

Office of Energy Affairs

REPUBLIC OF THE PHILIPPINES

OFFICE OF THE PRESIDENT

Manila

SERVICE CONTRACT

THIS CONTRACT, made and entered into this 11th day
of December 19 90, in the City of Manila, by and
between the GOVERNMENT OF THE REPUBLIC OF THE PHILIPPINES, as
First Party, hereinafter referred to as the "GOVERNMENT" and
OCCIDENTAL PHILIPPINES, INC. and SHELL EXPLORATION B. V., as
Second Party, hereinafter referred to as "CONTRACTOR". In the
implementation of this Contract, the GOVERNMENT shall act
through and be represented by the OFFICE OF ENERGY AFFAIRS.
The GOVERNMENT and/or the OFFICE OF ENERGY AFFAIRS and
CONTRACTOR are hereinafter referred to collectively as the
"PARTIES".

W I T N E S S E T H

WHEREAS, all petroleum, crude oil, crude natural gas and/or
casinghead petroleum spirit of the Philippines belong to the
State and their disposition, exploration, development,
exploitation and utilization are governed by Presidential
Decree No. 87, as amended, otherwise known as the Oil
Exploration and Development Act of 1972 and Section 2,
Article XII of the 1987 Constitution;

WHEREAS, Section 2, Article XII of the 1987 Constitution
provides that the President may enter into agreements with
foreign-owned corporations involving either technical or
financial assistance for large-scale exploration, development
and utilization of, among others, petroleum and other mineral
oils according to the general terms and conditions provided by
law, based on real contributions to the economic growth and
general welfare of the country and for the promotion of the
development and use of local scientific and technical resources.

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WHEREAS, the Oil Exploration and Development Act of 1972, as amended (hereinafter called "The Act"), declares it to be the policy of the State to hasten the discovery and production of indigenous petroleum through the utilization of GOVERNMENT and/or private resources, local and foreign; and


WHEREAS, under the provisions of the Act, the Government of the Republic of the Philippines may explore for and produce indigenous petroleum under a Service Contract as provided in the Act, subject to the requirements prescribed in Section 2, Article XII, of the 1987 Constitution; and

WHEREAS, in the pursuance of its above-stated policy, the GOVERNMENT, acting through the OFFICE OF ENERGY AFFAIRS, wishes to avail itself of the resources of the CONTRACTOR through a Service Contract under which CONTRACTOR will furnish the necessary technology and financing, including the required services and will provide services for the Petroleum Operations, hereinafter defined, and will assume all exploration risks. The conduct of the Petroleum Operations shall be under the full control and supervision of the Office of Energy Affairs; and

WHEREAS, CONTRACTOR wishes to enter into such a Service Contract governing the Contract Area as hereinafter defined; and

WHEREAS, CONTRACTOR has the financial resources and technical competence as well as the professional skills necessary to carry out the Petroleum Operations;

NOW, THEREFORE, in consideration of the sum of One Hundred Fifty Thousand United States Dollars (U.S. \$150,000) in hand paid, the receipt and sufficiency of which is hereby acknowledged, and of the mutual covenants and the conditions herein contained, it is hereby stipulated and agreed as follows:




SECTION I


SCOPE

- 1.1 This Contract is a Service Contract entered into pursuant to Section 7 of the Act with all necessary technology and financing, as well as the required services to be furnished by CONTRACTOR in accordance with the provisions herein contained. The CONTRACTOR shall undertake and execute the Petroleum Operations contemplated hereunder under the full control and supervision of the OFFICE OF ENERGY AFFAIRS.
- 1.2 CONTRACTOR shall be responsible to the OFFICE OF ENERGY AFFAIRS for the execution of such Operations in accordance with the provisions of this Contract, and is hereby appointed and constituted the exclusive party to conduct the Petroleum Operations. In the event more than one (1) party comprises the Second Party, the OFFICE OF ENERGY AFFAIRS shall have the right to require performance of any or all obligations under this Contract against any or all of the Second Party.
- 1.3 CONTRACTOR shall assume all exploration risks such that if no Petroleum in Commercial Quantity is discovered and produced, it will not be entitled to reimbursement.
- 1.4 During the term of this Contract, the total production achieved in the conduct of such Operations shall be accounted for between the Parties in accordance with Section VII hereof.

SECTION II

DEFINITIONS

In the text of this Contract, the words and terms defined in Section 3 of the Act shall, unless otherwise specified herein, have meaning in accordance with such definitions. 

- 2.1 Affiliate means (a) a company in which a CONTRACTOR holds directly or indirectly at least fifty percent (50%) of its outstanding shares entitled to vote; or (b) a company which holds directly or indirectly at least fifty percent (50%) of the CONTRACTOR's outstanding shares entitled to vote; or (c) a company in which at least fifty percent (50%) of its shares outstanding and entitled to vote are owned by a company which owns directly or indirectly at least fifty percent (50%) of the shares outstanding and entitled to vote of the CONTRACTOR.
- 2.2 Barrel means forty-two (42) U.S. gallons or nine thousand seven hundred two (9,702) cubic inches at a temperature of sixty degrees (60°) Fahrenheit.
- 2.3 Calendar Year or Year means a period of twelve (12) consecutive months, commencing with January 1 and ending on the following December 31, according to the Gregorian Calendar.
- 2.4 Casinghead Petroleum Spirit means any liquid hydrocarbons obtained from natural gas by separation or by any chemical or physical process.
- 2.5 Contract means the Service Contract.
- 2.6 Contract Area means, at any time, the Area within the mining territory of the Republic of the Philippines which is the subject of this Contract. The Contract Area is outlined and more particularly described in Annex "A" attached hereto.
- 2.7 Contract Year means a period of twelve (12) consecutive months according to the Gregorian Calendar counted from the Effective Date of this Contract and thereafter from the anniversary of such Effective Date.
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- 2.8 Crude Oil Exported shall include not only Crude Oil exported as such but also indigenous Crude Oil refined in the Philippines for export.
- 2.9 Crude Oil or Crude means oil in its natural state before the same has been refined or otherwise treated. It does not include oil produced through destructive distillation of coal, bituminous shales or other stratified deposits, either in its natural state or after the extraction of water and sand or other foreign substances therefrom.
- 2.10 Deepwater Contract refers to a service contract at least eighty-five percent (85%) of the total contract area are in water depths beyond 200 meters.
- 2.11 Deepwater Contractor means the contractor in a deepwater contract, whether acting alone or in consortium with others.
- 2.12 Deepwater Well refers to a well drilled on water depths beyond 200 meters, whether within or without a deepwater contract.
- 2.13 Effective Date means February 23, 1989.
- 2.14 Foreign Exchange means currency other than that of the Republic of the Philippines that are freely convertible into gold or currencies eligible to form part of the country's international reserves acceptable to the OFFICE OF ENERGY AFFAIRS and to the CONTRACTOR.
- 2.15 Government means the Government of the Republic of the Philippines.

- 2.16 Gross Income means the gross proceeds from the sale of crude, natural gas or casinghead petroleum spirit produced under the Contract and sold during the taxable year at Posted or Market Price, as the case may be, all as determined pursuant to Section VII, and such other income which are incidental to and arising from any one or more of the Petroleum Operations of the CONTRACTOR.
- 2.17 Market Price means the price which would be realized for Crude Oil or Petroleum produced under this Contract if sold in a transaction between independent persons dealing at arm's length in a free market.
- 2.18 Natural Gas means gas obtained from boreholes and wells and consisting primarily of hydrocarbons.
- 2.19 Operating Expenses means the total expenditures incurred by the Operator both within and without the Philippines in Petroleum Operations pursuant to this Contract and the Geophysical Survey Contract which is the predecessor to this Contract as determined in accordance with the Accounting Procedure attached hereto and made part hereof as Annex "B". These expenses will include, but not be limited to, the cost of seismic surveys, geological studies, drilling and equipping wells, engineering studies, construction of well platforms, tank (batteries), pipelines, systems and terminals and the cost of operating and maintaining all such facilities.
- 2.20 Petroleum means any mineral oil, hydrocarbon gas, bitumen, asphalt, mineral gas and all other similar or naturally associated substances with the exception of coal, peat, bituminous shale and/or other stratified mineral fuel deposits.
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2.21 Petroleum in Commercial Quantity means Petroleum in such quantities which will permit its being economically developed as determined jointly by the CONTRACTOR and the OFFICE OF ENERGY AFFAIRS after taking into consideration the location of the reserves, the depths and number of wells required to be drilled and the transport and terminal facilities needed to exploit the reserves which have been discovered.

2.22 Petroleum Operation or Operations means searching for and obtaining Petroleum within the Philippines through drilling and pressure or suction or the like, and all other operations incidental thereto. It includes the transportation, storage, handling and sale (whether for export or domestic consumption) of Petroleum so obtained but does not include any (1) transportation of Petroleum outside the Philippines; (2) processing or refining at a refinery; or (3) any transactions in the products so refined.

2.23 Philippine Corporation means a corporation organized under Philippine Laws at least sixty percent (60%) of the capital of which is owned and held by citizens of the Philippines.

2.24 Philippine Income Tax means all taxes imposed by the National Internal Revenue Code of the Philippines upon taxable corporate income, including withholding taxes on dividends and distribution or remittances of profit.

2.25 Filipino Participation Incentive Allowance means the sliding scale allowance granted CONTRACTOR when participation in the Contract Area by one (1) or more Philippine citizens and/or one (1) or more Philippine corporations is between fifteen percent (15%) and thirty percent (30%).

- 2.26 Posted Price means the FOB price established by the CONTRACTOR and the OFFICE OF ENERGY AFFAIRS for each grade, gravity and quality of Crude Oil offered for sale to buyers, generally for export at the particular point of export, which price shall be based upon geographical location and the fair market export values for Crude Oil of comparable grade, gravity and quality.
- 2.27 Production Area means that portion of the Contract Area where all reservoirs containing Petroleum in Commercial Quantity are delineated by the CONTRACTOR in consultation with the OFFICE OF ENERGY AFFAIRS.
- 2.28 Taxable Net Income means the Gross Income less the deductions provided in Section 8.1 below.

SECTION III

TERM

- 3.1 The exploration period under this Contract shall be seven (7) years from the Effective Date, automatically extendible for three (3) years if (a) the CONTRACTOR has not been in default in its exploration work obligations and other obligations; (b) has drilled to a combined subsea depth a minimum of at least thirty-five thousand (35,000) feet of test wells and (c) has provided a work obligation for the extension of one (1) well per year after which time this Contract shall automatically terminate unless Petroleum has been discovered by the end of the tenth year. If Petroleum is discovered by the end of the tenth year, this Contract shall be further extended to determine whether the discovery is in commercial quantity, in which event, another extension not exceeding five (5) years shall freely be granted upon

a satisfactory showing to the OFFICE OF ENERGY AFFAIRS that the work program, to be conducted to determine whether the discovery is in commercial quantity, justifies the period for extension. This extension shall be credited as part of the initial twenty-five (25) years production term, if the Area is subsequently developed by CONTRACTOR.

3.2 Where Petroleum in Commercial Quantity is discovered during the exploration period, this Contract shall, as to any Production Areas delineated pursuant to Section 6.1(b) below, remain in force during the balance of the exploration period or any extension thereof and for an additional period of twenty-five (25) years, thereafter renewable for a period not exceeding fifteen (15) years under such terms and conditions as may be granted upon by the Parties at the time of the renewal.

3.3 In the event CONTRACTOR has drilled an Option Well pursuant to Section 3.1 of the Geophysical Survey Contract, the Option Well shall be deemed as satisfying the Work Commitment and Amount for Contract Year 1, pursuant to the Work Program outlined in Section 5.1 of this Service Contract. Further, the effectiveness of this Contract shall relate back to the first day of the thirteenth (13) month after the Effective Date of the Geophysical Survey Contract.

In the event the Moratorium Period of the Geophysical Survey Contract or this Service Contract is invoked, the Work Program of Section 5 of this Contract shall be suspended for an equal period of time and the obligations of CONTRACTOR under this Service Contract shall be treated without accumulation.


3.4 In the event CONTRACTOR drills more than one (1) well and discovers Petroleum in sufficient quantity that could ordinarily be commercially produced except that, due to inadequate technology, the capability to produce the Petroleum in Commercial Quantities does not yet exist, then CONTRACTOR shall so notify the OFFICE OF ENERGY AFFAIRS and the parties will jointly review the findings of CONTRACTOR. Upon mutual satisfaction that technological means to extract the Petroleum in Commercial Quantities does not yet exist, the term of this Service Contract shall be stayed for a period of five (5) years ("Moratorium Period"). The decision as to whether a Moratorium Period is justified, shall be based, inter alia, on projects and operations found elsewhere in the world at comparable depths and conditions to those encountered by CONTRACTOR under this Contract. During the Moratorium Period, CONTRACTOR shall actively pursue the necessary research, by itself or in joint industry studies, to develop the technology necessary to produce the discovered Petroleum in Commercial Quantities. The CONTRACTOR shall annually report to the OFFICE OF ENERGY AFFAIRS its progress in developing the requisite technology. If during the Moratorium Period technology has developed sufficiently to allow Petroleum in Commercial Quantities to be produced, the CONTRACTOR must elect to either continue with its obligations under this Contract or abandon the Area without further commitment or requirement under this Contract.

SECTION IV

EXCLUSION OF AREAS

4.1 On or before the end of the fifth (5th) Contract Year, CONTRACTOR shall surrender twenty-five percent (25%) of the initial Contract Area.

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- 4.2 On or before the end of the initial seven (7) years exploration period, if CONTRACTOR elects to extend the period for an additional three (3) years, CONTRACTOR shall surrender an additional area equal to twenty-five percent (25%) of the initial Contract Area.
- 4.3 In the event that CONTRACTOR has delineated any Production Areas pursuant to Section 6.1(b) below, the extent of such Production Areas shall be deducted from the initial Contract Area for the purpose of determining the size of such area that must be surrendered pursuant to Section 4.1 and 4.2 above.
- 4.4 If Petroleum in Commercial Quantity has been discovered during the exploration period, or any extension thereof, the CONTRACTOR may retain after the exploration period and during the effectivity of the Contract, twelve and one-half percent (12-1/2%) of the initial area in addition to the delineated Production Area; if CONTRACTOR has provided an exploration work obligation for the area to be retained acceptable to the OFFICE OF ENERGY AFFAIRS; provided, however, that the CONTRACTOR shall pay annual rentals on such twelve and one-half percent retained areas of forty (40) pesos per hectare or fraction thereof; provided, finally, that such annual rentals shall be reduced by the amount spent by CONTRACTOR for exploration on such retained area during the Contract Year.
- 4.5 CONTRACTOR shall have the right on at least thirty (30) days written notice to the OFFICE OF ENERGY AFFAIRS to surrender all or any portion of the Contract Area. Any portion so surrendered shall be credited against that portion of the Contract Area which CONTRACTOR is next required to surrender under the provisions of Sections
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4.1 and 4.2 hereof. The areas being surrendered shall be of sufficient size and convenient shape to enable Petroleum Operations to be conducted thereon.

4.6 In case the CONTRACTOR surrenders or abandons wholly or partly the area covered by this Contract within two (2) Years from its Effective Date, it shall in respect of the abandoned area, pay the Government the amount it should have spent, but did not, for exploration work during said two (2) years as specified under Section 5.1 for which payment, among other obligations, the performance guarantee posted by the CONTRACTOR shall be answerable.

4.7 With respect to the mandatory surrenders pursuant to Section 4.1 and 4.2 as qualified by Section 4.3, CONTRACTOR shall advise the OFFICE OF ENERGY AFFAIRS of the portion to be surrendered at least thirty (30) days in advance of the date of surrender. The areas being surrendered shall each be of sufficient size and convenient shape to enable the Petroleum Operations to be conducted thereon.

SECTION V

WORK PROGRAM AND EXPENDITURES

5.1 CONTRACTOR shall be obliged to drill and spend in direct prosecution of this Contract not less than the number of wells and amounts hereinafter specified:

<u>Contract Year</u>	<u>Work Commitment</u>	<u>Amount</u>
Year 1	One well	USD 5,000,000
Year 2	One well	USD 5,000,000

Year 3	One well	USD 5,000,000
Year 4	One well	USD 5,000,000
Year 5	One well	USD 5,000,000
Year 6	One well	USD 5,000,000
Year 7	One well	USD 5,000,000

The first exploratory test well shall be commenced within three hundred sixty-five (365) days from the Effective Date of the Contract; thereafter, the drilling program shall continue in the Years specified above until the programmed funds are expended and the drilling commitments are fulfilled or until Petroleum is discovered in Commercial Quantity, whichever first occurs and in the latter event, CONTRACTOR will devote the remainder of the programmed funds, as may be appropriate and pursuant to good oilfield practice, to the delineation and development in supplement to such funds as may be needed to pursue actively the delineation and development program developed and presented for approval to the OFFICE OF ENERGY AFFAIRS within ninety (90) days after the declaration of discovery of Petroleum in Commercial Quantity; provided, however, that upon thirty (30) days' notice prior to the commencement of any new Contract Year, CONTRACTOR may relinquish the non-Production Area(s) and be relieved of any future work program commitment for exploratory drilling; provided, however, if during any Contract Year, CONTRACTOR shall spend more than the amount of money required to be spent

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by CONTRACTOR, the excess may be credited against the amount of money required by the CONTRACTOR during the succeeding Contract Year(s) and provided, further, that should the CONTRACTOR fail to comply with the work obligations provided for in this Contract for any Contract Year, it shall pay to the Government the amount it should have spent but did not in direct prosecution of its work obligations. For purposes of this provision, failure to meet a commitment to drill a well shall be deemed a failure to spend the amount committed above which is left unspent or Two Million Five Hundred Thousand United States Dollars (U.S. \$2.5 Million), whichever is higher.


- 5.2 Within a period of three (3) months after the Effective Date of this Contract and three (3) months prior to the beginning of each succeeding Contract Year, CONTRACTOR shall prepare and submit a Work Program and Budget for the Contract Area setting forth the Petroleum Operations which CONTRACTOR proposes to carry out during the ensuing Contract Year and shall advise the OFFICE OF ENERGY AFFAIRS of any significant changes thereon.


SECTION VI

RIGHTS AND OBLIGATIONS OF THE PARTIES

- 6.1 CONTRACTOR shall have the following obligations:

(a) Perform all Petroleum Operations and provide all necessary technology and finance, as well as the required services in connection therewith; provided, that no Foreign Exchange requirements of the Operations shall be funded from the Philippine banking system.



- (b) Upon each discovery of Petroleum in quantities that may be commercial as determined jointly by the CONTRACTOR and the OFFICE OF ENERGY AFFAIRS, delineate in consultation with the OFFICE OF ENERGY AFFAIRS the reservoir in a prudent and diligent manner and in accordance with good oil field practices within a one hundred twenty (120) day period. If after such delineation it is determined that the reservoir contains Petroleum in Commercial Quantity, the area so delineated shall constitute a Production Area.
- (c) Be subject to the provisions of law of general application relating to labor, health, safety and ecology.
- (d) Once Petroleum in Commercial Quantity is discovered, operate the field in accordance with accepted good oil field practices using modern and scientific methods to enable maximum economic production of petroleum; avoiding hazards to life, health and property; avoiding pollution of air, land and waters; and pursuant to an efficient and economic program of Operation.
- (e) Furnish the OFFICE OF ENERGY AFFAIRS promptly with geological and other information, data and reports relative to the Operation except for proprietary techniques used in developing said information, data and reports.
- (f) Maintain detailed technical records and accounts of its Operation.
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- (g) Conform to regulations regarding, among others, safety, demarcation of the Contract Area, noninterference with the rights of other petroleum, mineral and natural resources operators.
- (h) Maintain all meters and measuring equipment in good order and allow access to these as well as to the exploration and production sites and Operations to inspectors authorized by the OFFICE OF ENERGY AFFAIRS.
- (i) Allow examiners of the Bureau of Internal Revenue and other representatives authorized by the OFFICE OF ENERGY AFFAIRS at all reasonable times, and upon twenty-four (24) hour notice full access to accounts, books, and records relating to Petroleum Operations hereunder for tax and other fiscal purposes.
- (j) Be subject to Philippine income tax.
- (k) Give priority in employment to qualified personnel in the municipality or municipalities or province where the exploration or production operations are located.
- (l) Within sixty (60) days after the Effective Date of the Contract, post a bond or other guarantee of sufficient amount in favor of the Government and with surety or sureties satisfactory to the OFFICE OF ENERGY AFFAIRS, conditioned upon the faithful performance by the CONTRACTOR of any or all of the obligations under and pursuant to this Contract; and

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(m) After commercial production commences in the Contract Area, supply from such production a portion of the domestic requirements of the Republic of the Philippines on a pro rata basis, which portion shall be sold at Market Price and shall be determined as follows: in respect of each Year multiply the total quantity of Crude Oil required for domestic consumption by the ratio of the total quantity of Crude Oil produced from the Contract Area to the entire Philippine production of Crude Oil. CONTRACTOR shall be entitled to sell this amount in overseas markets in the event domestic purchasers are unwilling or unable to timely purchase and timely pay Market Price.

6.2 CONTRACTOR shall have the following rights:

- (a) Exemption from all taxes except income tax;
- (b) Exemption from payment of tariff duties and compensating tax on the importation into the Philippines of all machinery, equipment, spare parts and all materials required for and to be used exclusively by CONTRACTOR or subcontractor in Petroleum Operations on the conditions that said machinery, equipment, spare parts and materials of comparable price and quality are not manufactured domestically, are directly and actually needed and will be used exclusively by the CONTRACTOR in its Operations or in the operations for it by a subcontractor; are covered by shipping documents in the name of the CONTRACTOR to whom the shipment will

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be delivered direct by the customs authorities; and the prior approval of the OFFICE OF ENERGY AFFAIRS was obtained by the CONTRACTOR before the importation of such machinery, equipment, spare parts and materials which approval shall not be unreasonably withheld; provided, however, that the CONTRACTOR or its subcontractor may not sell, transfer or dispose of such machinery, equipment, spare parts and materials within the Philippines without the prior approval of the OFFICE OF ENERGY AFFAIRS and payment of taxes due the Government; provided, further, that should the CONTRACTOR or its subcontractor sell, transfer, or dispose of these machinery, equipment, spare parts or materials within the Philippines without the prior consent of the OFFICE OF ENERGY AFFAIRS, it shall pay twice the amount of the tax exemption granted on the equipment sold, transferred or disposed; provided, finally, that the OFFICE OF ENERGY AFFAIRS shall allow and approve, which shall not be unreasonably withheld, the sale, transfer, or disposition of the said items within the Philippines without tax if made (1) to another contractor; (2) for reasons of technical obsolescence; or (3) for purposes of replacement to improve and/or expand Operations of the CONTRACTOR;

(c) Exemption upon approval by the OFFICE OF ENERGY AFFAIRS from laws, regulations and/or ordinances restricting the (1) construction, installation, and operation of power plant for the exclusive use of the CONTRACTOR if no local enterprise can supply within a reasonable period and at reasonable cost the power needed by the CONTRACTOR in its Petroleum Operations;

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(2) exportation of machinery and equipment which were imported solely for its Petroleum Operations when no longer needed therefor;

- (d) Exemption from publication requirements under Republic Act Number Five Thousand Four Hundred Fifty-Five, and the provisions of Republic Act Numbered Sixty One Hundred and Seventy-Three with respect to the exploration, production, exportation or sale or disposition of Crude Oil discovered and produced in the Philippines;
- (e) Exportation of Petroleum subject to the obligation to supply a portion of domestic requirements as provided in Section 6.1 (m) above;
- (f) Entry, upon the sole approval of the OFFICE OF ENERGY AFFAIRS which shall not be unreasonably withheld, of alien technical and specialized personnel (including the immediate members of their families) who may exercise their professions solely for the Petroleum Operation of the CONTRACTOR; provided, that if the employment or connection of any such alien with CONTRACTOR ceases, the applicable laws and regulations on immigration shall apply to the alien and his immediate family; provided, further, that Filipinos shall be given preference to positions for which they have adequate training; and provided, finally, that the CONTRACTOR shall adopt and implement a training program for Filipinos along technical or specialized lines, in accordance with the provisions of Section XIII hereof;
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- (g) Rights and obligations in this Contract shall be deemed as essential consideration for the conclusion thereof and shall not be unilaterally changed or impaired;
- (h) Subject to the regulations of the Central Bank of the Philippines be entitled to: (1) repatriate over a reasonable period the capital investment actually brought into the country in Foreign Exchange or other assets and registered with the Central Bank; (2) retain abroad all Foreign Exchange representing proceeds arising from exports accruing to the CONTRACTOR over and above (a) the Foreign Exchange to be converted into pesos in an amount sufficient to cover the costs of CONTRACTOR's Petroleum Operations payable in Philippine currency and (b) revenue due the Government on such Crude; (3) convert into Foreign Exchange and remit abroad at prevailing rates no less favorable to CONTRACTOR than those available to any other purchaser of foreign currencies, any excess balances of their peso earnings from Petroleum production and sale over and above the current working capital they require; (4) convert Foreign Exchange into Philippine currency for all purposes in connection with its Petroleum Operations at prevailing rates no less favorable to CONTRACTOR than those available to any other purchaser of such currency;
- (i) Make at all times the free right of ingress to and egress from the Contract Area and to and from facilities wherever located in the Philippines;
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(j) Exemption from the investment requirements of foreign corporations under Section 126 in relation to Section 14B of the Corporation Code of the Philippines.

6.3 The OFFICE OF ENERGY AFFAIRS shall assume and pay on behalf of CONTRACTOR and its parent company, on the first transaction in each instance where the tax is imposed, all income taxes payable to the Republic of the Philippines based on income and profits and, with respect to CONTRACTOR, on the first transaction in each instance where the tax is imposed, all dividends, withholding taxes and other taxes imposed by the Government of the Philippines on the distribution of income and profits derived from Petroleum Operations to its parent company. The OFFICE OF ENERGY AFFAIRS shall promptly furnish to CONTRACTOR, without fee or other consideration, the official receipts issued in the name of CONTRACTOR by any duly empowered Government authority, acknowledging the payment of said taxes.


SECTION VII

RECOVERY OF OPERATING EXPENSES AND ACCOUNTING FOR PROCEEDS OF PRODUCTION

7.1 CONTRACTOR, if authorized by the OFFICE OF ENERGY AFFAIRS to market the OFFICE OF ENERGY AFFAIRS's share of Petroleum produced and saved from Contract Area, shall account for the proceeds from such sales as provided in this Section VII. CONTRACTOR shall have the right and privilege of receiving in kind and disposing of CONTRACTOR's portion of the Petroleum produced and saved from the Contract Area.

7.2 In each Year, CONTRACTOR will recover from the gross proceeds resulting from the sale of all Petroleum produced under this Contract an amount equal to all Operating Expenses; provided, that the amount so recovered shall not exceed seventy percent (70%) of the gross proceeds from production in any Year; provided, further, that if in any Year the operating costs exceed seventy percent (70%) of the gross proceeds from the production or there are no gross proceeds, then the unrecovered expenses shall be recovered from the gross proceeds in succeeding Year(s). This payment shall be calculated in accordance with the U.S. Dollar amounts recorded in the books and accounts pursuant to Section XV. The payment corresponding to the first lifting of the Calendar Year, shall include any adjustments on Government's share of the preceding calendar quarter.

7.3 (a) If the CONTRACTOR has been authorized to market the OFFICE OF ENERGY AFFAIRS's share of production, it shall within three (3) working days from collection date but in no case beyond sixty (60) days from lifting date, remit to the OFFICE OF ENERGY AFFAIRS an amount equal to sixty percent (60%) of estimated net proceeds from each Petroleum lifting operations. This payment shall be calculated in accordance with the U.S. Dollar amounts recorded in the books and accounts pursuant to Section XV. The payment corresponding to the first lifting of the Calendar Year, shall include any adjustments on Government's share of the preceding calendar quarter.



In the event that CONTRACTOR is not paid within sixty (60) days from the lifting date, CONTRACTOR shall immediately inform the OFFICE OF ENERGY AFFAIRS. Should delays in collection continue, the Parties shall immediately meet to resolve the sixty (60) day payment requirement. Further, in the event collection within sixty (60) days from the lifting dates remains a problem for four (4) months or in the event that a single payment is not paid for an inordinate period, then CONTRACTOR shall meet with the OFFICE OF ENERGY AFFAIRS within thirty (30) days, and if the problem is not completely resolved within sixty (60) days thereafter, CONTRACTOR, at its option, may extend the sixty (60) days from lifting date payment requirement until it collects the entire amount owed on each lifting in dispute.

(b) The OFFICE OF ENERGY AFFAIRS shall be entitled to receive in kind Petroleum equal in value to sixty percent (60%) of net proceeds.

(c) For purposes of Section VII, net proceeds means the difference between gross income and the sum of the Operating Expenses recovered pursuant to Section 7.2.

7.4 CONTRACTOR will retain an amount equal to its fee of forty percent (40%) of the net proceeds from the Petroleum Operations.

7.5 IF the OFFICE OF ENERGY AFFAIRS and the CONTRACTOR elect to take their respective shares in kind, the Parties to this Contract will enter into separate agreement providing among others, for the manner and form of deliveries and appropriate quarterly adjustments.

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7.6 For the purpose of determining gross proceeds, Petroleum shall be valued as follows:

(a) All Crude Oil sold for consumption in the Philippines shall be valued at Market Price for such Crude Oil.

(b) All Crude Oil Exported shall be valued at the Posted Price.

(c) All Natural Gas and/or Casinghead Petroleum Spirit exported or sold for consumption in the Philippines shall be valued at the prevailing Market Price thereof.

(d) Reasonable commissions or brokerage incurred in connection with sales to third parties, if any, shall be deducted from gross proceeds but shall not exceed the customary and prevailing rate.

(e) Filipino Participation Incentive Allowance, if any, shall be deducted from gross proceeds. This Allowance shall be computed on a sliding scale, as provided in the appropriate circular issued by the OFFICE OF ENERGY AFFAIRS, provided that the Filipino Participation Incentive Allowance shall be granted under this Contract if qualifying Filipino Participation is secured prior to the commencement of the first drilling operation. The Allowance shall be deducted from the higher of Section 7.6(a) and 7.6(b).

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SECTION VIII

INCOME TAXES

8.1 CONTRACTOR shall be liable each taxable year for Philippine income tax under the provisions of the National Internal Revenue Code and the Oil Exploration and Development Act of 1972, as amended. The CONTRACTOR's gross income shall consist of:

(a) Gross proceeds determined in accordance with Section 7.6 above; and

(b) Such other income which is incidental to and/or arising from any Petroleum Operation or other aspects of the Contract.

In computing the Taxable Net Income, CONTRACTOR shall be allowed to deduct Operating Expenses recovered pursuant to Section 7.2 above.

8.2 In ascertaining the CONTRACTOR's Taxable Net Income, deduction from gross income shall be allowed in respect of any interest or other consideration paid or suffered in respect of the financing of its Petroleum Operations to the extent allowed by the Accounting Procedure, Part II, Section 14.

8.3 CONTRACTOR shall render to the OFFICE OF ENERGY AFFAIRS a return for each taxable year in duplicate in such forms and manner as provided by law setting forth its gross income and the deduction herein allowed. The return shall be filed by the OFFICE OF ENERGY AFFAIRS with the Commissioner of Internal Revenue or his deputies or other

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persons authorized by him to receive such return within the period specified in the National Internal Revenue Code and the Rules and Regulations promulgated thereunder.

- 8.4 The OFFICE OF ENERGY AFFAIRS, upon payment by it of CONTRACTOR's income taxes, shall procure official receipts in the name of CONTRACTOR evidencing such payment. Each of the second parties, if more than one (1), shall be subject to tax separately on its share of income and the OFFICE OF ENERGY AFFAIRS shall supply each with an individual receipt in its own name.


SECTION IX

PAYMENTS

- 9.1 All payments which this Contract obligates CONTRACTOR to make to the OFFICE OF ENERGY AFFAIRS shall be in Foreign Exchange at a bank to be designated by the OFFICE OF ENERGY AFFAIRS and agreed upon by the Central Bank of the Philippines except that CONTRACTOR may make such payments in Philippine pesos to the extent that such currency is realized as a result of the domestic sale of Crude Oil or Natural Gas. All such payments shall be translated at the applicable exchange rates as defined in the Accounting Procedures attached hereto as Annex "B".

SECTION X

NATURAL GAS

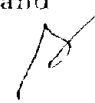
- 10.1 After meeting requirements for secondary recovery operations, priority shall be given to supplying prospective demand for Natural Gas in the Philippines. Any Natural Gas produced from the Contract Area to the
- 

extent not used in Operations hereunder, may be flared if the processing or utilization thereof is not deemed economical by CONTRACTOR or required by CONTRACTOR for secondary recovery operations, including repressuring and recycling; provided, that the OFFICE OF ENERGY AFFAIRS may take and utilize such Natural Gas that would otherwise be flared, in which event all costs of taking and handling such Natural Gas will be for the sole account and risk of the OFFICE OF ENERGY AFFAIRS.

SECTION XI

ASSETS AND EQUIPMENT

- 11.1 CONTRACTOR shall acquire for the Petroleum Operations only such assets as are reasonably estimated to be required in carrying out the Petroleum Operations.
- 11.2 All materials, equipments, plants and other installations erected or placed on the Contract Area of a movable nature by the CONTRACTOR shall remain the property of the CONTRACTOR unless not removed therefrom within one Year after the termination of this Contract in which case, ownership shall be vested with the OFFICE OF ENERGY AFFAIRS. In the event CONTRACTOR fully recovers its investment in movable material, equipments and/or plants or other installations placed on the Contract Area, then CONTRACTOR shall transfer ownership to those materials, equipments and/or plants or other installations, as is, when CONTRACTOR has concluded its use of them.
- 11.3 CONTRACTOR may also utilize in the Petroleum Operations equipment owned and made available by CONTRACTOR and



charges to the Petroleum Operations account for use of such equipment shall be made as provided in the Accounting Procedure.

SECTION XII

CONSULTATION AND ARBITRATION

12.1 Disputes, if any, arising between the OFFICE OF ENERGY AFFAIRS and CONTRACTOR relating to this Contract or the interpretation and performance of any of the clauses of this Contract, and which cannot be settled amicably, shall be settled by arbitration. The OFFICE OF ENERGY AFFAIRS on the one hand and CONTRACTOR on the other hand, shall each appoint one arbitrator within thirty (30) days after receipt of a written request of the other Party to do so, such arbitrator shall, at the request of the other Party, if the parties do not otherwise agree, be appointed by the President of the International Chamber of Commerce. If the first two arbitrators appointed as aforesaid fail to agree on a third within thirty (30) days following the appointment of the second arbitrator, the third arbitrator shall, if the Parties do not otherwise agree, be appointed, at the request of either Party, by the President of the International Chamber of Commerce. If an arbitrator fails or is unable to act, his successor will be appointed in the same manner as the arbitrator whom he succeeds. Unless the Parties agree otherwise, the Philippines shall be the venue of the arbitration proceedings. The English language shall be the language used.

12.2 The decision of a majority of the arbitrators shall be final and binding upon the parties. Judgment upon the award rendered may be entered in any court having

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jurisdiction or application may be made to such court for a judicial acceptance of the award and an order of enforcement, as the case may be.

- 12.3 Except as provided in this Section, arbitration shall be conducted in accordance with the Rules of Arbitration of the International Chamber of Commerce, then in effect.

SECTION XIII

EMPLOYMENT AND TRAINING OF PHILIPPINE PERSONNEL

- 13.1 CONTRACTOR agrees to employ qualified Filipino personnel in the operations and after commercial production commences will undertake, upon prior approval of the OFFICE OF ENERGY AFFAIRS the schooling and training of Filipino personnel for labor and staff position, including administrative, technical and executive management position. CONTRACTOR shall undertake upon prior approval of the OFFICE OF ENERGY AFFAIRS a program of training assistance for OFFICE OF ENERGY AFFAIRS personnel. CONTRACTOR's total training commitment shall be Twenty Thousand United States Dollars (U.S. \$20,000) annually during the exploration phase excluding any Moratorium Period and a mutually agreed amount during the production phase.

- 13.2 Costs and expenses of training Filipino personnel for CONTRACTOR's own employment shall be included in Operating Expenses. Costs and expenses of a program of training for OFFICE OF ENERGY AFFAIRS's personnel shall be on a basis to be agreed upon by the OFFICE OF ENERGY AFFAIRS and CONTRACTOR.

days, CONTRACTOR shall, within thirty (30) days following the expiration of said sixty (60) day period, pay to the First Party the total sum of One Million United States Dollars (U.S. \$1,000,000); provided, it is understood that CONTRACTOR, in order to sustain said rate of fifty thousand (50,000) BOPD for said sixty (60) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil field practice prevalent in the industry.

17.3 If and when there shall be produced from the Contract Area seventy-five thousand (75,000) barrels of oil per day (BOPD) at an average rate for sixty (60) consecutive days, CONTRACTOR shall, within thirty (30) days following the expiration of said sixty (60) day period, pay to First Party the total sum of Two Million United States Dollars (U.S. \$2,000,000); provided, it is understood that CONTRACTOR, in order to sustain said rate of seventy-five thousand (75,000) BOPD for said sixty (60) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil field practice prevalent in the industry.

17.4 If and when there shall be produced from the Contract Area one hundred thousand (100,000) barrels of oil per day (BOPD) at an average rate for sixty (60) consecutive days, CONTRACTOR shall, within thirty (30) days following the expiration of said sixty (60) day period, pay to First Party the total sum of Three Million United States Dollars (U.S. \$3,000,000); provided, it is understood that CONTRACTOR, in order to sustain said rate of one

SECTION XIV

TERMINATION

This Contract shall be terminated and CONTRACTOR shall be relieved of its obligations:

- 14.1 As provided in Section 3.1 hereof; or
- 14.2 On expiration of the term, or extension thereof provided for in Section 3.2 hereof; or
- 14.3 Upon surrender by CONTRACTOR of the entire Contract Area pursuant to Section 4.5, subject to the provisions of Section 4.6 hereof.

SECTION XV

BOOKS AND ACCOUNTS AND AUDITS

15.1 Books and Accounts

CONTRACTOR shall be responsible for keeping complete books and accounts, both in United States and Philippine currencies, reflecting all transactions in connection with Petroleum Operations in accordance with the Accounting Procedure attached hereto as Annex "B".

15.2 Audit

The OFFICE OF ENERGY AFFAIRS shall have the right to inspect and audit CONTRACTOR's books and accounts relating to this Contract for any Calendar Year within the one (1) year period following the end of such Calendar Year. Any such audit will be completed within

twelve (12) months after its commencement. Any exception must be made in writing sixty (60) days following the completion of such audit and failure to give such written exception within such time shall establish the correctness of CONTRACTOR's books and accounts for the period of such audit.

SECTION XVI

OTHER PROVISIONS

16.1 Notices

Any notice required or given by either party to the other party shall be in writing and shall be effective when a copy thereof is handed to or served upon the Party's duly designated representative or the person in charge of the office or place of business; or when sent by telex with written confirmation subsequently received within fifteen (15) days, notice shall be effective on date of telex receipt; or when sent by registered mail, notice shall be effective upon actual receipt by the addressee, but if he fails to claim his mail from the post office within five (5) days from the date of the first notice of the postmaster, service shall take effect at the expiration of such time. All such notices shall be addressed to:

To the First Party:

The Office of Energy Affairs
Philippine National Petroleum Center
Merritt Road, Fort Bonifacio, Metro Manila

To the Second Party:

Occidental Philippines, Inc.
1200 Discovery Way
P. O. Box 12021
Bakersfield, California 93389-2021
U.S.A.

Any Party may substitute or change such address on written notice thereof to the others.

16.2 Governing Law

The laws of the Republic of the Philippines shall apply to this Contract.

16.3 Suspension of Obligations

- (a) Any failure or delay on the part of either Party in the performance of its obligations or duties hereunder shall be excused to the extent attributable to Force Majeure. The absence of technological capability to produce a discovery shall not constitute Force Majeure.
- (b) If Operations are delayed, curtailed or prevented by such causes, then the time for enjoying the rights and carrying out the obligations thereby affected, and all rights and obligations hereunder shall be extended for a period equal to the period thus involved, except that the term of this Contract as provided in Section III thereof shall not thereby be extended.

(c) Force Majeure shall include Acts of God, unavoidable accidents, acts of war or conditions arising out of or attributed to war (declared or undeclared), laws, rules, regulations and orders by any Government or governmental agency, strikes, lockouts and other labor disturbances, insurrections, riots, and other civil disturbances and all other beyond the control of the Party concerned (other than rig availability); provided, however, that as to the OFFICE OF ENERGY AFFAIRS only, laws, rules and regulations and orders by Government or any governmental agency of the Republic of the Philippines shall not constitute Force Majeure.

(d) The Party whose ability to perform its obligations is so affected shall notify the other party thereof in writing stating the cause and both Parties shall do all reasonably within their power to remove such cause.

16.4 Assignment

The rights and obligations of Second Party under this Contract shall not be assigned or transferred without the prior approval of the OFFICE OF ENERGY AFFAIRS which shall not be unreasonably withheld and shall be without fee or other consideration; provided, that with respect to the assignment or transfer of such rights and obligations to an Affiliate of the transferor, the approval thereof by the OFFICE OF ENERGY AFFAIRS shall be automatic and without fee or other consideration, if the

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transferee is as qualified as the transferor to enter into such contract with the Government; provided, further, that the Affiliate relationship between the original transferor or a company which holds at least fifty percent (50%) of the CONTRACTOR's outstanding shares entitled to vote and each transferee shall be maintained during the existence of the Contract.

16.5 Petrochemical Facility


At such time as CONTRACTOR has established Commercial Production as defined in Section 2.21, CONTRACTOR will undertake technical and economic studies as to the feasibility of establishing a petrochemical facility in the Philippines to utilize a portion of said production. CONTRACTOR will conduct such studies at its sole cost and expense. To the extent that it is mutually agreed between all parties that such studies indicate that such facilities would be technically and economically feasible, CONTRACTOR will finance and construct or cause to be financed and constructed such facility.

SECTION XVII

PAYMENTS BY CONTRACTOR

17.1 CONTRACTOR shall, within sixty (60) days following the first declaration of a discovery of Petroleum in Commercial Quantity, pay to the First Party the total sum of One Million United States Dollars (U.S. \$1,000,000).

17.2 If and when there shall be produced from the Contract Area fifty thousand (50,000) barrels of oil per day (BOFD) at an average rate for sixty (60) consecutive



hundred thousand (100,000) BOPD for said sixty (60) day period, shall not be required to operate the Contract Area other than as a reasonably prudent operator following sound oil field practice prevalent in the industry.

SECTION XVIII
DEEPWATER CONTRACT

18.1 With regard to the recovery of Operating Expenses of CONTRACTOR who qualifies as a Deepwater Contractor, the following recoveries shall be allowed:

(a) Cross Recovery Allowed - Subject to cost recovery limitation as provided in the Contract, there shall be allowed the cross recovery of the Operating Expenses incurred by a Deepwater Contractor or its affiliate in two (2) or more areas under different Deepwater Contracts and in the drilling of Deepwater Wells as if they are covered by a single contract.

(b) Cross Recovery Rules

(1) Year to which Cross Recovery may be carried - Operating expenses incurred preceding the date of production shall be cross-recoverable starting on the date of production. /s/

(2) Amount of Cross Recovery

(a) The entire amount of Operating Expenses incurred within ten (10) Years preceding the date of production shall be cross-recoverable;

(b) Operating Expenses incurred more than ten (10) years preceding the date of production shall be reduced by an amount equal to twenty percent (20%) thereof, for each year beyond ten (10) years preceding the date of production.

(3) Time to Avail Incentive - Cross Recovery of Operating Expenses set forth in this section shall be allowed for a period of ten (10) years from the effectivity of this amendatory decree, unless extended by law.

(c) Cross Recovery Defined - For purposes of this section, the term "Cross Recovery" means that the Operating Expenses incurred by a Deepwater CONTRACTOR or its affiliate in two (2) or more areas under different deep-water contracts and the Operating Expenses it incurred in the drilling of Deepwater Wells may be recovered from the Gross Proceeds resulting from the sale of all Petroleum produced within any one

or more of the Deepwater Contracts (or contract where the Deepwater Well is located), as if they are covered by a single contract.

(d) Operating Expenses Defined - For purposes of this section, the term "Operating Expenses" means the total expenditures for Petroleum Operation incurred by the CONTRACTOR, both within and without the Philippines, except administrative items, as provided in the Service Contract.


18.2 The provision of this Section XVIII, as well as provisions elsewhere specified which are applicable to Deepwater Contracts or Deepwater Wells, as provided in Presidential Decree No. 1857, shall apply to this Contract as long as this Contract remains as a Deepwater Contract or in cases of drilling of Deepwater, as the case may be.

SECTION XIX

EFFECTIVENESS

19.1 This Contract shall come into effect on the Effective Date.

19.2 This Contract shall not be annulled, amended or modified in any respect except by the mutual consent in writing of the Parties hereto.



IN WITNESS WHEREOF, the Parties hereto have executed this Contract as of the day and year first above written.

GOVERNMENT OF THE REPUBLIC
OF THE PHILIPPINES

By:

Corazon C. Aquino
Corazon C. Aquino

Title:

President

OCCIDENTAL PHILIPPINES, INC.

By:

Carlos A. Contreras
Carlos A. Contreras

Title: Vice President and
Resident Manager

SHELL EXPLORATION B. V.

By:

W. A. Loader
W. A. Loader

Title:

Chief Executive
Shell Companies in the
Philippines