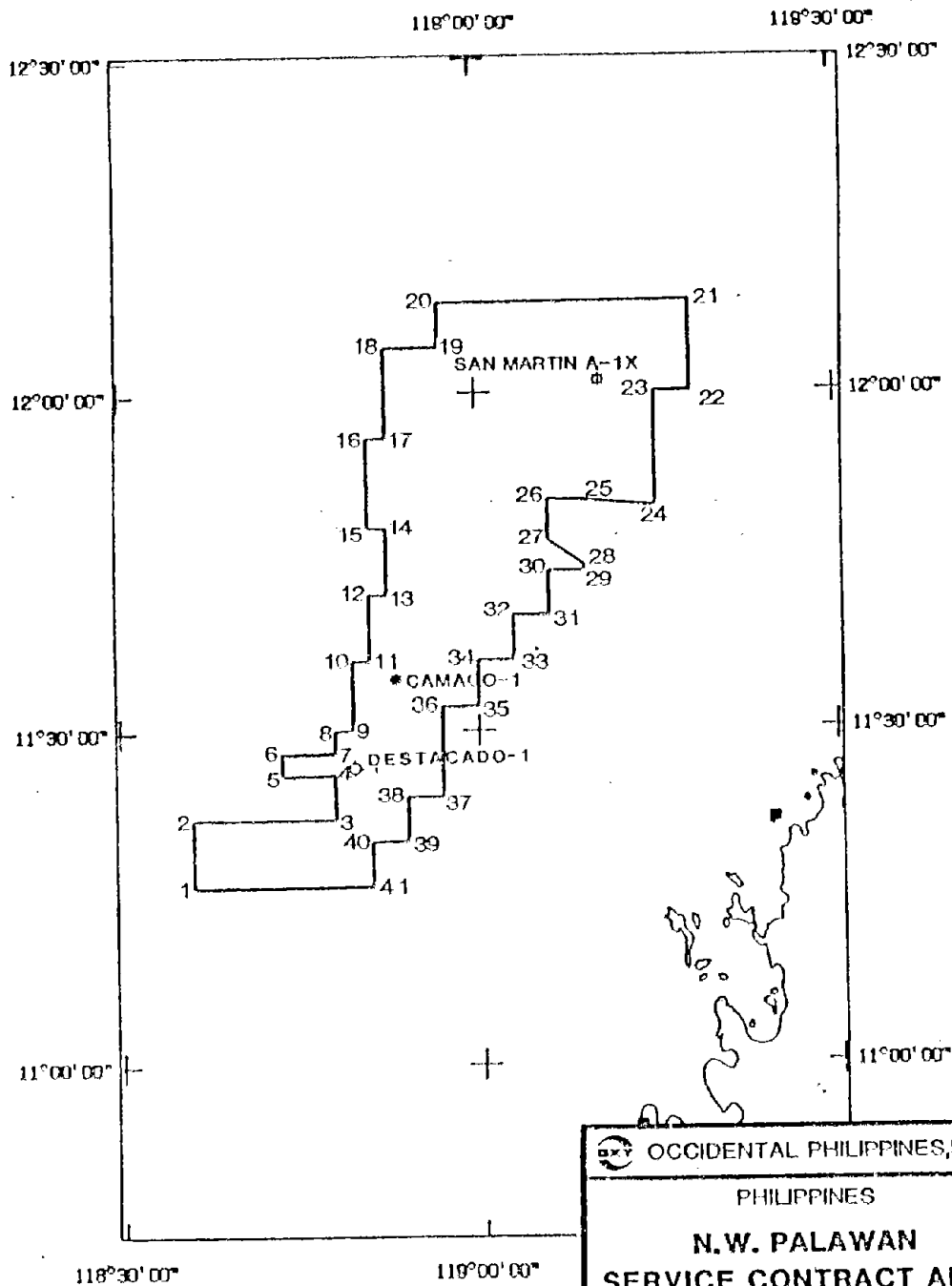



# ANNEX "A"

SCALE 1:1000000



 OCCIDENTAL PHILIPPINES, INC.		
PHILIPPINES		
<b>N. W. PALAWAN SERVICE CONTRACT AREA</b>		
AUTHOR	REVISION DATE	FILE NO.
DATE 11/78	WFLS _____ GFCO _____	
DRAFTSMAN	LAND _____ SEE _____	

PHILIPPINES N. W. PALAWAN

CONTRACT AREA COORDINATES

<u>CORNER</u>	<u>NORTH LATITUDE</u>	<u>EAST LONGITUDE</u>
1	11 DEG 16 MIN 00 SEC	118 DEG 36 MIN 00 SEC
2	11 DEG 22 MIN 00 SEC	118 DEG 36 MIN 00 SEC
3	11 DEG 22 MIN 00 SEC	118 DEG 48 MIN 00 SEC
4	11 DEG 26 MIN 00 SEC	118 DEG 48 MIN 00 SEC
5	11 DEG 26 MIN 00 SEC	118 DEG 43 MIN 30 SEC
6	11 DEG 28 MIN 00 SEC	118 DEG 43 MIN 30 SEC
7	11 DEG 28 MIN 00 SEC	118 DEG 48 MIN 00 SEC
8	11 DEG 30 MIN 00 SEC	118 DEG 48 MIN 00 SEC
9	11 DEG 30 MIN 00 SEC	118 DEG 49 MIN 30 SEC
10	11 DEG 36 MIN 00 SEC	118 DEG 49 MIN 30 SEC
11	11 DEG 36 MIN 00 SEC	118 DEG 51 MIN 00 SEC
12	11 DEG 42 MIN 00 SEC	118 DEG 51 MIN 00 SEC
13	11 DEG 42 MIN 00 SEC	118 DEG 52 MIN 30 SEC
14	11 DEG 48 MIN 00 SEC	118 DEG 52 MIN 30 SEC
15	11 DEG 48 MIN 00 SEC	118 DEG 51 MIN 00 SEC
16	11 DEG 50 MIN 00 SEC	118 DEG 51 MIN 00 SEC
17	11 DEG 56 MIN 00 SEC	118 DEG 52 MIN 30 SEC
18	12 DEG 04 MIN 00 SEC	118 DEG 52 MIN 30 SEC
19	12 DEG 04 MIN 00 SEC	118 DEG 57 MIN 00 SEC
20	12 DEG 09 MIN 00 SEC	118 DEG 57 MIN 00 SEC
21	12 DEG 08 MIN 00 SEC	119 DEG 18 MIN 00 SEC
22	12 DEG 09 MIN 00 SEC	119 DEG 18 MIN 00 SEC
23	12 DEG 00 MIN 00 SEC	119 DEG 15 MIN 00 SEC
24	11 DEG 49 MIN 48 SEC	119 DEG 15 MIN 00 SEC
25	11 DEG 50 MIN 27 SEC	119 DEG 08 MIN 33 SEC
26	11 DEG 50 MIN 27 SEC	119 DEG 06 MIN 00 SEC
27	11 DEG 46 MIN 45 SEC	119 DEG 06 MIN 00 SEC
28	11 DEG 44 MIN 30 SEC	119 DEG 09 MIN 00 SEC
29	11 DEG 44 MIN 00 SEC	119 DEG 09 MIN 00 SEC
30	11 DEG 44 MIN 00 SEC	119 DEG 06 MIN 00 SEC
31	11 DEG 40 MIN 00 SEC	119 DEG 06 MIN 00 SEC
32	11 DEG 40 MIN 00 SEC	119 DEG 03 MIN 00 SEC
33	11 DEG 36 MIN 00 SEC	119 DEG 03 MIN 00 SEC
34	11 DEG 36 MIN 00 SEC	119 DEG 00 MIN 00 SEC
35	11 DEG 32 MIN 00 SEC	119 DEG 00 MIN 00 SEC
36	11 DEG 32 MIN 00 SEC	118 DEG 57 MIN 00 SEC
37	11 DEG 24 MIN 00 SEC	118 DEG 57 MIN 00 SEC
38	11 DEG 24 MIN 00 SEC	118 DEG 54 MIN 00 SEC
39	11 DEG 20 MIN 00 SEC	118 DEG 54 MIN 00 SEC
40	11 DEG 20 MIN 00 SEC	118 DEG 51 MIN 00 SEC
41	11 DEG 16 MIN 00 SEC	118 DEG 51 MIN 00 SEC

APPROXIMATE AREA = 281,275 Ha.

18

Republic of the Philippines

OFFICE OF ENERGY AFFAIRS

Manila

ANNEX "B"

ACCOUNTING PROCEDURES

Attached to and made an integral part of the Contract between the OFFICE OF ENERGY AFFAIRS, OFFICE OF THE PRESIDENT and CONTRACTOR dated \_\_\_\_ day of \_\_\_\_\_, 19\_\_\_\_.

ARTICLE I - GENERAL PROVISIONS


1. A. Definitions

The Accounting Procedures herein provided for are to be followed and observed in the performance of all obligations under the Contract to which this Exhibit is attached. The terms appearing in this Annex "B" shall have the same meaning as those defined in the Contract.

B. For purposes of Article II, Paragraph 10 and 11, CONTRACTOR herein shall refer to the Operator who is the party designated in accordance with the CONTRACTOR's operating agreement to conduct the Operations in the Contract Area for the joint account of the CONTRACTOR.

2. Accounts and Currency Exchange

CONTRACTOR shall maintain accounting records for the Petroleum Operations in accordance with generally accepted accounting practices used in the petroleum



industry and in such a manner that all revenues and expenditures will be segregated or can be allocated to appropriate Contract Areas. All revenues and expenditures applicable to the Petroleum Operations shall be recorded in both U.S. and Philippine currencies. Any transactions between U.S. Dollars and Philippine Pesos shall be stated at the applicable exchange rate. For these purposes, the applicable exchange rate shall be Inter-bank Guiding Rate for U.S. Dollars as quoted by the Philippine National Bank, Manila at the close of business on the last banking day of the month of disbursement or receipt, or if there were no such quotations on that day, then such rates on the most recent day in such preceding month during which there were such quotations or on such other basis as may be agreed upon by the Parties. Provided, however, that in the event of a significant change in the rate of exchange after the end of the preceding month, then all transactions after such re-evaluations until the close of the accounting books of the preceding month, shall be translated at the rates in effect on the day of the significant change.

Any advances made, expenditures incurred or receipts realized in any currency other than Philippine Pesos or U.S. Dollars shall first be translated into U.S. Dollars at the average of T/T selling and buying rates in the New York money market at the date of transaction. If there were no such quotations on the date of transaction, then the average rate on the most recent date shall be applicable.

It is agreed, however, that any adjustment resulting from the exchange of currency required for the use of this Operation or from the translation above listed, shall be

D

charged or credited to the Operating Expense. The matter of translation rates will be reconsidered if it is determined that the above methods result in inequities.

3. Statements


In implementation of Section VII of the Contract, CONTRACTOR shall render to the OFFICE OF ENERGY AFFAIRS a statement of all charges and credits to the Operations summarized by appropriate classifications indicative of the nature thereof.

4. Adjustments

Subject to the provisions of Section 15.2 of the Contract, all statements rendered to the OFFICE OF ENERGY AFFAIRS by the CONTRACTOR during any Calendar Year shall conclusively be presumed to be true and correct and reasonable unless within the period provided in said section, the OFFICE OF ENERGY AFFAIRS takes written exception thereto and makes claim on CONTRACTOR for adjustment. Failure on the part of the OFFICE OF ENERGY AFFAIRS to make written claim on CONTRACTOR for adjustment within such period shall establish the correctness and reasonableness thereof and preclude the filing of exceptions thereto or making of claims for adjustment thereon.

5. Audits

Audits shall be conducted in the manner and at the times stipulated by Section 15.2 of the Contract.



6. Conflicts

If there should be any conflict between the provisions of this Accounting Procedure and the Contract, the latter shall control.

ARTICLE II - OPERATING EXPENSES

Subject to the provisions of the Contract and the limitations herein prescribed, CONTRACTOR shall charge the Operating Expenses with the following items:

1. Surface Rights

All direct costs attributed to the acquisition, renewal or relinquishment of surface rights acquired and maintained in force for the Operations hereunder when paid by the CONTRACTOR in accordance with the provisions of the Contract, except processing fees, bonuses, rentals and other payments made to the OFFICE OF ENERGY AFFAIRS and the costs attributed to posting the performance guarantee deposits required under this Contract.

2. Labor

A. Salaries and wages of CONTRACTOR's employees directly engaged for the benefit of the Operations in the exploration, development, maintenance and operation of the Contract Area. Salaries and wages shall include everything constituting gross pay to employees as reflected on the CONTRACTOR's payrolls.

To the extent not included in the salaries and wages the Operating Expenses shall also be charged with overtime, rest day pay holiday, vacation pay and

vacation travel pay, sickness and disability benefits, bonuses, and other customary allowances applicable to the salaries and wages chargeable hereunder and in Paragraph 10 of this Article II.

- B. Costs of expenditures or contributions made pursuant to assessments imposed by governmental authority which are applicable to CONTRACTOR's labor cost of salaries and wages as provided under Subparagraph 2A and Paragraph 10 of this Article II.

3. Employee Benefits

- A. For CONTRACTOR's employees participating under "Home Office based" benefit plans, CONTRACTOR's cost of established plans for employee's group life insurance, health insurance, pension retirement, thrift and other benefits of a like nature, shall be charged at a percentage rate based on CONTRACTOR's cost experience for the preceding year applied to the amount of salaries and wages chargeable under Subparagraph 2A and Paragraph 10 of this Article.
  - B. CONTRACTOR's employees participating in "non-home office based" benefit plans shall be charged at a percentage rate reflecting actual payments or accruals made by the CONTRACTOR applicable to such employees; actual payments against any amounts accrued will not be chargeable to the Operating Expenses.
  - C. CONTRACTOR's cost experience rates in 3B shall be redetermined during the first quarter of the following year, and charges to Operating Expenses will be adjusted accordingly.
- 8*

4. Material

Material, equipment, and supplies purchased or furnished by CONTRACTOR and subsequently used in the Operations and which are not classified as tangible investments under Paragraph 13 of this Article II. These materials, equipments and supplies shall be valued as follows:

- A. New Material, Equipment and Supplies Purchased (Condition A) shall be valued at "new price" which shall include such costs as export broker's fees, transportation charges, loading and unloading fees and license fees associated with procurement of materials and equipment, duties and customs fees and in-transit losses not recovered through insurance and installation cost.
- B. Good Used Material, Equipment and Supplies being used as material, equipment and supply in sound and serviceable condition suitable for reuse without reconditioning shall be valued at:
  1. Seventy-five percent (75%) of current new price of the said material, equipment and supplies if such was originally charged to operating expenses as new.
  2. Sixty-five percent (65%) of current new price if said material, equipment and supplies was originally charged to the Operating Expenses as second hand at seventy-five percent (75%) of new price.



C. Other Used Material, Equipment and Supplies

Used Material, equipment and supplies being used shall be valued at fifty percent (50%) of current new price.

1. If after reconditioning, said used material, equipment and supplies will be further serviceable for original function as good second hand material.
2. If said used material, equipment and supplies is serviceable for original function but substantially not suitable for reconditioning.

D. Bad Order Material and Equipment

Material and Equipment which are no longer usable for its original purpose without excessive repairs but are still usable for some other purposes shall be valued on a basis comparable with that of items normally used for that purpose.

E. Junks

Junks, being obsolete and scrap material, equipment and supplies shall be valued at prevailing prices.

F. Temporarily Used Materials, Equipment and Supplies

When the use of material, equipment and supplies is temporary and its services does not justify the reduction in price as provided in Paragraph B(2) above, such material, equipment and supplies shall be priced on the basis that will leave a net charge to Operating Expenses consistent with the value of the service rendered.

So far as it is reasonable, practical and consistent with efficient and economical operation, only such material shall be purchased for or transferred for use in the Operations as may be required for immediate use; and the accumulation of surplus stocks shall be avoided. CONTRACTOR does not warrant the materials purchased for the Petroleum Operations, and in case of defective materials, credit shall not be passed until adjustment has been received by the CONTRACTOR from the manufacturer or its agents. CONTRACTOR agrees that it shall exercise good business judgment and good faith in pursuing warranties and guarantees received from the manufacturer of defective materials or its agents.

5. Transportation

Transportation of employees, equipment, material and supplies necessary for the Operations: Employees' transportation cost will include travel costs for employees and their families paid by CONTRACTOR in conformity with CONTRACTOR's established Policy Manual. Transportation costs for returning an employee and his family to their Country of Origin shall be chargeable to the Operating Expenses provided that Operating Expenses shall not be charged expenses incurred in moving an employee beyond his point of origin established at the time of his transfer to the Philippines.

6. Services

A. Outside Services: The cost of consultants, contract services and utilities procured from outside sources including all such services as are rendered in connection with geological, geophysical, drilling and development activities.

B. In the event the CONTRACTOR from time to time utilizes skilled personnel not regularly residing in the Philippines for performance of services either in the Philippines or elsewhere for benefit of the Petroleum Operations whose time in full or in part is not otherwise charged hereunder, a proper proportion of the direct and indirect salary and travel expenses of such personnel (including reasonable living expenses while in the Philippines) together with any taxes on such salaries or otherwise imposed upon the employee's service in the Philippines which are payable to the Philippine Government and for which the CONTRACTOR assumed responsibility, and any accident or sickness compensation and/or hospitalization cost incurred shall be charged to Operating Expenses.

C. Data processing and computer services acquired for the direct benefit of the Operations may be contracted through third parties or by arrangement for time rental of computer services from the CONTRACTOR's affiliates even though such computer facilities are physically located outside the country. In either case, contract for computer services must be competitively priced. Charges to the Operating Expenses under this provision for services directly benefiting the Operations shall be in addition to any charges allowed under Paragraph 10 and 11 of this Article II.

D. Use of Exclusively Owned Facilities

1. Equipment owned by the second party/parties or any Affiliate or either of them, and not previously charged to the Operating Expenses,

either directly or indirectly, may be utilized in the Operations. For the use of any such wholly-owned equipment, the Operating Expenses shall be charged a rental rate commensurate with the cost of ownership and operation, but not to exceed commercial rates for the use of like equipment.

2. A fair rate shall be charged for laboratory services performed by the second party/parties or their Affiliates for the benefit of the Petroleum Operations, such as but not limited to gas, water, core and any other analyses and tests provided such charges shall not exceed those currently prevailing if performed by outside technical service companies.

E. Charges to the Operating Expenses for technical services as contemplated by Paragraph 6B and 6C and 6D above shall be included on the basis upon which overhead charges are applied under Paragraph 11 of this Article II.


7. Damage and Losses

All costs or expenses necessary to replace or repair damages or losses not recovered from insurance incurred by fire, flood, storm, theft, accident, or any other cause not controllable by CONTRACTOR through the exercise of reasonable diligence. CONTRACTOR shall furnish the OFFICE OF ENERGY AFFAIRS written notice of damages or losses incurred as soon as practicable after report of the same has been received by CONTRACTOR.

8. Legal Expenses

All costs and expenses of litigation, or legal service otherwise necessary or expedient for the protection of the joint interests, including attorney's fees and expenses as hereinafter provided, together with all judgments obtained against the Parties or any of them on account of the Petroleum Operations, and actual expenses incurred in securing evidence for the purpose of defending against the Operations or the subject matter of the Contract. In the event actions or claims affecting interests under the Contract shall be handled by the legal staff not otherwise charged to Operating Expenses of one or more of the Parties, a charge commensurate with cost of providing and furnishing such services may be made against the Operating Expenses.

9. Insurance and Claims

- A. Premiums paid for insurance required to be carried for the Petroleum Operations conducted under the Contract, together with all the expenditures incurred and paid in settlement of any and all losses, claims, damages, judgments, and other expenses, including legal services not recovered from insurance carrier.
- B. All actual expenditures incurred and paid by CONTRACTOR in settlement of any and all losses, claims, damages, judgments, and any other expenses not covered by insurance, including legal services, shall be charged to the Operating Expenses. 

10. Administrative Costs - Inside the Philippines

A. Principal office as used herein means costs and expenses incurred by the CONTRACTOR for an office and staff established in Manila which may serve all activities in the Philippines including the Petroleum Operations under the Contract. Allocation of such costs and expenses between the CONTRACTOR's other activities and Petroleum Operations activities hereunder shall be made on actual expenditures or other equitable basis. Examples of such Principal Office services which are chargeable to the Operations include, but are not necessarily limited to the following:

- (a) Local manager and staff
- (b) Accounting
- (c) Legal
- (d) Personnel Administration
- (e) Communications
- (f) Purchasing

B. District Office(s) - as used herein mean cost and expenses incurred by the CONTRACTOR for an office(s) which may be established to serve the Operations at the vicinity of the Operations. Allocation of such costs and expenses between the CONTRACTOR's other activities and the Operations activities hereunder shall be made on actual expenditures or other equitable basis. Examples of such District Office(s) services which are chargeable to the Operations include, but are not necessarily limited to the following:

- (a) Field or District Superintendent and Staff
- (b) Geological and geophysical staffs
- (c) Engineering and production staffs
- (d) Communication
- (e) Camp and Commissary Facilities
- (f) Clerical Staff

11. Administrative Costs - Outside the Philippines

- A. CONTRACTOR'S administrative overhead outside the Philippines applicable to Operations shall be charged each month on the following percentages of adjusted net expenditures:

For first Two Million United States Dollars (U.S. \$2,000,000) per year - three percent (3%) but not less than Six Thousand United States Dollars (U.S. \$6,000) per year. For the next One Million United States Dollars (U.S. \$1,000,000) per year - two percent (2%). Over Three Million United States Dollars (U.S. \$3,000,000) per year - one percent (1%).

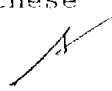
- B. Net expenditures for purposes of applying the Percentage charges stipulated in Subparagraph 11A above shall be adjusted to exclude the following:

1. Administrative overhead charged under 11A above.
2. The signature bonus and payments made in accordance with Section XVII and the costs attributable to the posting of performance guarantee deposits and rental payable under Section 4.4 of the Contract.

3. Surface taxes and rentals.
4. Major construction projects covered by LLC below.
5. Settlements of judgments or claims in excess of U.S. \$5,000 per transaction.
6. Credits received from sale of assets (including division in kind) amounting to more than U.S. \$ 5,000 per transaction.
7. Foreign exchange adjustments.
8. Pipeline tariff costs paid to outsider.

C. A fee for CONTRACTOR's Administrative Costs for major construction projects such as but not limited to offshore platforms, pipelines, gas and/or water repressuring and processing plants, tanker loading and terminal facilities, shall be agreed to by the Parties. If CONTRACTOR also performs engineering and design services outside of the Philippines for such major construction projects, the CONTRACTOR shall be entitled to charge the Operating Expenses a service fee agreed to by the Parties.

D. Cost studies will be performed, at least on an annual basis, to verify that the costs charged for administrative overhead and personnel costs equitably compensate the CONTRACTOR for actual costs incurred in that Year and that there is no over or under-recovery of such costs from the Service Contract. Upon the request of either Party, these





costs shall be reviewed and future charges adjusted so that actual costs are recovered. Notwithstanding any other clause, it is the intention of both Parties to this Contract that CONTRACTOR shall neither profit nor lose through the carrying out of its duties and with particular reference to the expenses it incurs in its home office for personnel and administrative costs.

12. Other Expenditures

Any expenditures, other than expenditures which are covered and dealt with by the foregoing provisions of this Article II, necessarily incurred by the CONTRACTOR for the Operations hereunder.

13. Recovery of Capital Expenditures

A. Tangible Investment

The initial cost of physical assets classified as depreciable in accordance with generally accepted petroleum industry accounting principles purchased, fabricated by and/or for the CONTRACTOR, and used by CONTRACTOR in its Operation shall include such costs as export broker's fees, purchasing agent's fees, transportation charges, loading and unloading fees, licenses fees associated with the procurement of materials and equipment, duties and customs fees, in-transit losses not recovered through insurance and installation costs necessary to put the asset ready for use. The total cost of the assets shall be allocated to Operating Expenses over a five (5) year period under the straight-line or

double-declining balance method, at the option of CONTRACTOR, beginning in the Calendar Year in which Petroleum production starts or in the Calendar Year in which the costs are incurred whichever is latter.

B. Intangible Investment

Notwithstanding any other provision of this Accounting Procedure and Contract, all intangible investments shall be reimbursed in full.

C. Leasehold Improvements

Improvements or betterments on leaseholds which can be capitalized in accordance with generally accepted petroleum industry accounting practice shall be allocated to Operating Expenses in accordance with depreciation principles established in Paragraph 13A above. Such improvements shall include but not be limited to office improvements, additional equipment and other improvements installed on a ship operated under a bareboat charter, etc.

14. Interest

Any interest or other consideration paid or suffered in respect of the financing as approved by the Government of its development and production operations, shall be considered Operating Expenses to the extent of two-thirds (2/3) of the amount thereof, except interest on loans or indebtedness incurred to finance exploration operations.

MEMORANDUM OF CLARIFICATION

This Memorandum of Clarification, executed on this 11<sup>th</sup> day of December, 1990, in the City of Manila, Philippines, by and between:

THE GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES, hereinafter referred to as the "GOVERNMENT", represented in this document by Her Excellency Corazon C. Aquino, President, Republic of the Philippines,

and

OCCIDENTAL PHILIPPINES, INC., represented by Carlos A. Contreras, Vice President and Resident Manager of Occidental Philippines, Inc., signing by authority of the Board of Directors of said Corporation,

and

SHELL EXPLORATION B. V., represented by W. A. Loader, Chief Executive of the Shell Companies of the Philippines, for this purpose empowered under a special Power of Attorney issued by Shell Exploration B. V.

OCCIDENTAL PHILIPPINES, INC., and SHELL EXPLORATION B. V., shall hereinafter be referred to as the "Contractor". The GOVERNMENT and the Contractor shall hereinafter be collectively referred to as the "Parties".

W I T N E S S E T H:

WHEREAS, by virtue of that certain Farm-Out Agreement dated June 29, 1990, which agreement was approved by the Office of Energy Affairs on July 19, 1990, Occidental Philippines, Inc., assigned 50% of its interest in Geophysical Survey and Exploration Contract (GSEC) 47 to Shell Exploration B. V., with the latter thereby assuming operatorship. For all legal intents and purposes, Occidental Philippines, Inc., and Shell Exploration B. V. shall now form the second party to said GSEC as the "Contractor" and assume jointly and severally all the obligations under the same GSEC; and


WHEREAS, the Parties are interested in entering into a Service Contract for the exploration and development of Petroleum which contract is to be made effective as of February 23, 1989; and

WHEREAS, a model of said Service Contract had been attached to GSEC 47 between the Parties dated February 23, 1988, and had been written against the background of the possible discovery and subsequent development of Crude Oil; and

WHEREAS, Contractor has discovered Natural Gas and intends to explore for additional Natural Gas as part of the Petroleum Operations envisaged under the Service Contract; and

WHEREAS, the Parties wish to clarify certain provisions in the Service Contract to ensure the applicability thereof when it is decided to develop, produce and sell Natural Gas.

NOW, THEREFORE, in consideration of the mutual undertakings contained in the Service Contract, the Parties agree on the following clarifications:



1. In Section 2.20, "Petroleum" includes Natural Gas as defined in Section 2.18.

In Section 2.22, "Petroleum Operations" includes both transportation of Natural Gas by pipeline up to final delivery point to the buyer or buyers thereof and facilities upstream of the sales point for extraction of liquid hydrocarbons from Natural Gas.

2. The Contractor is authorized to market to National Power Corporation on behalf of the GOVERNMENT the GOVERNMENT's share of Natural Gas produced and saved from the Contract Area, and also may be authorized to market additional volumes to other domestic buyers.

3. With respect to Sections 6.1(m) and 10.1, if very large volumes of Natural Gas are discovered, the GOVERNMENT will consider the option of committing all or part of those volumes for export if this is demonstrated to be more advantageous than supplying Natural Gas to the domestic market. Should the GOVERNMENT decide to allow exportation of Natural Gas, the Contractor shall be allowed to enter into export contracts, the volumes of gas committed thereunder being exempt from any domestic supply requirements.

4. With respect to Sections of the Service Contract which involve the Central Bank, the attached letters ~~is~~ <sup>are</sup> *see* hereby incorporated by reference to clarify said *WAL* Sections.

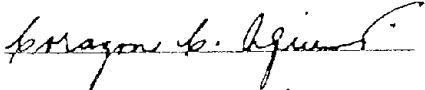
5. It is acknowledged that, for operational reasons, the Contractor will be unable to drill the Contract Year 2 *to*

\* See Letters both dated November 23, 1990 of the Central Bank Governor to Occidental Philippines Inc. and Shell International Petroleum

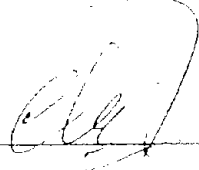
obligation well prior to the end of that Contract Year. Accordingly, the Contractor will drill at least two wells during Contract Year 3 and has the intention to spud the first well in the first Quarter thereof. It is agreed by the GOVERNMENT that the first of such two wells, if so drilled, will satisfy the obligations of Contract Year 2 without penalty of default. Beginning January 23, 1991, Contractor shall submit bimonthly reports of its efforts to drill the Contract Year 2 well.

IN WITNESS WHEREOF, the Parties have executed this MEMORANDUM OF CLARIFICATION as of the day and year first above written.

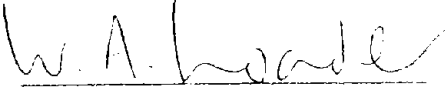
GOVERNMENT OF THE REPUBLIC  
OF THE PHILIPPINES

  
Name: Corazon C. Aquino  
Title: President

OCCIDENTAL PHILIPPINES, INC.

  
Name: Carlos A. Contreras  
Title: Vice President and  
Resident Manager

SHELL EXPLORATION B. V.

  
Name: W. A. Loader  
Title: Chief Executive  
Shell Companies in the  
Philippines

# Central Bank of the Philippines



MANILA

OFFICE OF THE GOVERNOR

November 23, 1990

Mr. John M. Allen  
Vice President  
Occidental Philippines, Inc.  
1200 Discovery Drive  
Box 1202J Bakersfield  
CA 93389-2021

Dear Mr. Allen:

Please be informed that the Monetary Board, under its Resolution No. 1258 dated November 23, 1990, has confirmed your discussions with us and accordingly endorses Section 6.2 (h) of the Service Contract to be entered into between the Government of the Republic of the Philippines, Occidental Philippines, Inc. and Shell Exploration B. V.

The Central Bank acknowledges that Section 6.2 (h) is based on the law (Section 13, Presidential Decree No. 87) but does not preclude operation of Sec. 74 of the Central Bank Charter.

The implementation of the rights under said Sec. 6.2 (h) (3) requires validation of the amounts concerned by the Office of Energy Affairs (OEA) before approval and registration by the Central Bank within the prescriptive period of ninety (90) days from date of inward remittance of foreign exchange and conversion into pesos.

You are aware that the allocation of foreign exchange is the responsibility of the private banking system, with whom you are advised to make the necessary arrangements directly. The Central Bank shall, if necessary, render assistance to these banks reflecting the priority and strategic nature of this project subject to Sec. 74 of the Central Bank Charter.

We confirm that the Central Bank attaches the highest priority to the N.W. Palawan natural gas project and acknowledges the substantial foreign exchange benefits that may ensue therefrom for the country.

The Central Bank will, therefore, use its best endeavors within the law and regulations to assist you in exercising the rights under Sec. 6.2 (h) of the Service Contract or pursuing alternative ways and means to enable the project to be completed and operated without interruption to the benefit of the pertinent parties concerned.

*Handwritten initials and signature:*  
H  
W  
R

Finally, the Central Bank is aware that the Service Contract maintains a provision in the Accounting Procedure [Article II (14) which allows that two thirds of the cost of any borrowing may be recovered out of Cost Oil (Cost Gas)].

To ensure that these costs are in line with borrowing costs as they prevail at the time in the market, the prior approval of the Central Bank is required. Such approval will be based on the following acceptable terms:

1. Maturity/Interest Rate

Foreign loans shall have maturities and interest rates reflective of prevailing conditions in the international capital markets. Appropriate grace periods shall be imposed considering, among others, the project's gestation period and the foreign loans' impact on the statutory debt service ratio. Total approvals shall, however, be in accordance with limits for each maturity category to be set by the Monetary Board.

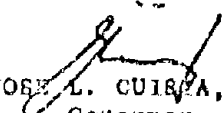
2. Commitment Fee

Maximum commitment fee of 1/2% based on the undrawn balance of the loan.

3. Front-end and Other Fees

A maximum of 1% for all front-end fees and other similar financing charges such as management/syndication/participation/utilization fees.

Very truly yours,

  
JOSE L. CUISA, JR.  
Governor

*WZ*  
*ABC*



*Central Bank of the Philippines*

MANILA

OFFICE OF THE GOVERNOR

November 23, 1990

Mr. R. Feith  
Head Concessions Division  
Exploration and Production  
Shell Internationale Petroleum Maatschappij B.V.  
P.O. Box 162  
2501 AN The Hague

Dear Mr. Feith:

Please be informed that the Monetary Board, under its Resolution No. 1258 dated November 23, 1990, has confirmed your discussions with us and accordingly endorses Section 6.2 (h) of the Service Contract to be entered into between the Government of the Republic of the Philippines, Occidental Philippines, Inc. and Shell Exploration B. V.

The Central Bank acknowledges that Section 6.2 (h) is based on the law (Section 13, Presidential Decree No. 87) but does not preclude operation of Sec. 74 of the Central Bank Charter.

The implementation of the rights under said Sec. 6.2 (h) (3) requires validation of the amounts concerned by the Office of Energy Affairs (OEA) before approval and registration by the Central Bank within the prescriptive period of ninety (90) days from date of inward remittance of foreign exchange and conversion into pesos.

You are aware that the allocation of foreign exchange is the responsibility of the private banking system, with whom you are advised to make the necessary arrangements directly. The Central Bank shall, if necessary, render assistance to these banks reflecting the priority and strategic nature of this project subject to Sec. 74 of the Central Bank Charter.

We confirm that the Central Bank attaches the highest priority to the N.W. Palawan natural gas project and acknowledges the substantial foreign exchange benefits that may ensue therefrom for the country.

The Central Bank will, therefore, use its best endeavors within the law and regulations to assist you in exercising the rights under Sec. 6.2 (h) of the Service Contract or pursuing alternative ways and means to enable the project to be completed and operated without interruption to the benefit of the pertinent parties concerned.

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Finally, the Central Bank is aware that the Service Contract maintains a provision in the Accounting Procedure [Article II (14) which allows that two thirds of the cost of any borrowing may be recovered out of Cost Oil (Cost Gas)].

To ensure that these costs are in line with borrowing costs as they prevail at the time in the market, the prior approval of the Central Bank is required. Such approval will be based on the following acceptable terms:

1. Maturity/Interest Rate

Foreign loans shall have maturities and interest rates reflective of prevailing conditions in the international capital markets. Appropriate grace periods shall be imposed considering, among others, the project's gestation period and the foreign loans' impact on the statutory debt service ratio. Total approvals shall, however, be in accordance with limits for each maturity category to be set by the Monetary Board.


2. Commitment Fee

Maximum commitment fee of 1/2% based on the undrawn balance of the loan.

3. Front-end and Other Fees

A maximum of 1% for all front-end fees and other similar financing charges such as management/syndication/participation/utilization fees.

Very truly yours, *N*

  
JOSE L. CUISIA, JR.  
Governor

# Central Bank of the Philippines



MANILA

OFFICE OF THE GOVERNOR

November 23, 1990

Mr. John H. Allen  
Vice President  
Occidental Philippines, Inc.  
1200 Discovery Drive  
Box 1202J Bakersfield  
CA 93389-2021

Dear Mr. Allen:

Please be informed that the Monetary Board, under its Resolution No. 1258 dated November 23, 1990, has confirmed your discussions with us and accordingly endorses Section 6.2 (h) of the Service Contract to be entered into between the Government of the Republic of the Philippines, Occidental Philippines, Inc. and Shell Exploration B. V.

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*[Handwritten initials]*  
*[Handwritten signature]*

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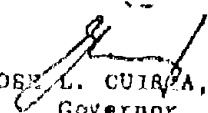
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Very truly yours,

  
JOSE L. CUIRA, JR.  
Governor

*Mr  
RBC*

# Central Bank of the Philippines

MANILA

OFFICE OF THE GOVERNOR

November 23, 1990

Mr. R. Feith  
Head Concessions Division  
Exploration and Production  
Shell Internationale Petroleum Maatschappij B.V.  
P.O. Box 162  
2501 AN The Hague

Dear Mr. Feith:

Please be informed that the Monetary Board, under its Resolution No. 1258 dated November 23, 1990, has confirmed your discussions with us and accordingly endorses Section 6.2 (h) of the Service Contract to be entered into between the Government of the Republic of the Philippines, Occidental Philippines, Inc. and Shell Exploration B. V.

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JOSE L. CUISIA, JR.  
Governor.