Review of Technical Service Contract
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Good morning, everyone.

I see a number of familiar faces in the audience. It is a pleasure to be here and see you all again and I would like to echo His Excellency's welcome to Istanbul.

As many of you know from our conversations over the past year, there is a draft Petroleum Law that is slowly working its way through the political process. While we do expect that Law to pass eventually, the good news is that the current laws in place fully enable the development and award of petroleum contracts by the existing competent authority, the Ministry of Oil, with the approval of the Council of Ministers.

The fundamental principles that guide this process and the related agreements remain that the petroleum resources within the Republic of Iraq are the exclusive property of the Iraqi people and that the award of petroleum contracts are to be through competitive and transparent bidding in Licensing rounds.

Following the basic principle that the resources belong to the people of Iraq, and taking into consideration the long history and significance of the Iraqi oil and gas industry, we have concluded – as His Excellency the Minister noted - that the optimum form of contract that would be acceptable and sustainable within Iraq at this time would be a form of a Technical Service Contract.

We are well aware that this form of contract may not be popular with the industry but it is the only form that will be popularly viable within the country. We know too that Iraq is not unique in this. However, we have analyzed several forms of petroleum agreements and have tried to address what we see as the critical aspects from the investors' perspective – that the contracts provide acceptable levels of materiality, of profitability and allow the companies to use their technical strengths and management and execution know-how in the guidance and conduct of Petroleum Operations and that they provide an appropriate level of reward to the Iraqi resource owners.

Our directorate, the Petroleum Contracts and Licensing Directorate, is the entity charged with the negotiations and execution of these contracts.

Unlike the First Round when we had an oil field "redevelopment" type of contract and a Greenfield gas field development contract, in this round we have a single contract model – the Development and Production Service Contract (DPSC) - that will accommodate the development and production as well as exploration activities within all of the Contract Areas in this offering. The basic structure of the DPSC is that within a pre-defined Contract Area, the IOCs are envisaged to provide services and funding with respect to the development and production of the petroleum resources by way of a Technical Service Contract.

You will notice I said "petroleum resources" as opposed to oil or gas, this is because this contract does not contemplate the definition of field as "oil" or "gas" but addresses the reality that, particularly in some of these fields, there will be a lot of both oil and gas. The simplest way to conceive the contact is as a service contract for the development and production of petroleum liquids (much like the PFTSC in Round 1).

The contract term is 20 years from the Effective Date, with the possibility of a maximum extension of an additional 5 years.

The Contractor will undertake specific obligations to execute a prescribed Minimum Work Program and to submit and execute both Preliminary and Final Development Plans for the Contract Area, each supported by annual Work Programs and associated Budgets.

The services to be provided by the Contractor will be the provision of all capital funding as well as management and technical services related to the planning and execution of the exploration, appraisal, development and production of the Petroleum resources in the Contract Area.

Costs, both Capital and Operating, incurred by the Contractor will be reimbursed on a dollar-for–dollar basis. That is, actual costs incurred without uplift or interest.

In addition, the Contractor will receive Remuneration associated with its role in the Field's activities. The Remuneration is the product of the Remuneration Fee Bid by the Contractor itself in the Bidding Process and the petroleum produced and delivered from the Contract Area under an approved Plan. The Remuneration will also include the Contractor's profit element. The Fees will be paid for each barrel equivalent of Petroleum which is produced and delivered from the Contract Area. As I noted earlier, there is no concept of "baseline" or "incremental" production in this contract. This includes the 4 fields that are currently producing at limited production levels.

Petroleum Costs and Remuneration will be payable in cash or in crude oil at designated export points, at the election of the Contractor.

The parties to these contracts will be the Regional Oil Company or "ROC" – The Iraqi state oil company entrusted with exclusive rights to the Contract Area. In this round it will be the North Oil Company for Badra, East Baghdad, the Eastern Fields (Gilabat, Khasm Al-Ahmar, Nau Doman and Qumar fields), the Middle Furat fields (Kifl, West Kifl, Merjan fields) and the Najmah and Qaiyarah Contract Areas; Missan Oil Company for the Halfaya field and South Oil Company for the remainder of the fields – Garraf, Majnoon, and West Qurna (Phase 2). The Regional Oil Company will, for all intents and purposes, be the "client" for whom the Contractor is providing services.

The Contractor will comprise the winning IOC or IOCs, if in consortium (including the one named as the Operator) and the Iraqi State Partner who will hold a 25% carried interest in the contract.

The objective of the Contract is the optimal development and production of the petroleum resources in the Contract Area.

The Contracts will be awarded on the basis of a transparent and competitive bidding process. The Biddable parameters for the Contracts will be a Remuneration Fee – this will be the fee that is paid on each barrel equivalent that is produced and delivered from the Contract Area and a Plateau Production Target which is the total Net Production that must be achieved within 6 years of the Effective Date.

As noted earlier, the duration of the Contracts will be 20 years from the Effective Date. All reservoirs that are not included in the Final Development Plan must be relinquished. All reservoirs for which active development has not started must be relinquished 6 years after Final Development Plan approval. With respect to undiscovered reservoirs, all reservoirs that have not been subject to a notice of Discovery within 3 years of the Effective Date must be relinquished. Those reservoirs that have been subject of a Discovery notice must be relinquished within 2 years of the notice unless there has been a Declaration of Commerciality. Those reservoirs that have been subject of a Declaration of Commerciality must be relinquished within 1 year of the declaration unless a Development Plan has been proposed and submitted to the ROC.

The Minimum Work Obligation will be defined in Annex E of each Contract by the Ministry and ROCs.

These will vary by field but include a combination of drilling, and Subsurface work such as reservoir characterization and dynamic modelling (including 3D seismic acquisition). This Minimum Work Obligation is to be completed within 3 years of the approval of the Preliminary Development Plan and would also correspond to a Minimum Expenditure Obligation.

The first milestone in the Contract is the Preliminary Development Plan, which is due within 6 months of the Effective Date. The Plan will comprise an overall vision for the targets and phases of development for the known reservoirs in the Contract Area as well as plans for further exploration and appraisal.

Once this Plan is approved, the first Work Program and Budget associated with it is due within 60 days.

One other important aspect – it is a specific condition of the Contract that in-field operations be commenced within 6 months of approval of the Preliminary Development Plan to avoid any unnecessary delays based on an assertion or presumption of unfavorable conditions to start work on-site. I will mention this again when we come to the issue of "Force Majeure".

The Final Development Plan is due no later than 3 years from the Effective Date. This Plan, which will reflect the additional data gathered and analyzed and experience in the field, will supersede and replace the Preliminary Development Plan. The Plan may be revised and updated as necessary, consistent with changes in conditions and knowledge.

All decisions are governed by a Joint Management Committee or "JMC", or a Board of Directors. The "JMC" comprises 4 members (or more, if agreed) from each of the ROC and the Contractor. Where the ROC nominates the Chairman and the Operator nominates the Deputy Chairman and Secretary. The Ministry of Oil will nominate the representative from the State Partner.

The JMC's decisions will be on a unanimous basis.

Once the project has reached the cash pay-out point (i.e. where cumulative revenues equal cumulative expenditures), the ROC may call for the creation of a Joint Operating Company which would then be governed by a Board of Directors, which effectively assumes all the duties and responsibilities held by the JMC.

The basic JMC function is to supervise and control Petroleum Operations.

In detail, the JMC's responsibilities are to review and recommend Preliminary and Final Development Plans and all subsequent revisions to the Plans. These plans are subject to the approval of the ROC.

The JMC will review and approve:

- Work programs and budgets
- The Operating procedures that will apply to the Field
- The Appointment of an Auditor
- All Subcontracts
- All health, safety and environment or HSE aspects and
- The financial reports related to the operations.

The approval authorities are indicated on this slide: i.e. if over \$100 million the approval needs to be received from the ROC, if less it can be handled within JMC or Board of Directors. So that is the basic structure and governance regime of the Technical Services Contract.

In a change from Round 1 where the signature Bonus was effectively a loan secured by production below the baseline, the signature bonus in Round 2, will not be considered a Petroleum Cost. It will be a non-recoverable fixed amount signature bonus depending on the Contract Area. For the East Baghdad, Halfaya, Majnoon and West Qurna – Phase 2 Contract Areas, the bonus will be US\$ 150 million. For all other areas the bonus will be US\$ 100 million.

As mentioned earlier, the Contractor's payments under the Contract will comprise Petroleum Costs – these are the actual costs incurred but subject to certain typical exclusions (such as financing costs) and limitations (such as head office overheads) and Remuneration. Remuneration being the product of the total Net Production in BOE and the per barrel Remuneration Fee Bid times any applicable adjustments which I will mention in a few slides.

Petroleum Costs are accrued from the Effective Date. These costs are payable from the commencement of First Commercial Production.

Remuneration is accrued and payable from the commencement of First Commercial Production.

The point of First Commercial Production is defined as the last day of 90 consecutive days where the Net Production transferred to Transporter equals or exceeds a BOE per day threshold that is defined for each Contract Area.

Petroleum Costs and Remuneration will be paid on a quarterly basis. As noted earlier, the fees payable in any quarter may not exceed 50% of the deemed value of the production delivered by the Contractor in that quarter.

In addition, the Remuneration Fee will be adjusted as a function of two aspects – first, the Contractor's cost recovery status (in terms of a classic R Factor metric); and second, the field's production performance relative to the Plateau Production Target (which is a biddable parameter.)

This table shows the R Factor adjustments to the Remuneration Fee bid by the Company. It basically contemplates that the Remuneration Fee will be adjusted downward as a function of the cost recovery status.

The R factor will be based on the division of cumulative cash receipts by cumulative cash expenditures. However, Signature Bonus will NOT be included in the R factor calculation.

After adjustment for the R-Factor status, the Remuneration Fee will further be reduced proportionately by the ratio of actual production performance relative to the Plateau Production Target. So, for example if a company has targeted (and bid) 100,000 barrels per day but performance is less than that, the fee will be adjusted proportionately. This adjustment applies only to the Remuneration Fee and not, of course, to the recovery of Petroleum Costs and only applies during the Plateau Production Period which will be of a specific duration for each Contract Area.

Petroleum Costs and Remuneration are payable in Export Oil, or at the Contractor's option in cash, on a quarterly basis. Compensation in Export Oil is not linked to the quality of the petroleum produced in the Contract Area.

However, Deemed Revenue (i.e. the pot of money from which the Petroleum Cost and Remuneration can be paid) is based on the realized Export Oil prices from the Iraqi Export Blend that is nearest to the crude produced from the Contract Area.

The total barrels lifted will be determined based on the SOMO pricing that is applicable to the crude being lifted in the quarter in which it is being lifted. As many of you will know, SOMO's pricing is easily and transparently discoverable in the market at all times.

The liftings will be at the export points for Iraqi crude which are currently Basra, Khor-Al-Amaya in the Gulf or Ceyhan in the Mediterranean, although others may be added as the sector develops and expands.

As the participants in the Round 1 process will know, Iraq's Income tax laws are at an early stage. In order to mitigate the uncertainty associated with an evolving tax system, the Contract basically "stabilizes" or guarantees that the Contractor will be protected if and to the extent the Iraqi income tax imposes a heavier fiscal burden on the Contractor than what would have resulted from a 35% tax on income where the usual and standard deductions apply.

Moving on now to Natural Gas…

All natural Gas used in Petroleum Operations is free of charge.

Flaring is permissible only with the authorization of the ROC and then only in extreme circumstances. As you may know, this is an area that we are working hard to try and address, not only to lessen our industry's environmental footprint but also to capture some of the value of the resource for the benefit of its owners, the Iraqi people.

The Contractor has complete rights to process, extract liquids and utilize all produced gas in the Contract Area. The Contractor may propose other gas utilization options in the Final Development Plan. Deliveries of processed gas under a plan that has been approved by the ROC will be considered as part of Net Production and receive Remuneration as BOE on an 8 to 1 basis.

All costs associated with treatment, reinjection, delivery, etc. of natural gas are treated as "Petroleum Costs" and therefore recoverable on a dollar for dollar basis under the contract. Gas liquids may be spiked back into the crude stream or tendered separately, at the ROC's option. In either case they will form part of the calculation of the remuneration fees.

In the case of Majnoon and West Qurna - Phase 2, all Associated Gas will be delivered to the ROC and will not count as Net Production.

The biggest difference between this Contract and PFTSC's gas provisions is that in this case the Contractor is requested to include plans for gas utilization in the Final Development Plan for consideration by the ROC. Iraq is still very short of power generation capacity and, as the economy recovers and grows we expect to see even more demand for gas-powered generation as well as export sales.

Moving into some of the contract formalities - All data and samples are property of ROC, copies of all data, reports and analyses must be provided to ROC. Data and samples are exportable provided useable copies/samples are retained in Iraq and returned within a specified minimum period.

As my colleagues will describe to you, the Data Packages contain all available information on the Contract Areas.

There will be a minimum contribution to a Training Technology and Scholarship Fund to help accelerate the re-capitalization of the people side of our industry. This is intended for the education and training of Iraqis either in Iraq or abroad as well as for the expansion of Iraqi-based research capacity. This will be in the amount of $5 million per year. I would emphasize, however, that the training obligation in the contract is much broader than this minimum commitment.

In common with most other countries, our contract requires for procurement of goods and services to be on a competitive basis. Local suppliers are always to be given preference where the quality and timing and pricing of the proposed goods and/or services is comparable to those same goods and services if procured outside of Iraq.

All petroleum temporary equipment, household effects for expatriate employees of the Contractor are also deemed exempt from all import and customs duties, taxes and imposts, except those that may be of general application.

Other miscellaneous provisions of the contract:

- The Contractor is required to open a local office (branch) within 90 days of the Effective Date
- Local bank account and currency exchange are permitted under Iraqi Central Bank regulations
- All assets become the property of the ROC upon landing in Iraq
- Assignment of rights under the contract are subject to ROC approval and pre-emption
- There is also a general business ethics undertaking that all companies are required to agree to. This basically binds the companies to adherence to anti-bribery and corruption laws in Iraq, in their own country and to the principles described in the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions that came into force in 1999.

Another important point – there is an acknowledgment that the conditions in the Contract Area and more generally in Iraq on the Effective Date will not constitute a Force Majeure "condition" during the Term of this Contract. This goes back and relates directly to the point I made earlier about the requirements to commence on-the-ground operations within 6 months of the approval of the Preliminary Development Plan.

With respect to Governing law – the Contract will be construed and operations conducted under Iraqi law. The Contract will be in both Arabic and English languages, in the event of a conflict between language versions, the Arabic version will prevail. We expect to have a complete Arabic draft to the companies by November 1. There is also a stability provision to provide that significant adverse affects of new laws or regulations be offset by compensating changes.

The dispute resolution provisions are fairly standard. They provide for efforts at amicable settlement for 30 days then, if unsuccessful, for referral to the respective senior Managements of the parties for 30 days and then, if still unresolved, with 60 days notice either to Expert and/or Arbitration.

Arbitration will be under ICC rules, with the seat in Paris, France, or as otherwise agreed between the parties. The language of the arbitration will be English. Any arbitration must be brought within 2 years of the original notice of the dispute and within 3 years of Contract termination.

This concludes my overview of the contract. I am sure there will be dialogue on the contract and the specific terms and conditions in it but I would like at this point to make a closing comment on the process as it relates to the contract.

That is – this contract is a model contract.

While we expect to receive comments on some of its provisions, and we will consider those suggestions in good faith, we don't expect or plan to negotiate every provision over the next 3 months. We will ask that you provide your comments and suggestions within specific timeframes and we will consider them carefully and thoughtfully. However, when the time comes for the Final Tender Protocol about 4 weeks prior to the Bidding process, the Definitive Model Contract will be published. That model will be the basis for the submission of bids that will comprise a specific and unconditional undertaking to accept each and every condition of the definitive model agreement.

Thank you very much for your attention. I look forward to discussing these aspects with many of you in the days and months ahead.