



The Caribbean Round and the Colombian hydrocarbons sector

Bogotá - Houston – London –Singapore - Calgary

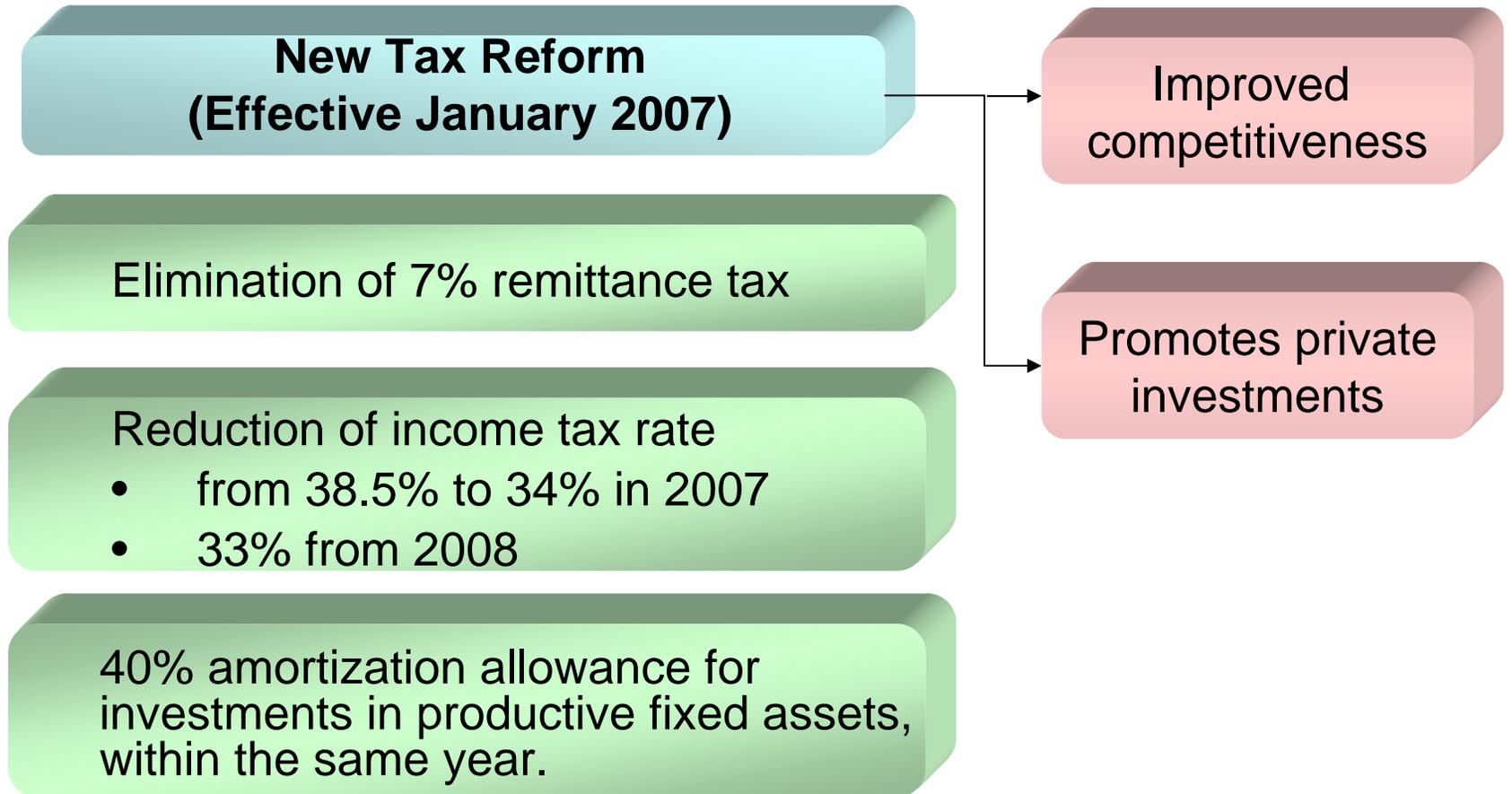
Colombia in figures

Land surface	1.14 million km ²
Sea Economic Area	0.93 million km ²
Population	42.5 million
Population Bogotá (Capital)	6.8 million
GDP	US\$ 123.2 Billion
GDP/Capita	US\$ 2.930
Foreign Direct Investment (2005)	US\$ 10.2 Billion
Literacy Rate	93%

Colombia in figures (cont.)

Total Investment 2006	26% of GDP
□ Private	19%
□ Public	7%
GDP Growth 2006	6.8%
Inflation Rate 2006	4.5 %
Exports (2006)	US\$ 26 Billion

An improved tax regime



Democratic security policy

- Control over all territory
 - Public force present in each and all 1,098 municipalities
 - All communities under government protection

- Special collaboration scheme with industry to protect energy infrastructure from sabotage

- 36% increase in police and armed forces' manpower

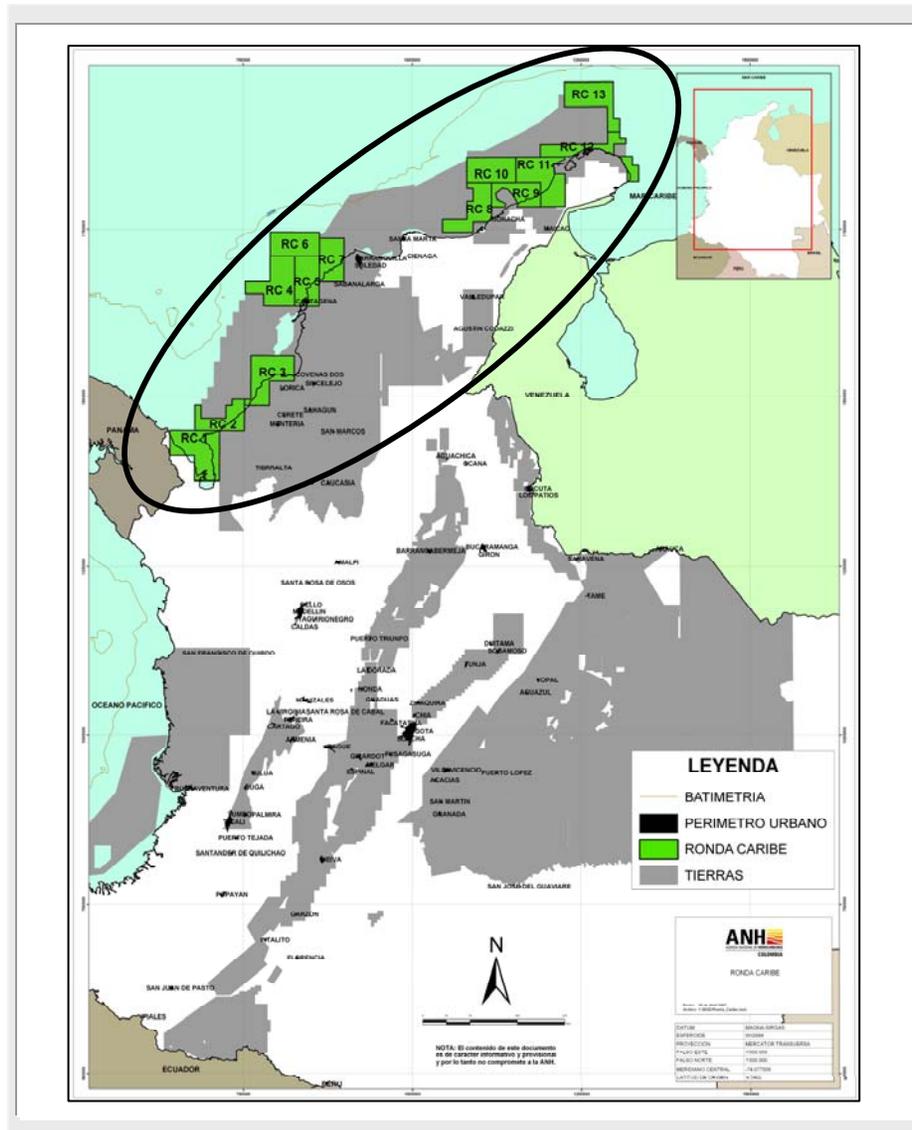
1. Introduction
2. The Caribbean Round
3. ANH's institutional framework
4. Accomplishments (Colombia's petroleum policy is generating results)
5. Conclusions

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- The Caribbean Round is the first competitive bidding round in Colombia's offshore sector
- 13 blocks on the Caribbean coast averaging almost 3,000 square kilometers (740,000 acres)
- Area with established prospectivity and ready access into petroleum and gas infrastructure

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Areas offered in the Caribbean Round



Promotion Timeline

- Ministerial Announcement April 12

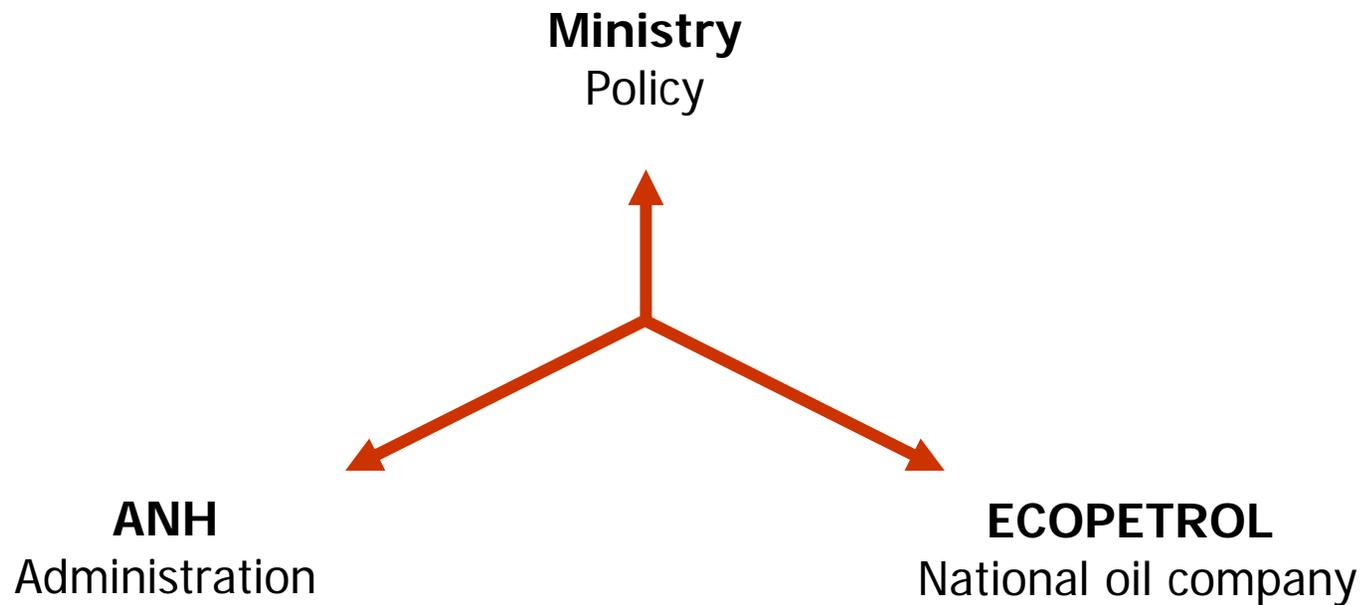
- Roadshows
 - Bogota *Bogota Royal* April 27
 - Houston *Westin Galleria* May 8
 - London *Meridien Piccadilly* May 11
 - Singapore *M Hotel* May 15
 - Calgary *Sheraton* May 18

Objectives of Caribbean Round

- Encourage expanded exploration and development of Colombia's Caribbean basins
- Contribute to the optimal and complete development of Colombia's hydrocarbons resources
- Encourage operators with the technical know-how and financial capacity to develop world-scale projects in the Colombian Caribbean offshore

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Colombia's institutional framework has changed...



Functions of the ANH

Decree Law 1760 of 2003, Article 5



ANH's mission: To assess and develop the country's hydrocarbons potential

HYDROCARBONS POLICY AND SUPPLY

- Support the formulation of policy and sector plans
- Ensure domestic supply
- Ensure inclusion and implementation of community programs in E&P contracts

E&P LICENSING AND REGULATION

- Evaluate hydrocarbon potential
- Undertake investment promotion strategies
- Licensing and administration of exploration and production areas
- Collection of State economic rights from E&P contracts

ADMINISTRATION

- Management of technical information

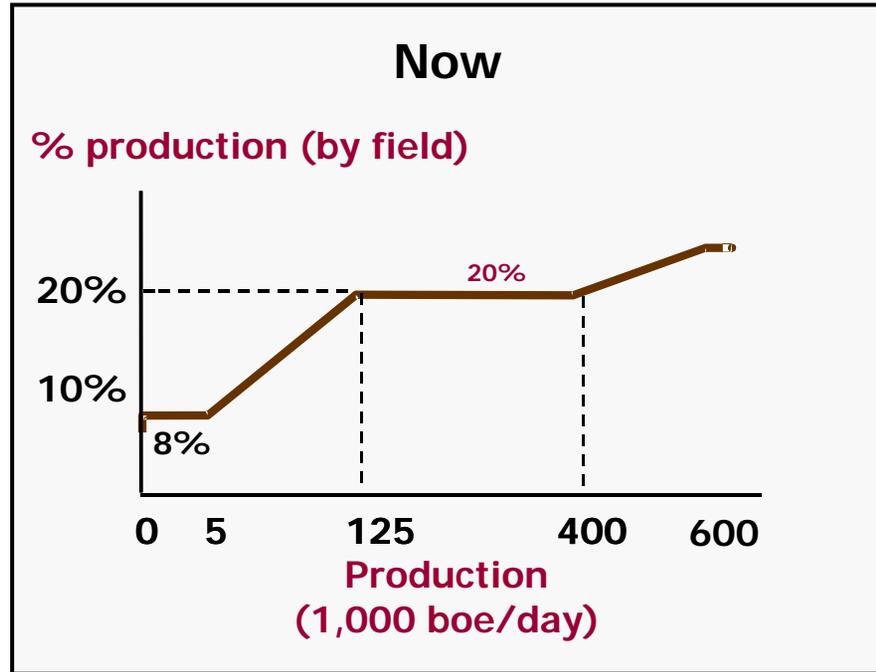
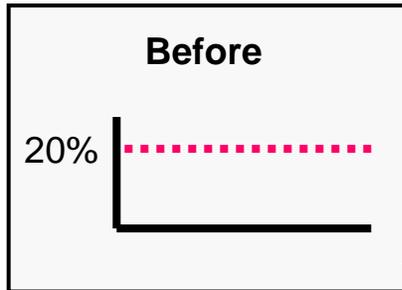


Things have changed in Colombia...

CHARACTERISTICS	BEFORE	CURRENT
Name	Association	Tax and Royalty
State contracting party	Ecopetrol	ANH
Ecopetrol's back-in	Mandatory	Not Applicable
Working interest	30%-50%	100% Contractor
Duration of production	24 years	24 years + extension to economic life*
Royalties	Pre-2001: 20% Flat	Sliding Scale (8-25%)

* Subject to specific conditions

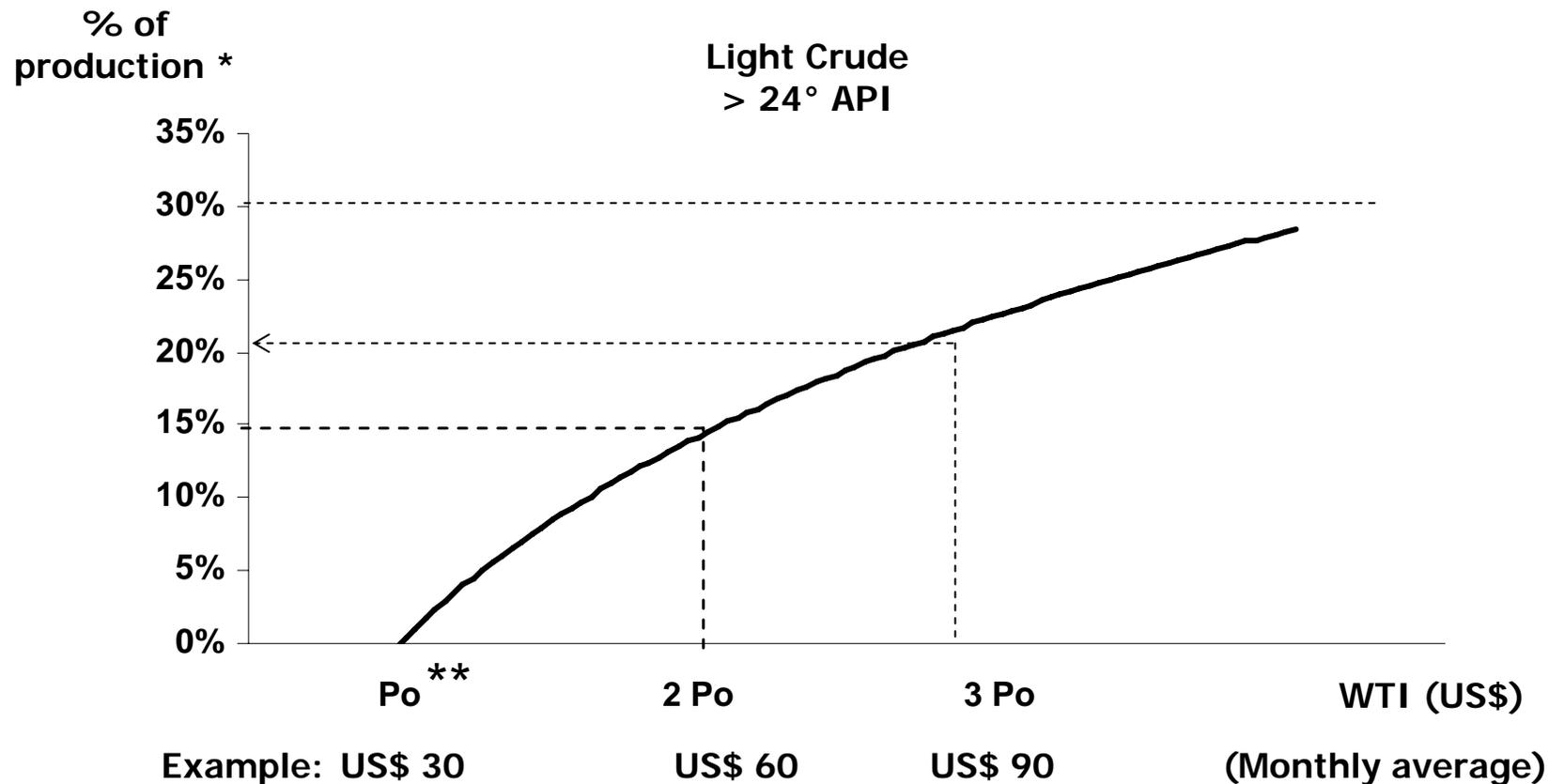
Sliding Scale Royalties (Law 756/2002)



Discount relative to light crude rates

Gas	- 20%
Heavy Crude	- 25%
Offshore gas (>1000 feet)	- 40%

High Price Participation

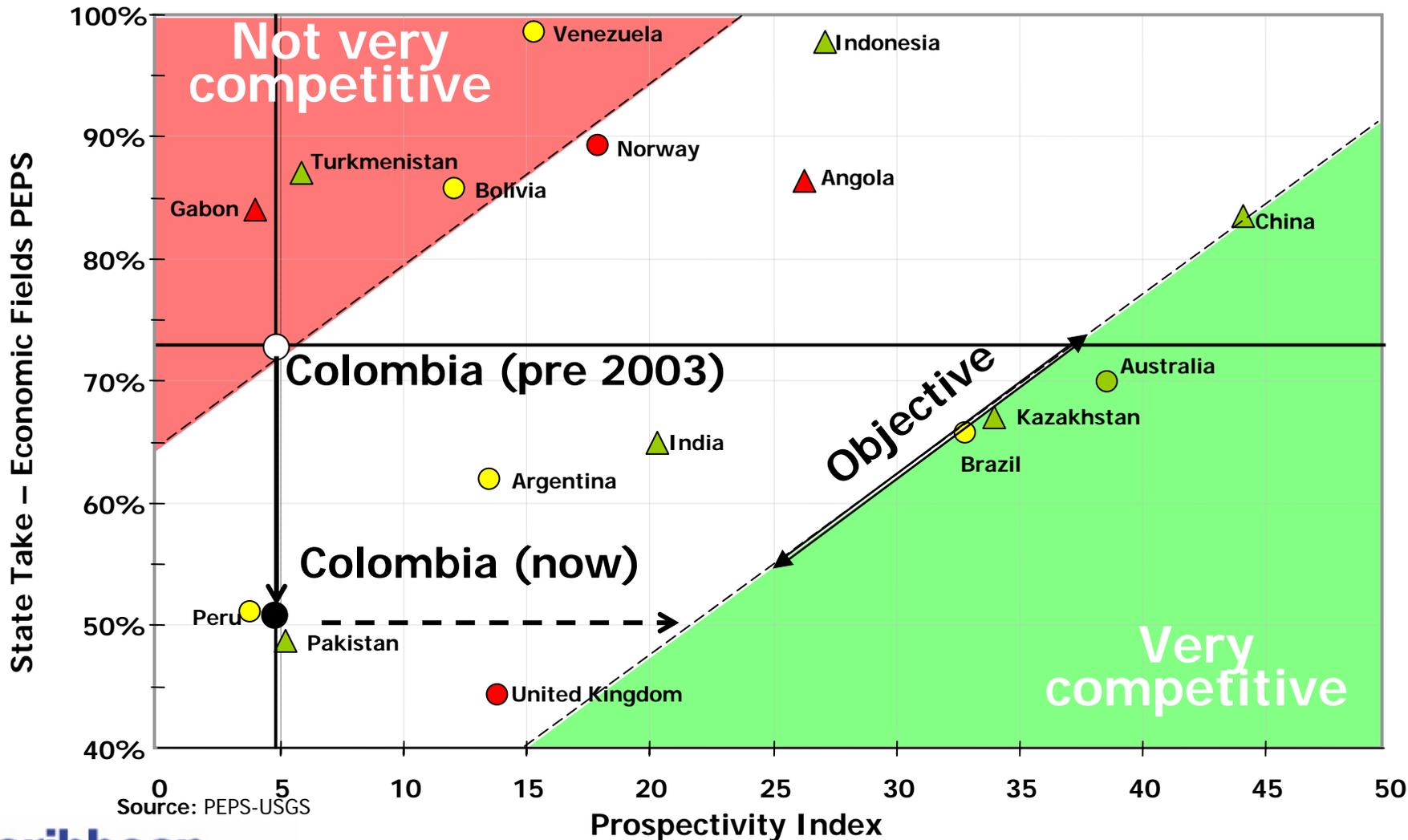


* At wellhead

** Updated annually with US PPI

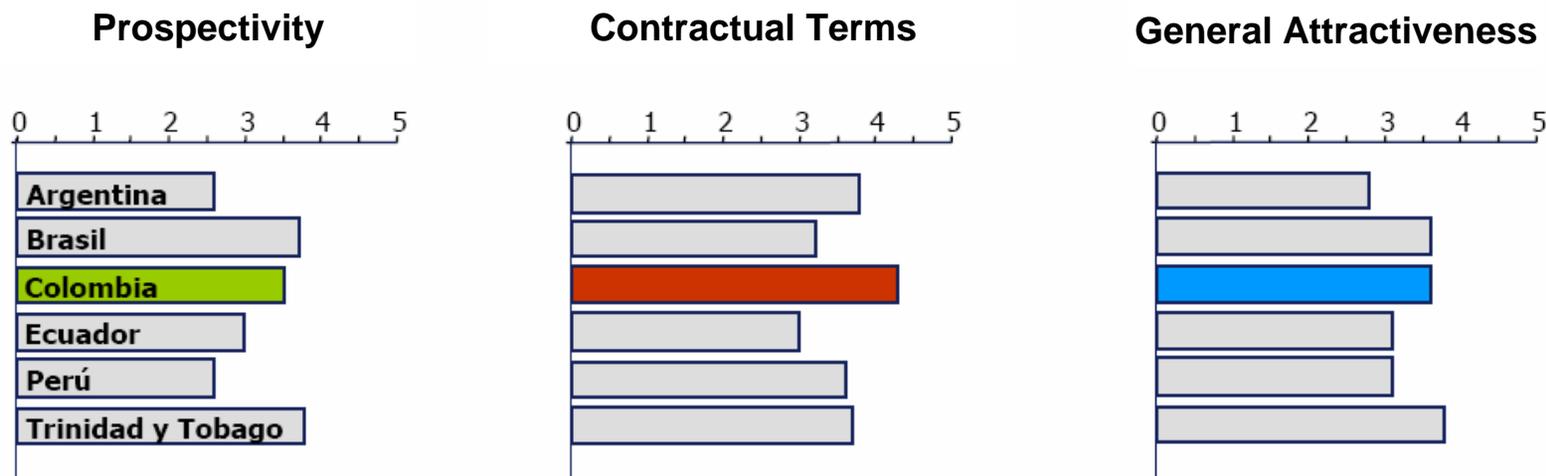
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We have improved our competitiveness...



Source: PEPS-USGS

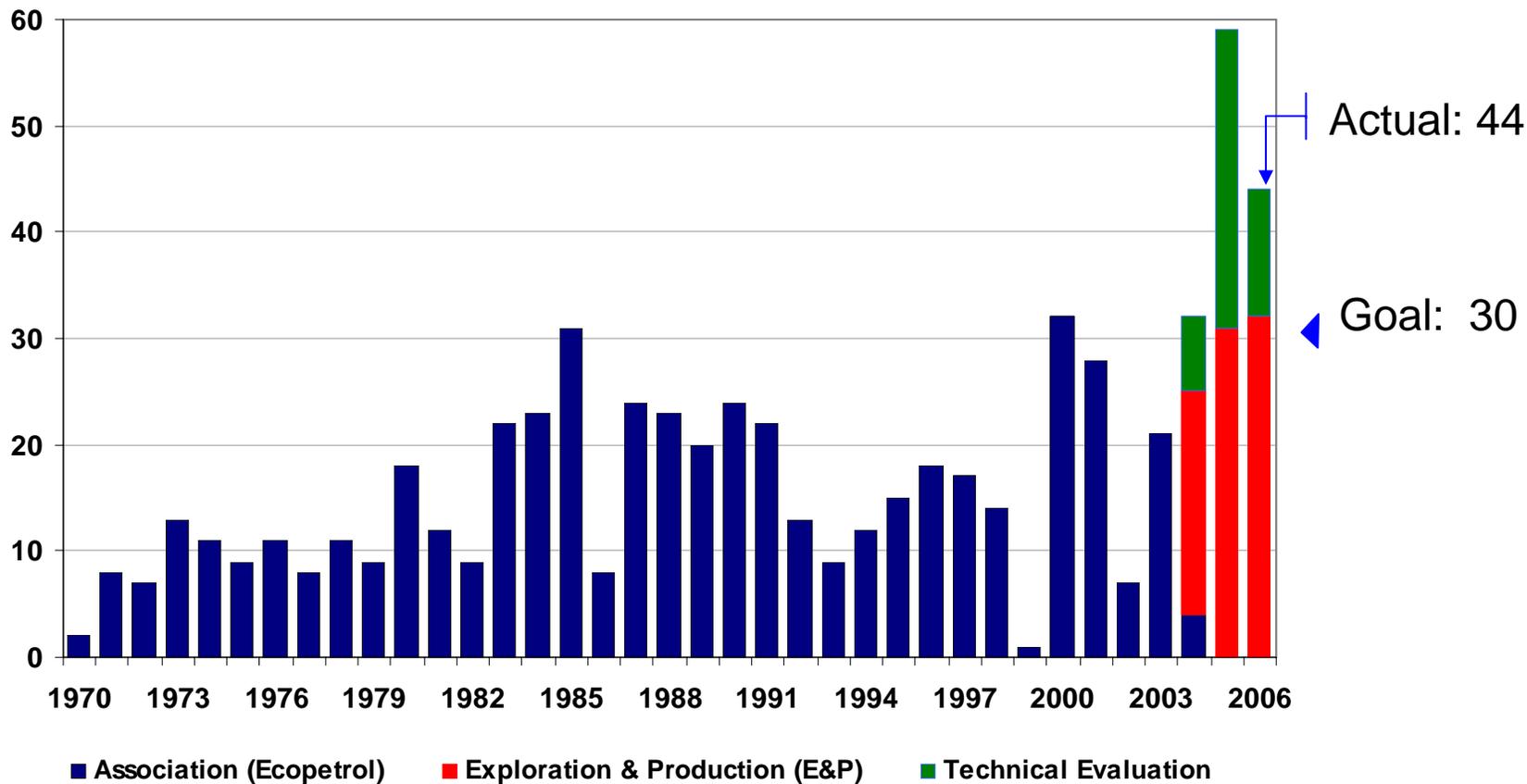
Investor's perception on Colombia's attractiveness



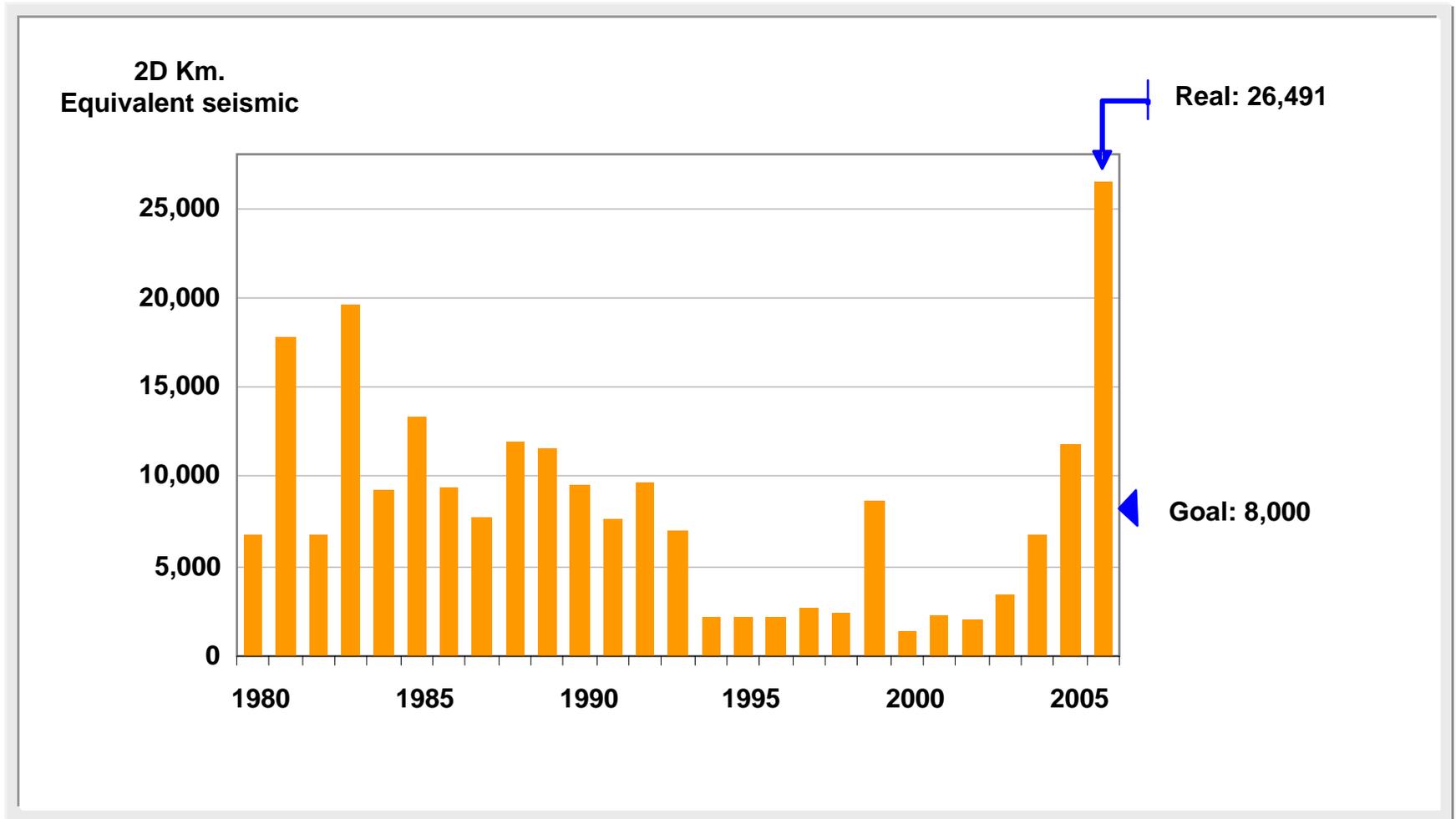
Source : Estudio Arthur D. Little y The Scotia Group. Año 2005

Licensing activity has increased...

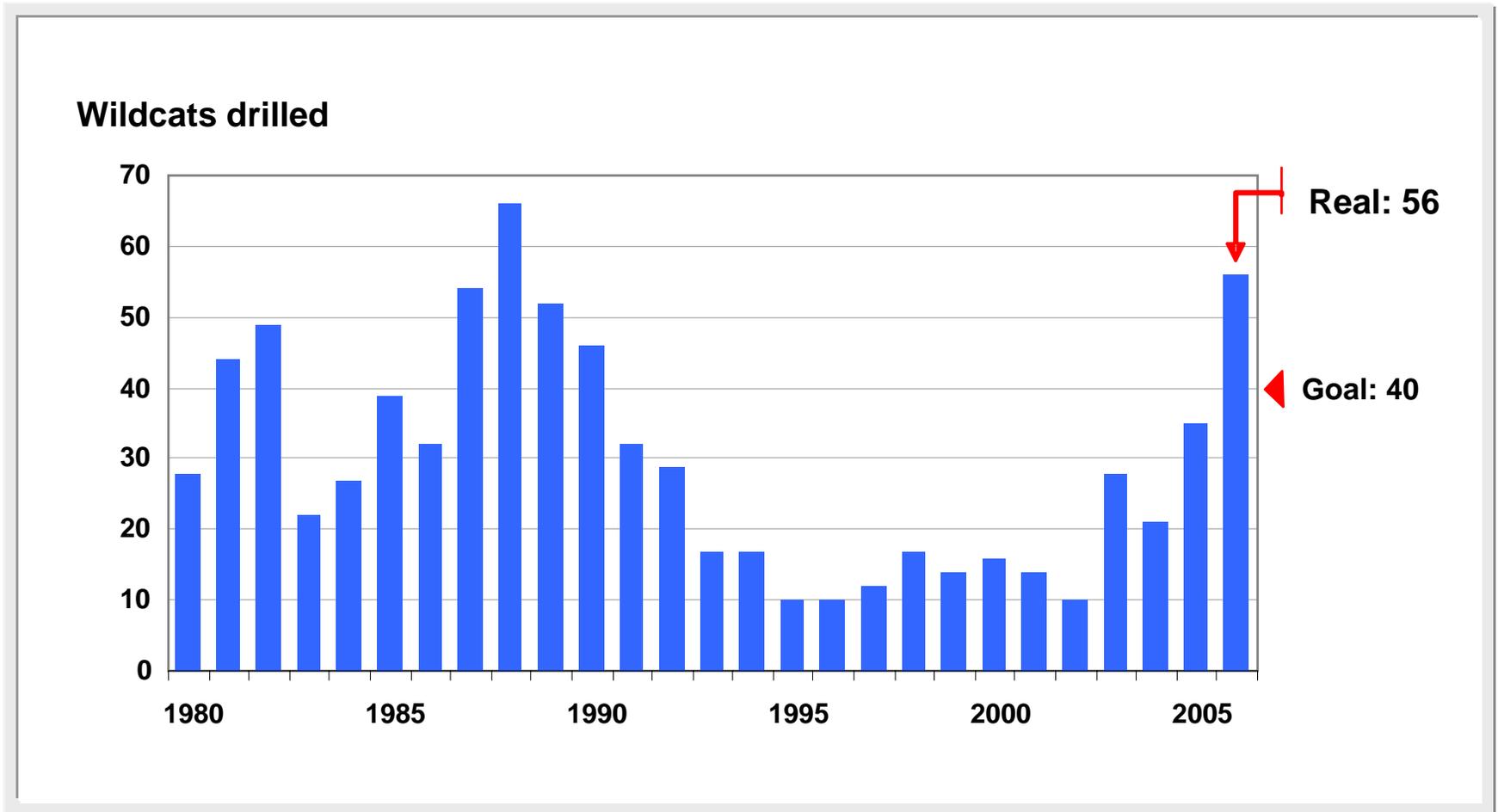
Contracts



2006 saw the highest seismic activity level...

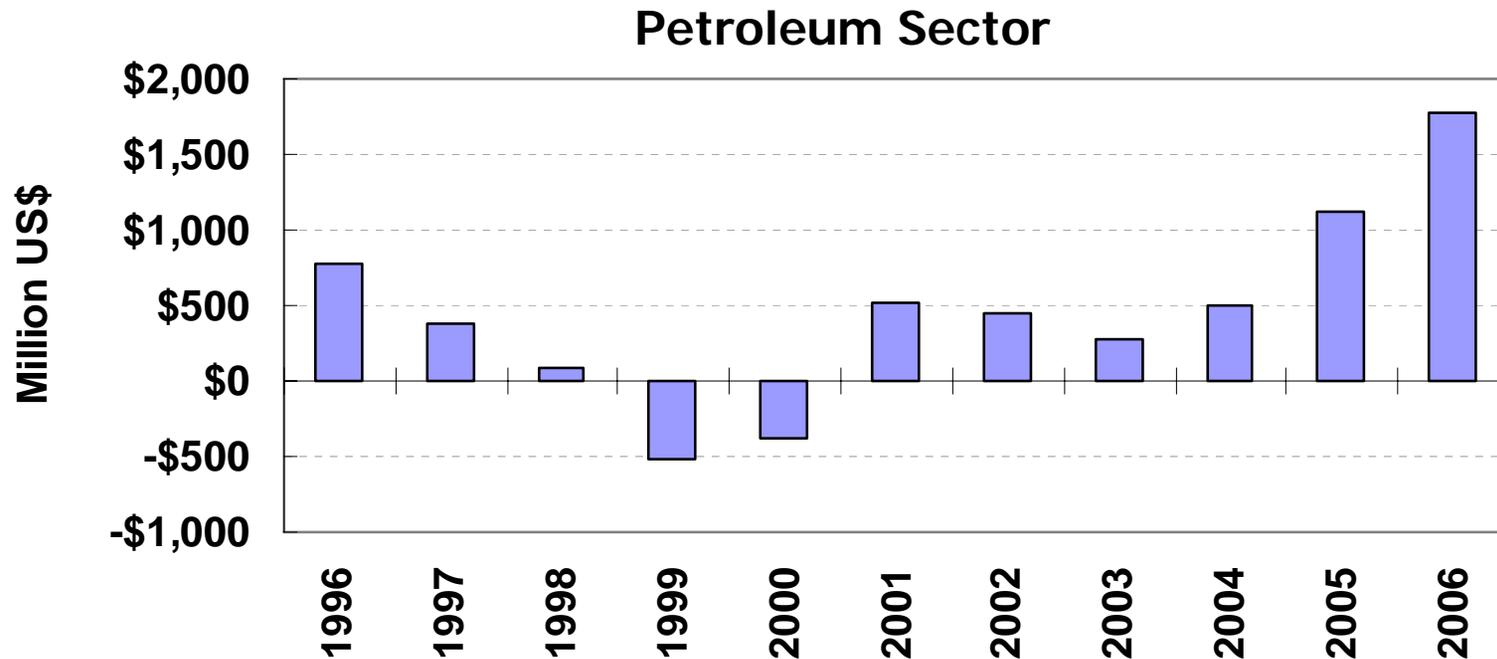


... the second number of exploratory wells...



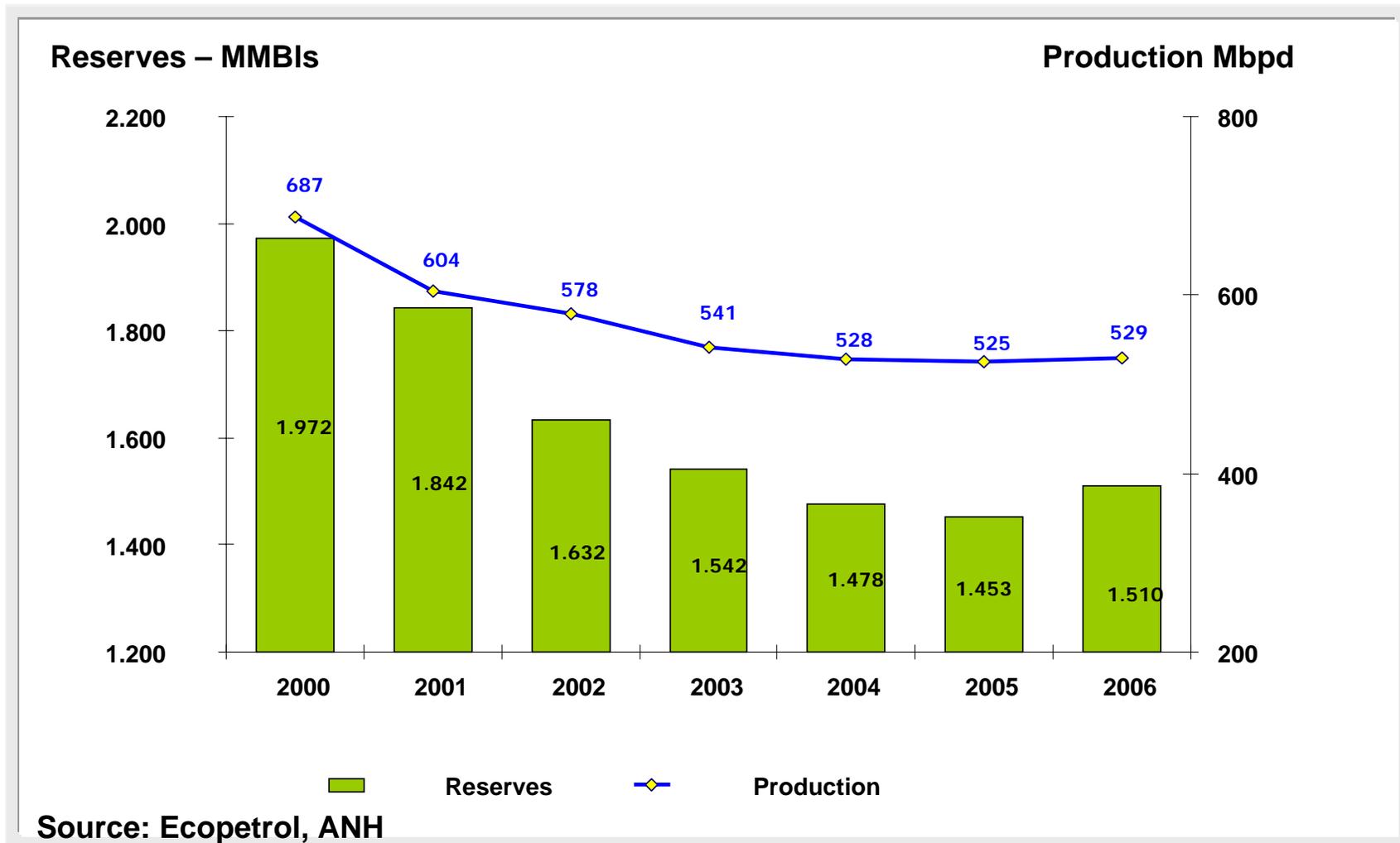
... and the highest level of foreign investment

Net direct foreign investment flows:

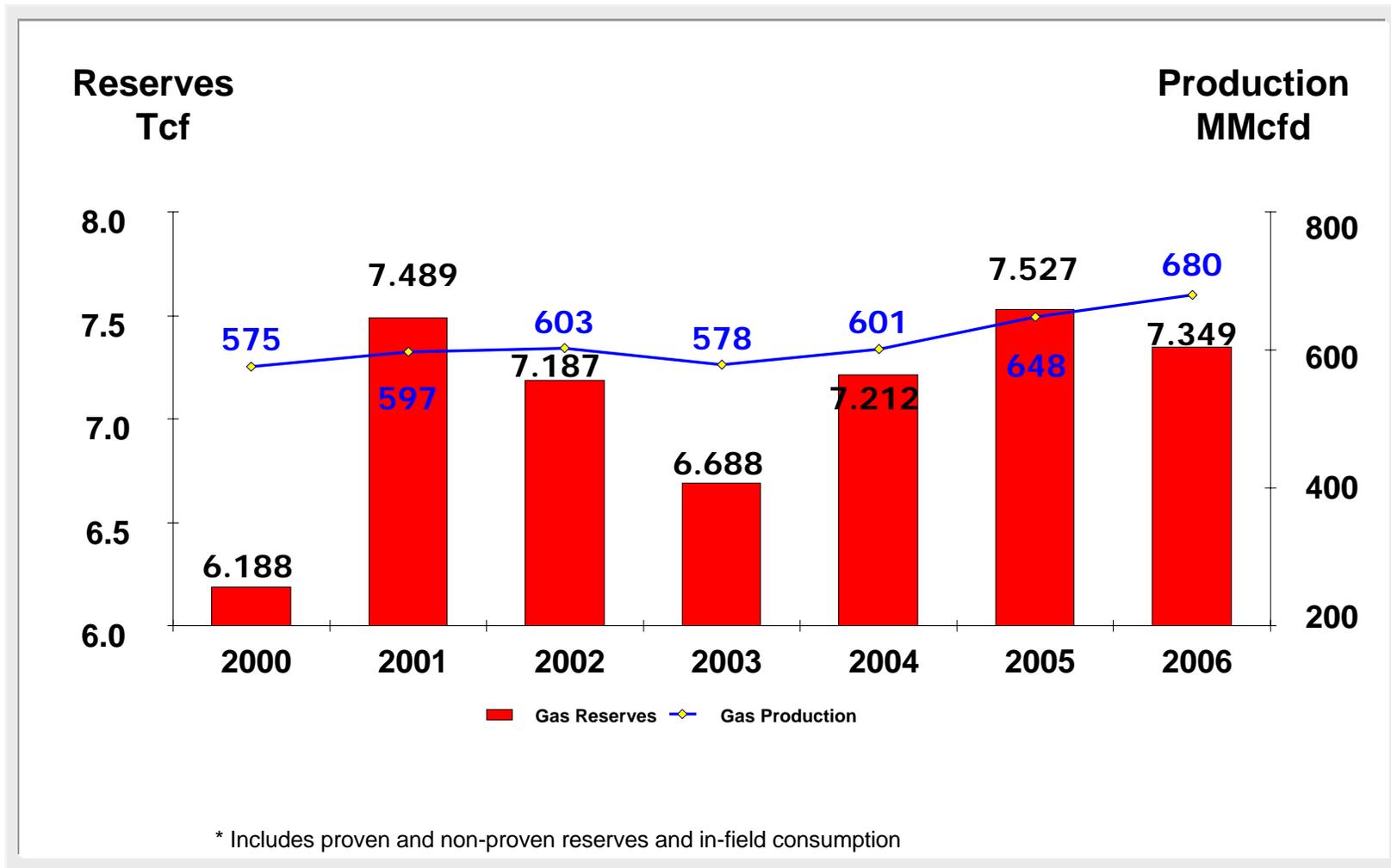


Source: Banco de la República

Resulting in a reversal of the declining trend in production and reserves...

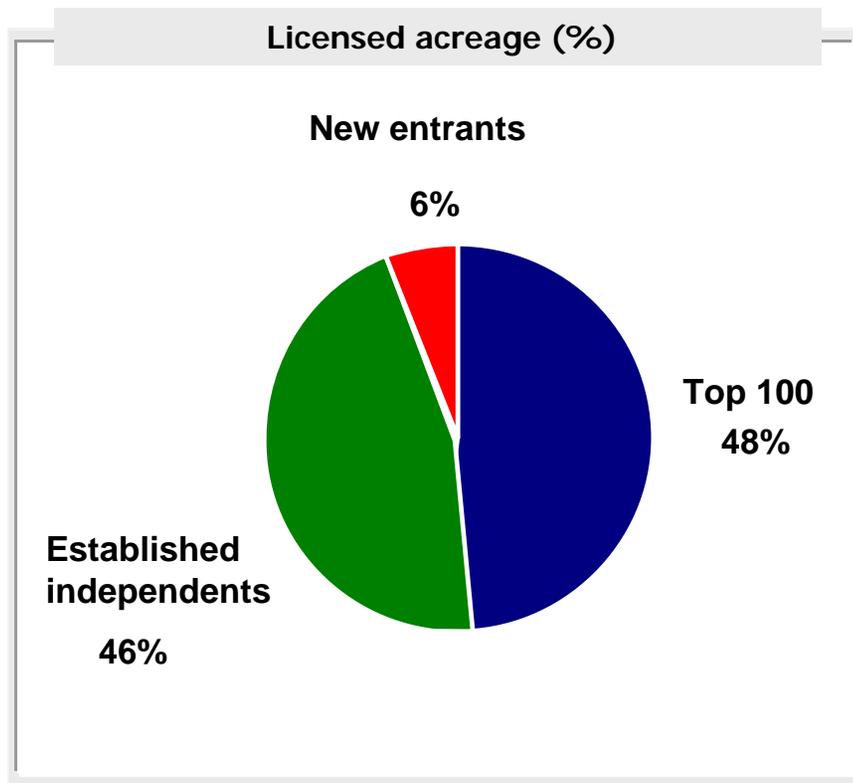


While gas production continues its positive trend...



Source: Ecopetrol, ANH

All types of companies are active...



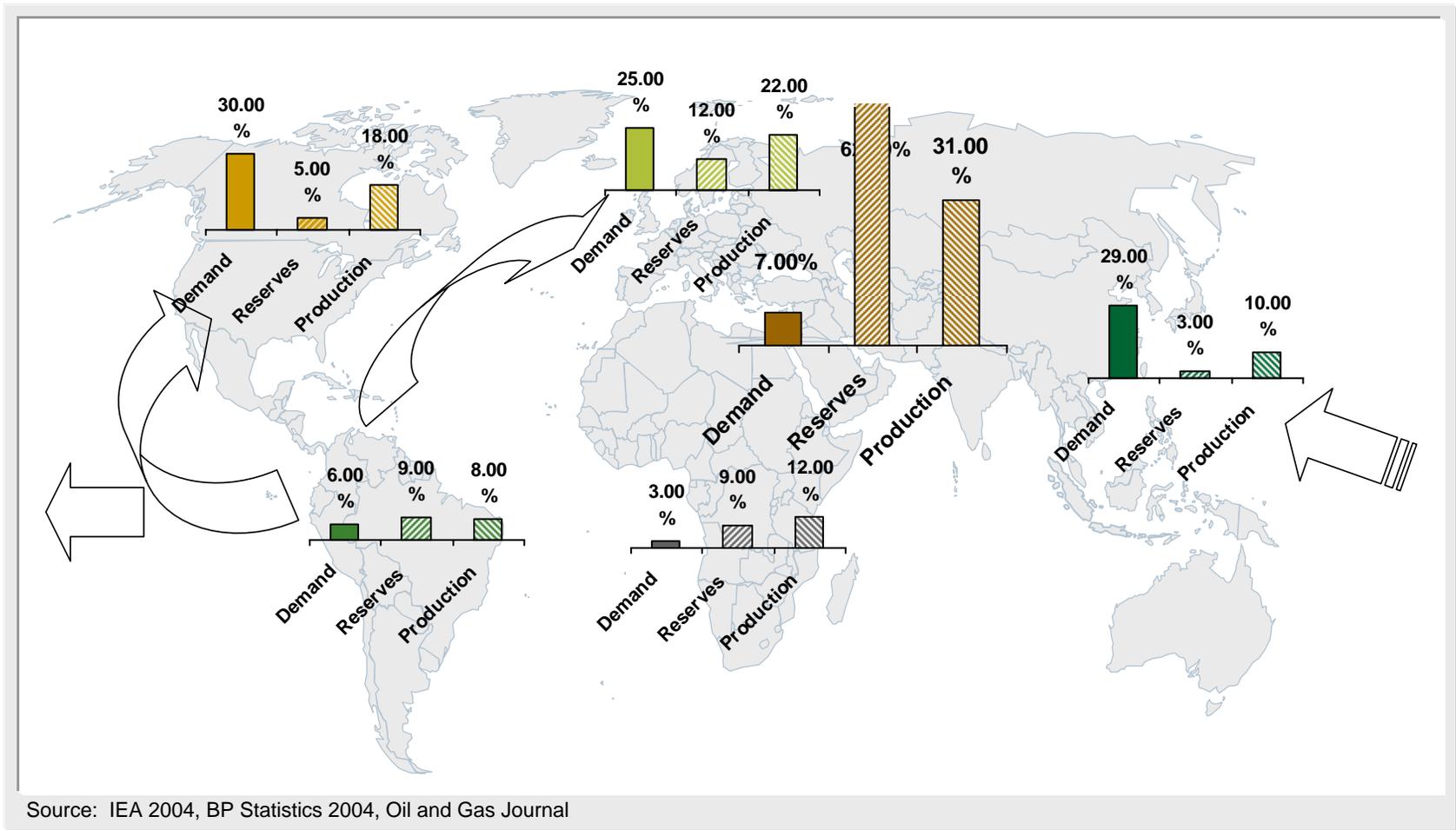
PIW Top 100 companies:



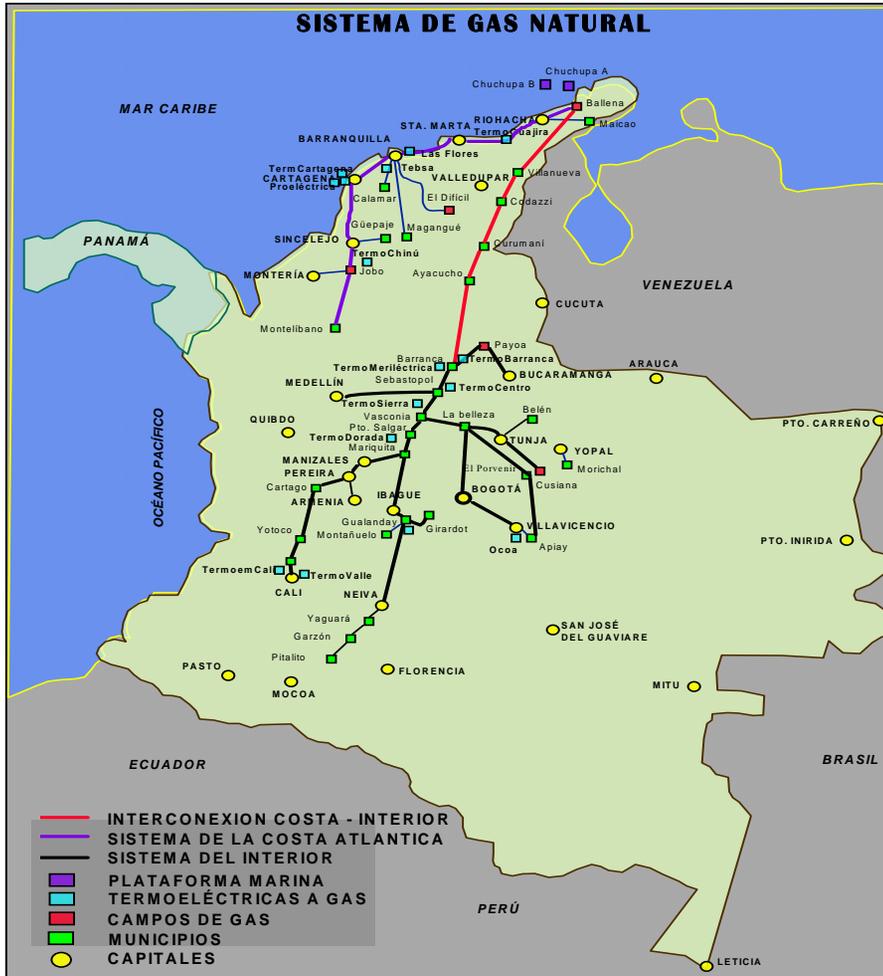
Líder en Colombia



Colombia is well located relative to the largest markets...



Developed domestic market -> export potential



Fuente : Ecopetrol (Revisado en Feb./99 por Estudios Energéticos)

Gas Pipelines:

Larger than 14" : 2,120 km
 Smaller than 14" : 3,580 km

Compression:

BHP : 50,000

Maximum Capacity:

Coast : 480 MMcfd
 Interior : 350 MMcfd

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Conclusions

- Attractive environment for Caribbean Round
- Competitive contract terms
- Diverse E&P opportunities with upside potential in frontier areas
- Positive industry response
- Ready markets for both oil and gas



Legal and Contractual Framework

Bogotá - Houston – London –Singapore - Calgary



- Sub-surface resources belong to the State
- Foreign and domestic companies may explore and obtain production from these resources under an Exploration and Production Contract with the ANH
- Contracts are granted by the ANH through various mechanisms, including bidding rounds

New Structure of the Petroleum Sector in Colombia

- Ministry of Mines and Energy. Regulator and follow-up of field operations.
- ANH - Manager of the oil & gas State subsurface resources. Defines terms and conditions of oil & gas contracts and regulates upstream activity.
- ECOPETROL – Upstream and midstream oil and gas commercial activities.
- Other Ministries/Agencies charged with other aspects such tax, HSE etc. (industry standard practices)

Change in Contract Form and Substance

- OLD - Association Contracts
 - R Factor
 - ECOPETROL steps in at commerciality declaration
 - 20% royalty

- NEW – E&P Contract
 - A tax and royalty-based (sliding scale) contract with no carry or step in of ECOPETROL

- Model E&P Contract developed to reflect:
 - Requirements of Decree 1760 of 2003 (creation of ANH)
 - Colombian legal framework and background
 - International practice and experience
 - Suggestions received during consultations with companies (via ACP) and various Government Ministries and Agencies
 - Since Model Contract was issued (August 2004), ANH has awarded 93 contracts, of which 86 are currently in effect

- Current Model Contract incorporates a number of improvements based on comments from companies

- ANH does not expect changes to the Model Contract for the Caribbean Round but remains open to constructive feedback and commentary
 - Model contract issued with Initial Terms of Reference in April
 - Final model will be included in the Definitive Terms of Reference to be issued in August

Key Contract Terms

- Investments at the risk and cost of the Contractor
- Minimum investment obligations
 - Guaranteed by Letters of Credit
- Pre-defined periods
- Mandatory partial relinquishment at the end of each Exploration Period
- Contractors responsible for the activities of their subcontractors
- Contractor performance standard of “best industry practice”

Key Contract Terms (cont.)

- Environmental permitting for each activity undertaken
 - Seismic - no license required, Environmental Management Plan
 - Exploration Drilling – environmental license required
 - Development – blanket authorization

- Adoption of petroleum industry “Best Practice”
 - Environmental protection
 - Operational safety
 - Conservation of the petroleum resources

- E&P Contract covers Exploration and Production Phases

- Contractor owns the rights to all production, net of royalties

- Exploration Periods/Relinquishment
 - 3 + 3 + up to 4 extension years
 - Relinquish 50% to move to second period, 50% of remainder to move to third period
- Minimum Exploration Program for each period
- Possibility of extension for evaluation of discovery in Exploration Phase
- Companies have 4 months from end of exploratory drilling to advise ANH of discoveries made, along with required tests/evaluation reports

Minimum Exploration Programs

- Separate pre-defined obligations for each exploration period
- First period
 - At least seismic program
 - 2D seismic
 - or 3D at conversion rates to be defined
- Second period
 - 1 A-3 exploration well
- Extensions
 - 2 periods of 2 years each possible, subject to agreed additional exploratory work program

Minimum Exploration Programs (cont.)

- Each period requires guarantee acceptable to ANH (standby letter of credit or insurance bond)
 - Approximately US\$ 5 million for first period
 - Amount set at time of renewal for second period
 - Performance of work program is guaranteed

- Drilling at Contractor's option during the first Exploration Period
- All wells have pre-defined target formation and need to be advised to MME
- Additional exploration activity may count towards obligation in next exploration period
 - Subject to ANH pre-approval of program
 - All periods will have minimum commitments

Evaluation Phase

- All evaluation plans must be submitted within 6 months of end of drilling (in all cases prior to end of Exploration Period)
- Maximum duration of evaluation is 2 years (if appraisal wells included), otherwise 1 year
- Results of evaluation must be submitted to ANH within 3 months of completion of plan with clear indication if there is a Declaration of Commerciality, or not
- Additional 2 year extension may be requested in the case of natural gas or heavy oil, to allow further evaluation of commercialization options
- Areas under an evaluation plan are excluded from area relinquishment obligations

- Initiated at any time during the Exploration Phase
- Development Plan must be submitted within 3 months of the Declaration of Commerciality
 - Covers all aspects of field development and production

Contents of Development Plan

- Map of proposed production area
- Estimation of reserves
- General description of development plan (wells, reservoir management plan, facilities, abandonment plan, etc.)
- Forecast of annual production
- Identification of critical factors and proposed handling
- Proposed delivery point
- Proposed basket of crude oils for production valuation purposes

- ANH only verifies contract compliance
- Approval is deemed granted if no objection/request for additional information by ANH is issued
- During its execution, the Development Plan can be modified by the Contractor, with prior notice to ANH
- Standard of approval – best industry practice, consistent with Colombian law

Production Phase

- Starts with Declaration of Commerciality
- Initiated at any time during the exploration phase
- 24 year duration
- Contract can cover several fields
- Right to export production
- Term extension in event of available production, subject to certain conditions

- Required by Law. Limited application to date in Colombia
- Principle is that neighboring contractors sharing a discovery agree to a joint development approach
 - In absence of such agreement, MME will decide
- Where field extends into open areas, ANH will extend contract area subject to certain conditions

Domestic Market Supply Requirement

- Contractor free to commercialize production in international markets
- If ordered by MME to supply domestic market, up to 50% of production must be dedicated to supply the domestic market
- Pricing will be based on international market pricing as established in MME Resolution 18-1709/2003
 - In no event will the price be less than that used for the calculation of royalty or ANH participation (windfall price or the X% bid)

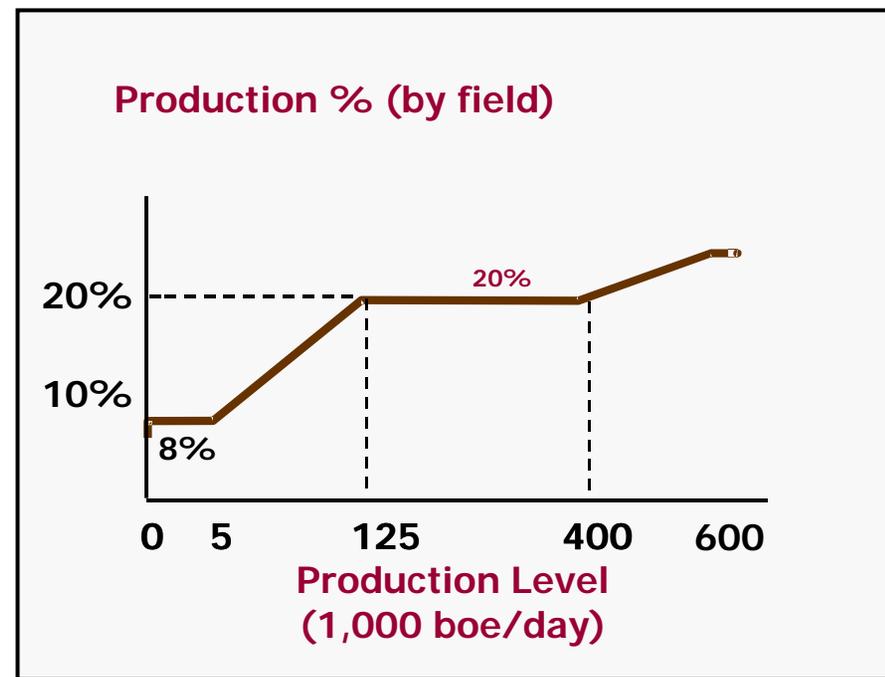
- Sliding Scale Royalty
 - Specific discounts for offshore oil and gas, onshore gas and heavy crude

- Participation of ANH
 - X% bid
 - High Price Participation

- Other Fees & Payments
 - Administration fees
 - Surface Rental Payments
 - Technology Transfer Payment

Sliding Scale Royalty

- Paid monthly
- Based on gross value of hydrocarbon production from each field (calculated by MME)
- Paid in cash/kind at election of MME
 - Current practice: oil in kind, gas in cash (but evolving with changes in sector)
- Applicable to all fields throughout term of Contract



Discount relative to light crude rates

Gas	- 20%
Heavy Crude	- 25%
Offshore gas (>1000 feet)	- 40%

High Price Participation – Oil

- Oil - applicable where gross cumulative production has exceeded 5 million barrels AND price is in excess of benchmarks

$$\text{Payment to ANH} = \left(\text{Value of Hydrocarbons At the Delivery Point} \right) \times \left(\text{CONTRACTOR'S Volume of Hydrocarbons} \right) \times \left(\frac{P - P_0}{P} \right) \times 30\%$$

Factor "A"

- where P = WTI and
- Po = (see table)

API Gravity	Po (2007)
Below 10°	0
10-15°	\$41.45/Bbl
>15 and ≤ 22	\$30.43/Bbl
>22 and ≤ 29	\$29.34/Bbl
>29	\$28.25/Bbl
Offshore Production from > 300m	\$34.77/Bbl

High Price Participation – Gas

- Gas – applicable after 5 years from production start AND where gas is for export AND where Henry Hub benchmark exceeds base price

$$\text{Payment to ANH} = \left(\text{Value of Hydrocarbons At the Delivery Point} \right) \times \underbrace{\left(\text{CONTRACTOR'S Volume of Hydrocarbons} \right) \times \left(\frac{P - P_0}{P} \right) \times 30\%}_{\text{Factor "A"}}$$

where P = Henry Hub and P₀ = (see table)

Straight-line distance between Delivery Point and point of receipt in destination country (kms)	US\$/MMBtu (2007)
>0 and ≤ 500	\$6.52
>500 and ≤ 1000	\$7.60
>1000 or LNG plant	\$8.69

Surface Rentals

- Payment for each period during the Exploration Phase, commencing in second Exploration Period (per hectare)

Size of area	For the first 100,000 Has.		For each additional hectare after 100,000 Has.	
	≤12 months	> 12 months	≤12 months	> 12 months
Outside the polygons	0.5	0.75	0.75	1.0
Offshore areas	0.25			

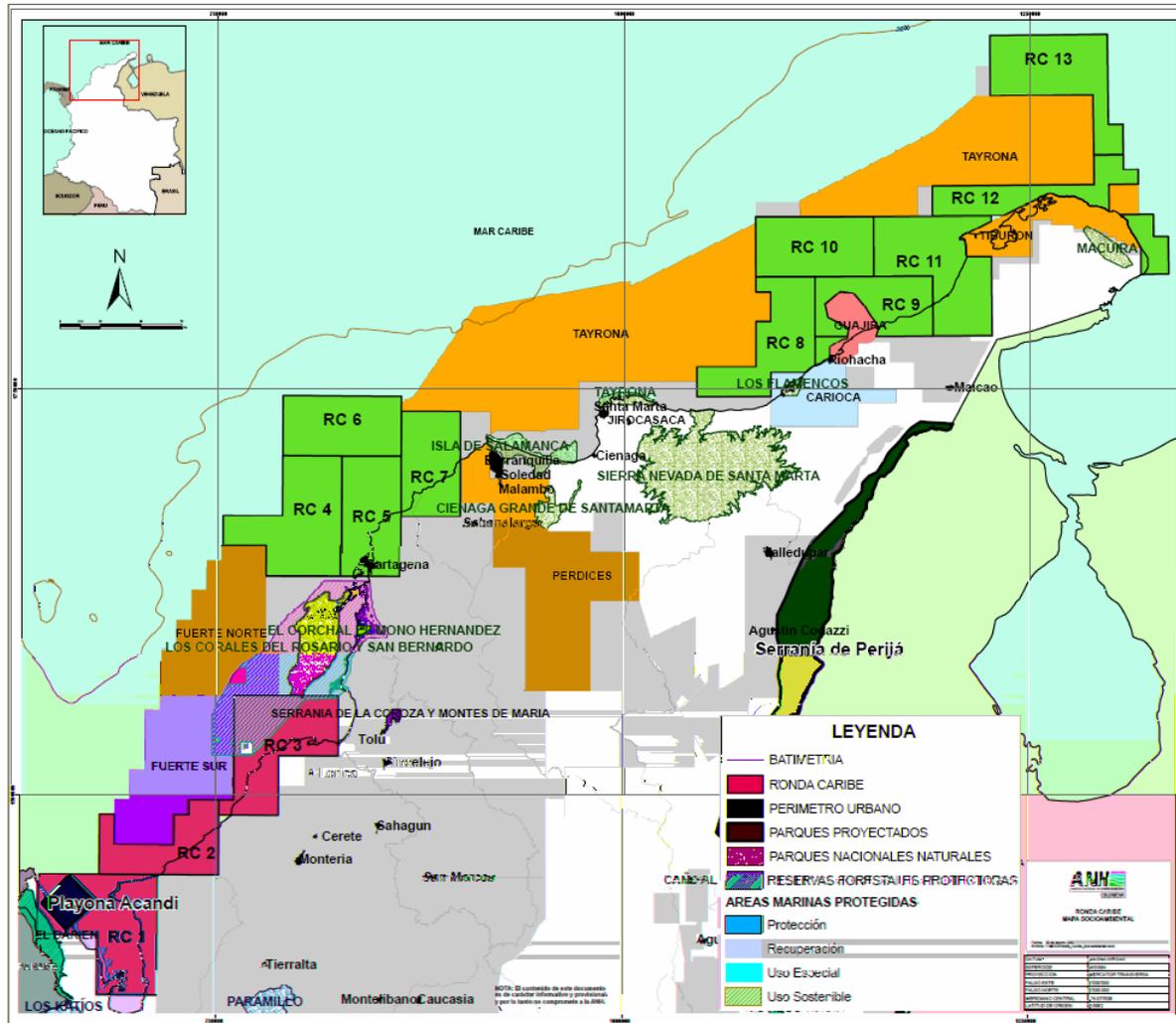
- Excluding any areas held under a Development Plan
 - Areas held under Evaluation Plan or Development Plan pay the applicable rental fee on an annual basis
- All producing areas also pay a bi-yearly amount to the ANH, in 2007:
 - \$0.1086/Bbl of Contractor's oil production
 - \$0.01086/Mcf of Contractor's gas production
- All amounts subject to U.S. inflation index (PPI Finished Goods WPUSOP 3000)

Technology Transfer Payment

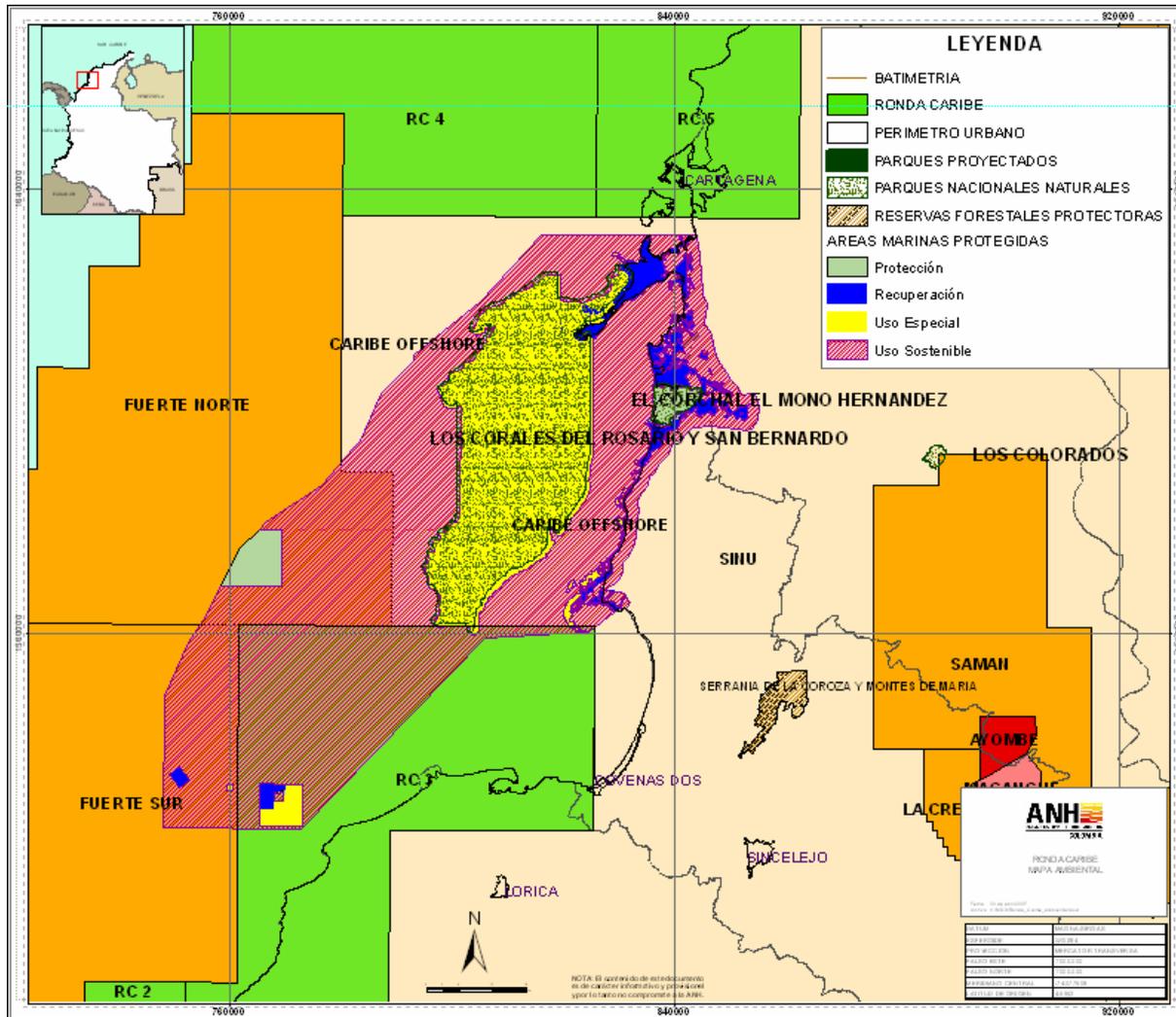
- Funds intended for investment in petroleum industry-related training, research, education, etc.
- Calculated as 25% of applicable surface rental payments
- Technology transfer payments subject to maximum annual amount of US\$ 100,000

- Where necessary, check for presence of indigenous or Afro-Colombian communities in the project's area of influence (Interior and Justice Ministry). Prior consultation, in case of presence.
- Foreign flag ships involved in exploration activity need permit from DIMAR (Colombian maritime control agency)
- Verify environmentally sensitive areas: Protected marine area and area projected for incorporation into the national parks system (see maps)
- Environmental license for exploratory drilling or marine production activities (Ministry of the Environment)

Environmentally-sensitive areas



Environmentally-sensitive areas



- Drilling and developing field - event-based reporting to MME (Decree 1895/1973)
- Annual reports
 - Reserves
 - Production Plan
 - Changes to Development Plan
- Executive report, each semester
- Monthly production reporting to ANH
 - Variations in excess of 15% from initial forecast reconciled quarterly

- ANH Board Agreement 24 of 2006 stipulates obligations
- All data acquired (seismic, logs, cores, etc.), interpreted for each phase must be provided to the ANH by end of the exploration phase and/or by year (in the production phase)
- Data is subject to confidentiality agreements
 - Seismic 5 years
 - Well logs 5 years
 - Interpreted information 20 years

- In compliance with obligations in the Development Plan, Colombian Law and Best Practices of the Petroleum Industry
- Commence capitalization of a fund 30 days after production starts, in the form of a trust, bank guarantee or other instrument acceptable to ANH
 - Required annual contribution to Abandonment Fund (A_{MA})

$$A_{MA} = (P_{AH} \div R_{IH})^2 \times C_{AB}$$

- P_{AH} = Accumulated Production; R_{IH} Proved reserves and C^{AB} = Abandonment Cost
- Existence of fund does not waive Contractor liability for full and proper abandonment

- Duties are applicable on imported equipment and expendables
 - Temporary import license
 - Some duty exemptions apply for oil and gas E&P activities

- Notice to ANH required only for mergers, spin-offs, takeovers
- Assignment subject to prior approval of ANH (and qualification of assignee, if applicable)

- Issue in dispute put to top legal representative of each party to resolve. If not resolved within 30 days, then:
 - Technical/accounting issues – 3 member expert panel, 30 days to resolve
 - Legal - Arbitration with rules of and in the Bogotá Chamber of Commerce, 3 arbitrators, Colombian law, Spanish language