of the Petroleum Income Tax Act 1967 (and subsequent amendments thereafter, if any), there are two (2) types of transfers:

3.2.1 Controlled Transfer

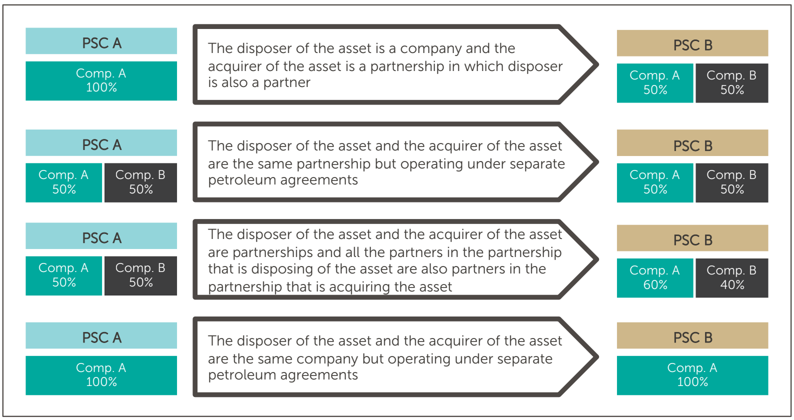
a) The disposer of the asset is a company and the acquirer of the asset is a partnership in which disposer is also a partner;

b) The disposer of the asset and the acquirer of the asset are the same partnership but operating under separate petroleum agreements;

c) The disposer of the asset and the acquirer of the asset are partnerships and all the partners in the partnership that is disposing of the asset are also partners in the partnership that is acquiring the asset; or

d) The disposer of the asset and the acquirer of the asset are the same company but operating under separate petroleum agreements

Refer to the illustration below - Figure 3: Controlled Transfer



3.2.2 Non-Controlled Transfer

Any transfer other than those mentioned above may be categorised as Non-Controlled Transfers.

3.3 Treatment

There are two (2) types of treatments to be used for the respective types of transfer:

a) **Controlled Transfer**
The disposer will keep all of the proceeds that are received and the cost oil or gas of the disposer will be credited or reduced.

b) **Non-Controlled Transfer**
The proceeds received from the disposal shall be remitted to PETRONAS by the disposer. The cost oil or gas of the disposer remains, but will be added by the acquirer.

Section 4: Facilities Charging Mechanism

4.1 Introduction to Facilities Allocation

Third parties are allowed to utilise a Contract's facilities subject to PETRONAS' approval. This section provides the guiding principles for a third party to utilise the Contract's facilities and the basis used in determining a reasonable fee for such use. The fee shall cover the operating and capital expenditures.

4.2 Guiding Principles of Charging Mechanism

4.2.1 Utilisation

Utilisation of another Contract's facilities is subject to:

a) Availability of excess capacity
b) No undue interference with respective Contract's petroleum operations
c) Reasonable fees paid by user

4.2.2 Reasonable Fees

Reasonable fees are chargeable on a no gain no loss basis. No element of profit margin is allowed:

a) Operating Expenditure (OPEX) charges (including overhead) will be based on sharing of actual cost
b) Future Capital Expenditure (CAPEX) charges will be based on forecast utilisation

4.2.3 Treatment

a) Fees received by the facility operator shall be used to reduce the Contract's cost recovery
b) Charges paid to the facility operator are cost-recoverable and subject to audit verification

Section 5: Reporting Statements

5.1 Introduction

The aim of this procedure is to provide a common form of reporting that gives clarity and transparency of monthly and quarterly revenue and expenditure. It will provide seamless reporting of monthly statement of accrued expenditure which can be validated by Contractor. This will facilitate the calculation of revenue and expenditure and all relevant adjustments that need to be made.

5.2 Monthly Statement of Accrued Expenditure (Accrual Basis)

Contractor must submit a statement of the accrued expenditure to PETRONAS within twelve (12) days from the end of each month through online reporting. The cost category of expenditure shall be the same as in the Work Programme & Budget (WPB) category. Contractor must provide justification for any variances including Year to Date (YTD) and Year End Projections (YEP).

5.3 Monthly Statement of Expenditure (Cash Basis)

Contractor must submit Statement of Expenditure (SOE) that contains details of expenditure and income received to PETRONAS within thirty (30) days from the end of each month arising from petroleum operations.

5.4 Quarterly Audited Accounts

a) Standardisation of PSC Accounts Reporting

Contractor must submit Quarterly Audited Accounts (QAA) to PETRONAS within sixty (60) days from the end of each quarter showing the actual sum expended and actual sum received by Contractor in carrying out petroleum operation in the contract area for the quarter, using the standardised reporting format as provided by PETRONAS, which is available upon request.

b) Written application for expiring PSC QAA

Contractor shall, not less than sixty (60) days before the date of expiry of the Contract or the date of termination of the Contract, submit a written application for PETRONAS' approval requesting up to six (6) months to allow the Contractor to submit the revised audited accounts for the final quarter.

Section 6: Provisional PSC Account Adjustment (PPAA)

6.1 Introduction

This section aims to facilitate the adjustment of cost oil and profit oil of the Contractor in relation to disapproved Non-Recoverable (NR) Cost identified during the audit exercise conducted by PETRONAS. The adjustment volume will be done through the next available lifting as reflected in the process flows below:

Figure 4: PPAA Process Flow for Producing Blocks

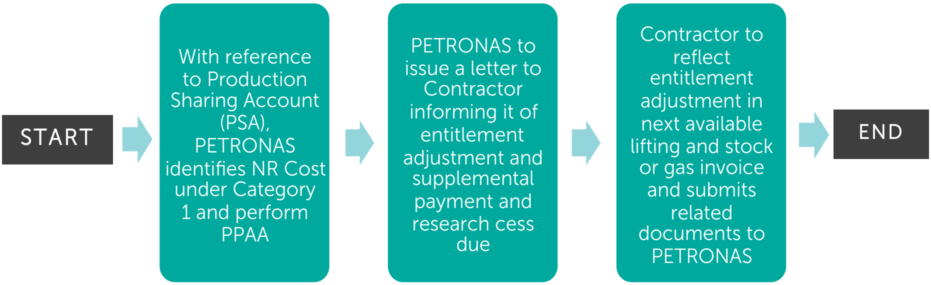
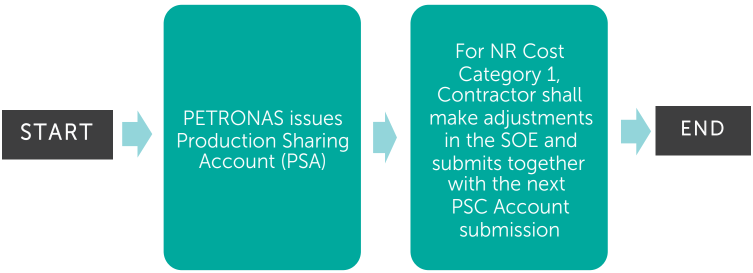


Figure 5: PPAA Process Flow for Non-Producing Blocks



6.2 PPAA Mechanism

6.2.1 Producing Blocks

For cost current or cost maximum positions wherever applicable as per the Contract, the NR Cost value under category 1 shall be adjusted in the respective Quarter of the Statement of Entitlement. In addition to the adjustment, for a cost current position, upon receiving the PPAA calculation from PETRONAS, Contractor is required to adjust the following:

a) **Crude/Condensate**
Contractor must ensure that the NR Cost adjustment is clearly reflected in the next available lifting plan and stock and subsequently submit the related documents to PETRONAS including the Monthly Entitlement Off-Take (MEOT) and Global Arrangement Production Allocation (GAPA) as evidence that NR Cost has been reflected accordingly.

b) **Gas**
Contractor must ensure that the NR Cost adjustment is clearly reflected in the Gas Sales Invoice.

6.2.2 Non-Producing Blocks
The NR Cost under category 1 shall be adjusted in the following Quarter of the Statement of Expenditure.

6.2.3 Non-Recoverable Cost Categories
Below are categories of Non Recoverable Cost:

a) Category 1 – Governance/Common Issues
b) Category 2 – Pending approval from PETRONAS
c) Category 3 – Operational/Business Risks

Section 7: PSC Account Restatement

7.1 Introduction

Restatement and settlement is a finalisation exercise to close the PSC Account books between PETRONAS and the Contract's parties to determine each party's final entitlement.

Restatement of PSC Accounts will cater for both the producing blocks and the non-producing blocks:

a) Producing blocks – Restate on the production entitlement, article price, stock and PSC Payments
b) Non-Producing blocks – Rectify on the cost bank/claimed upon resolution of disputed cost

7.2 Restatement Exercise Process Flows

Process flows of the restatement exercise are depicted in the following figures:

Figure 6: Restatement Exercise Process Flow for Producing Blocks

PLANNING	FIELDWORK	REPORTING
• PETRONAS prepares Restatement Exercise plan • Issues Letter of Intent (LOI) to Operator of the Contract	• PETRONAS commences restatement exercises verification • Any issues/discrepancy to the draft Restated PSC Accounts will be highlighted and Contractor to amend accordingly • PETRONAS reviews the final draft of the Restated PSC Accounts (after taking into account any amendment) • Both PETRONAS & Contractor will sign-off the final Restated PSC Accounts and Settlement	• Contractor to submit the final Restated PSC Accounts & Settlement together with Acknowledgement letter to PETRONAS • PETRONAS to issue letter to Contractor informing the final settlement/ issues (if any) including issuance of Debit Note

Figure 7: Restatement Exercise Process Flow for Non-Producing Blocks

PLANNING

- PETRONAS prepares Restatement Exercise plan
- Issues Letter of Intent (LOI) to Operator of the Contract

→

FIELDWORK

- PETRONAS will prepare the draft Restated PSC Accounts in order to identify the final cumulative cost to be recoverable
- Contractor will highlight any issue/discrepancy to the draft Restated PSC Accounts and auditor will amend accordingly
- Contractor reviews and agrees on the final draft of the Restated PSC Accounts (after taking into account any amendment)
- Both PETRONAS & Contractor will sign-off the final Restated PSC Accounts

→

REPORTING

- PETRONAS to send letter on agreed recoverable cost to Contractor together with the sign-off Restated PSC Accounts

7.3 Restatement Procedures

The following figures display restatement procedures for Producing and Non-Producing Blocks:

Figure 8: Restatement Procedure for Producing Blocks

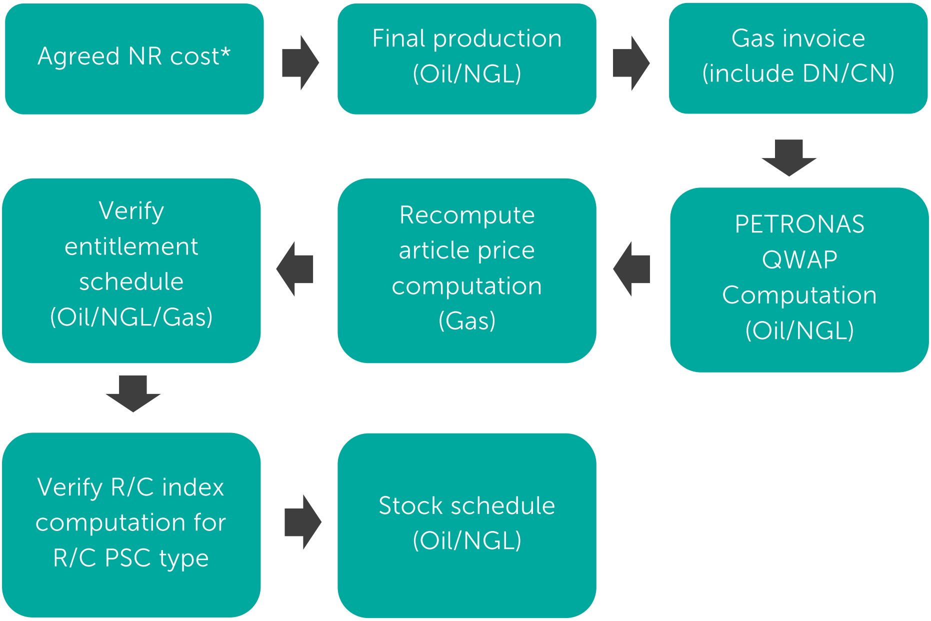
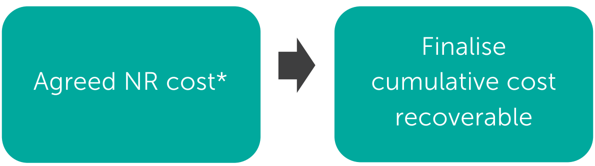


Figure 9: Restatement Procedure for Non-Producing Blocks



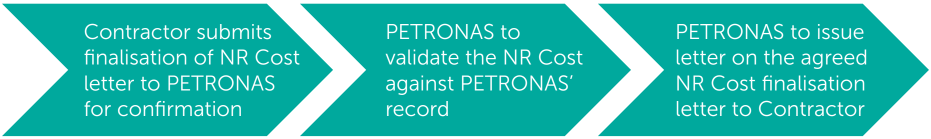
*Note: *Refer to Figure 10: Finalisation of Non-Recoverable Cost Procedures*

7.4 Procedure for the Finalisation of the Non-Recoverable (NR) Cost

a) The finalisation of NR Cost from Contractor must be based on the Production Sharing Account (PSA) issued by PETRONAS.

b) The finalisation of NR Cost also must incorporate the Cost Recovery Appeal Committee's (CRAC) decision.

Figure 10: Finalisation of Non-Recoverable Cost Procedures



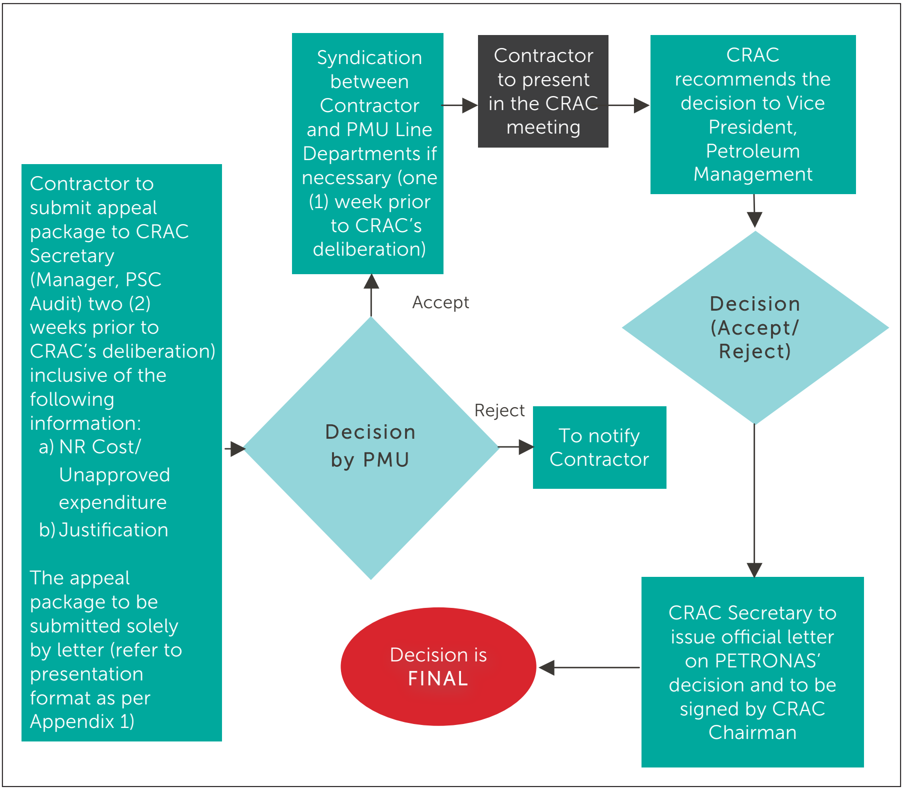
Section 8: Cost Recovery Appeal Committee (CRAC)

8.1 Introduction

Cost Recovery Appeal Committee (CRAC) was formed with the objective of deliberating on Contractor's appeals with regard to disputed costs and to make recommendations for PETRONAS' approval. CRAC will deliberate appeals based on:

a) Relevant provisions in the Contract
b) Consideration in terms of operational or technical merits
c) Cost and benefit analysis

Figure 11: Process Flow for Appeal



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Abbreviations

TERM	IN FULL
ABR	Additional Budget Request
CA$H	Crude & Condensate Allocation Sales Hydrocarbon
CAPEX	Capital Expenditure
CN	Credit Note
COEP	Crude Oil Entitlement Percentage
Comp.	Company
COSE	Crude Oil Sharing Entitlement
CRAC	Cost Recovery Appeal Committee
DN	Debit Note
FIA	Final Investment Approval
GAPA	Global Arrangement Production Allocation
GEP	Gas Entitlement Percentage
LOI	Letter of Intent
MAA	Marketing Agency Agreement
MEOT	Monthly Entitlement Off-Take
NGL	Natural Gas Liquids
NR Cost	Non-Recoverable Cost
OPEX	Operating Expenditure
PMU	Petroleum Management Unit
PPAA	Provisional PSC Account Adjustment
PS	Production Sharing
PSA	Production Sharing Account
PSC	Production Sharing Contract
QAA	Quarterly Audited Account
QWAP	Quarterly Weighted Average Price
R/C	Revenue Over Cost
RM	Ringgit Malaysia
RS	Risk Service
SOE	Statement of Expenditure
TT	Telegraphic Transfer
USD	United States Dollar
WPB	Work Programme & Budget

TERM	IN FULL
YEP	Year End Projection
YTD	Year to Date

Appendix 1

Presentation Format for CRAC

NR/ Retroactive Expenditures (RM/USD)	Reason for NR	Justification
	Examples: • Disapproved ABR • Unlicensed vendor • Project cost exceeding FIA • Etc.	(May include business or technical reasons as well as cost savings effort for PETRONAS)