Newsletter, June 2004

Staatsolie and Repsol YPF sign Production Sharing Agreement
A responsible partner for Suriname

Managing Director Eddy Jharap hands two copies of the contract to Minister Franco Demon from Natural Resources.

By entering into a production sharing agreement with Staatsolie, the Spanish oil giant Repsol YPF demonstrates confidence in Suriname. "We have a good and responsible partner in Repsol YPF."

"Our presence today in Paramaribo confirms and is a reinforcement of our conviction to search for oil", reassured Valentín Álvarez Cortina, Caribbean Business Unit Director of Repsol YPF during the signing ceremony on April 24th. "The risks are large and there is much work, so it will not go easily."

Eddy Jharap, Managing director of Staatsolie, was pleased with the large delegation from Repsol YPF. "This is proof to us of the commitment made by Repsol YPF and the value they place on this agreement." Cortina reassured that Repsol YPF places much value on the relationships with her partners. "We hope that we're here for a long and productive relationship and not for a short term deal."

**Good partner**

Jharap believes that Repsol YPF is a good and responsible partner for Suriname. "When doing business, Repsol YPF works according to values that are also important for Staatsolie. We have actually experienced this many times during the past two years."

Cortina hopes for a productive relationship with Staatsolie in Suriname. "I thank Suriname for opening her doors to us allowing us to work together on the development of her resources, which I believe is the key to success."

According to Jharap, the contract provides enough room for control of and participation in the petroleum activities. He also cited that the economic advantages of crude oil production are acceptable and that there is adequate attention to safety and that there are safeguards for the protection of the environment.

That it becomes more than just good intentions is for Jharap indisputable. Through the years, Staatsolie has built up a loyal and knowledgeable cadre with the capacity to change words into actions and is thus able to serve the interest of the country in the best way possible.
Historical moment
Cortina called the signing of the production sharing contract a historical moment for Repsol YPF. He stated further that the contract offers possibilities for strengthening the cooperation between Repsol YPF and Staatsolie – in both technical petroleum assistance as well as in other areas. “This agreement takes into account our experience and possibilities for the future so that we are able to accomplish the goals we have set.” The senior executive from Repsol YPF believes that “realistic goals have been set”, which are in line with “clearly expressed and visible desires” to close an agreement in which good partnership is a primary factor. “The implementation of this contract shall certainly deliver us good results.”

Cortina expressed appreciation for the warm reception that the delegation from Repsol YPF received from Staatsolie two years ago when they first came to Suriname. “We cannot neglect to express our appreciation to the negotiating teams of both parties for the exceptional achievements brought about during these past two years.”

Efforts
The production sharing agreement with Repsol YPF is a concrete result of Staatsolie’s endeavor to attract foreign investors to the Surinamese hydrocarbon potential. Jharap gave a review of the efforts made to bring Suriname in the international petroleum world picture. During the last four years, Staatsolie has participated in various exhibitions and fairs, and presentations have been held in Brazil, Trinidad & Tobago, England, the USA and China.

Jharap: “We have contacted several well standing oil companies to inform them about the potential oil reserves in our sedimentary basin. Various companies have conducted studies based upon the data we have provided. Repsol YPF is one of the large companies which have concluded that there are possible commercially producible oil reserves in offshore Suriname.” Based upon this fact, the production sharing contract for block 30 was negotiated. On December 19th 2003, Staatsolie and Repsol YPF signed a framework agreement that has served as the foundation for the conditions included in the now closed production sharing contract.
Petroleum possibilities

The technical studies of block 30 revealed the possibility of the presence of hydrocarbons in the Surinamese offshore area, Cortina stated. He explained that the next step would be the execution of a seismic evaluation whereby an exploratory well would be drilled with a minimum of risks.

"We hope that Suriname will be known as a country with petroleum possibilities from now on. We have a lot of experience in the exploration and production of oil and gas in the Caribbean. And we hope that in the future, block 30 will become a substantial part in the operations of Repsol YPF in the Caribbean, where we already have a production of 220,000 barrels oil per day. In this way, Repsol YPF would be able to contribute to the economic and technological development of Suriname and her people."

Jharp praised the negotiating teams of Staatsolie, headed by Marny Daal-Vogelien (manager Exploration & Production Contracts) and Carlos Jimenez from Repsol YPF. "You have done an excellent job and we are proud of the contents and quality of the document. Parts of this agreement would be able to serve as a model for the development of other natural resources of Suriname."

Push

For Minister Franco Demon of Natural Resources, the signing of the contract is another big step toward utilization of the natural resources, which may contribute to the development of our country. Demon said it is clear what Staatsolie has accomplished for the country. Offshore exploration carries enormous risks however, and requires large capital investments, requiring Staatsolie to join together with foreign companies. "This agreement forms a good foundation to give a push to petroleum exploration offshore."

The minister congratulated both companies with the signing of the contract. The Board of Supervisory Commissioners, directors and staff of Staatsolie were thanked for their input in arriving at the agreement. And to the Repsol YPF delegation: "Together with the Surinamese people, I hope that you will be successful in your work and that you will strike oil for our country."

The Production Sharing Agreement

The production sharing agreement between Staatsolie and Repsol YPF involves the exploration of and the development and production of petroleum in offshore block 30. The area included in the contract is situated more than 100 kilometers from the coast and is part of offshore Suriname. The area is marked block 30 and encompasses an area of approximately 18,900 square kilometers. Water depths in the contracted area vary between 100 and 3000 meters.

The total length of the contract is set at 30 years and arrangements are made for various periods, namely: the exploration, evaluation, developmental and production periods. During the evaluation period, determinations are made as to whether proven oil occurrences can be commercially produced. During the developmental period, the facilities for the actual production shall be installed.

Repsol YPF shall begin with a three phase exploration program during the fourth quarter of 2004. During the first phase, new two dimensional seismic data shall be gathered, assimilated and interpreted. If the results prove positive, the second phase will begin, during which at least one potential prospect will undergo a three dimensional seismic examination. In accordance with the contract, Repsol YPF is obliged to bore at least one exploration well during the third phase of the exploration program.

The contract with Repsol YPF has a number of economic advantages for Suriname, such as royalties and tax income. The total income for the country depends on the price of oil, the investments made and the size of the reserves. Next to this, Staatsolie has the option to participate as contracting party on behalf of the government for a maximum of 10 percent. In the contract, extensive attention is paid to environmental aspects.

Offshore Exploration Activities in Suriname 1980 - 2004

During the past thirty years, various foreign companies have carried out exploration activities in offshore Suriname. However, these activities have not led to the discovery of a commercial field. Staatsolie has been able to acquire the gathered data and evaluation results and has intensively studied these during the past three years. Staatsolie has made great investments in technology and people to gain better insight into the offshore petroleum potential. Listed below is an overview of contracts that have been made with foreign companies for crude oil exploration.

- 1980: Gulf Oil (USA)
Who is Repsol YPF
Repsol YPF is one of the largest integrated private oil and gas companies in the world with activities in more than 25 countries. In Latin America and the Caribbean, this private business has the largest gas reserves. Repsol YPF is active in, among others, Argentina, Brazil, Cuba, Trinidad & Tobago and Ecuador. Her average daily production of oil and gas is more than one million barrels, with an oil and gas reserve equal to more than 5.4 million barrels. These reserves are primarily found in Latin America and North Africa.

Repsol YPF in Guyana
Shortly before the signing of the PSC between Staatsolie and Repsol YPF some commotion arose concerning the relationship between Repsol YPF and the Canadian CGX Energy. Repsol YPF has, namely, 75 percent interest and CGX 25 percent interest in the Georgetown Block which partially lies in the maritime area disputed by Guyana and Suriname. However, Repsol YPF had no part in the oil drilling planned for execution by CGX in June 2000 in the Corantyn Block of which they are 100 percent concession holder. The Corantyn Block also lies partly in the disputed maritime area between Suriname and Guyana.

Much is said and written in the media, but these are the facts:
- In January 1997, the Guyanese government closed a an agreement with Maxus Guyana Limited for the Georgetown Block.
- In 1998, Maxus is for 100 percent taken over by the Argentinean governmental company YPF. From that moment, Maxus is a subsidiary of YPF.
- In 1999, AGIP Guyana BV would acquire 25 percent interest in the Georgetown Block, if Maxus turned over 25 percent of her interest to Agip (Italy). Maxus and Agip were partners in the Georgetown Block from then on.
- In 1999, the Spanish Repsol took YPF almost completely over and the new company Repsol YPF arose and Maxus became a subsidiary within this new holding.
- In 2002, Agip transferred her interest in the Georgetown Block to CGX. The transfer occurred completely outside of Repsol YPF. The Guyanese government approved the transfer from Agip to CGX. The parties in the Georgetown Block were now then: Maxus (75 percent) and CGX (25 percent), but Repsol YPF is not a shareholder of CGX.
- In 2002, it was already clear that Maxus ceased her exploratory activities in Guyana due to the border dispute between Suriname and Guyana. Maxus appealed to circumstances beyond her control so that she would not be required to develop activities in the Georgetown Block.
In the week prior to the signing of the PSC with Staatsolie, Repsol YPF gave – partially due to the commotion caused – Staatsolie a written guarantee that they would not conduct any activities in the Georgetown Block.