

## The Indonesian Production Sharing Contract

The first Production Sharing Contract in Indonesia was executed in 1966.

Since 1966 the Production Sharing Contract (or PSC as it is commonly referred to) has evolved to the current generation terms.

In addition, Incentive Packages have been introduced over the years and these are summarized in the following table:

Element	1st Incentive Package (August 1988)	2nd Incentive Package (February 1989)	3rd Incentive Package (August 1993)	4th Incentive Package (December 1993)
Investment Credit	Investment Credit amounting to 17% of the capital investment cost.	For deep sea areas over 600 ft: <ul style="list-style-type: none"> <li>• 110% (oil)</li> <li>• 55% (gas)</li> </ul>	Development areas : <ul style="list-style-type: none"> <li>• Tertiary reservoir rocks, 110% for oil and gas</li> <li>• Water depth 200-1500 m, 110% for oil and gas</li> <li>• Water depth below 1500 m, 125% for oil and gas</li> </ul>	No longer applied
Domestic Market Obligation (DMO) Prices	10% of export price after this first five years	10% of export price after this first five years	15% of export price after the first five years	25% of export price after the first five years
First Tranche Petroleum (FTP)	20% of production taken before deduction of cost recovery and will be split between government and contractor			Reduced from 20% to 15%.
OIL SHARING	Frontiers Production: <ul style="list-style-type: none"> <li>• &lt; 50 MBOD 80%:20%</li> <li>• 50-150 MBOD 85%:15%</li> <li>• 150 MBOD 90%:10%</li> </ul> Conventional Area = 85%:15%	Marginal Fields and EOR in Tertiary Reservoir: <p>Conventional Area; 85%:15%</p> <p>Frontier Area; 75%:25%</p> <p>Pre-Tertiary and deep sea (over 600 ft): Incremental split same as frontier production in the first package</p>	<ul style="list-style-type: none"> <li>• Field developed in frontier areas = 80%:20%</li> <li>• Field developed in areas with water depth &gt; 1500 ft = 75%:25%</li> </ul>	65%:35% without Investment Credit
GAS SHARING	Frontiers Production = 70%:30% Conventional Areas = 70%:30%	No change	Frontiers Production: <ul style="list-style-type: none"> <li>• Field developed in conventional areas 65%:35%</li> <li>• Field developed in frontier areas 60%:40%</li> <li>• Field developed in areas with water depth &gt; 1500 ft 55%:45%</li> </ul>	60%:40% without Investment Credit.  This split is applied for Eastern Indonesian areas and part of Western Indonesian areas having similar geological and geophysical conditions.

The PSC is a joint venture arrangement between the government of Indonesia and the Contractor.

The Contractor is charged with the responsibility of operating and funding the exploration and or production operations.

The net share after deduction of tax for the standard current generation of PSC:

- Oil: Government/Contractor = 85/15
- Gas: Government/Contractor = 65/35

and is derived via the process represented diagrammatically here:

