

## Context: Transporting Chad's Oil

A new stream of revenue opened up for Chad and Cameroon in the fourth quarter of 2004, as the Project passed its “financial completion” milestone with declaration by the lenders that the Project has been properly built. The new revenue flows from the two countries’ participation in the Export System that transports Chad’s oil to market. (Pipeline activities in Chad are conducted by TOTCO, the Tchad Oil Transportation Company S.A. Pipeline activities in Cameroon are conducted by COTCO, the Cameroon Oil Transportation Company S.A.)



This COTCO pump station at Dompta, Cameroon, operates around the clock to help transport Chad’s crude oil to market, one element in the Project’s two-country Export System — a 1,070 kilometer pipeline from southern Chad to the coast of Cameroon, three pump stations that propel the oil through the pipe, and the marine terminal offshore near Kribi that loads the oil onto export tankers.

The new revenue began accumulating in the fourth quarter of 2003 and the financial completion milestone has cleared the way for disbursement. The two governments, as shareholders in the transportation companies, received lump

sum revenues totaling \$28.2 million, representing their shares of accumulated transportation revenues. Chad received \$11.9 million and Cameroon received \$16.3 million. Going forward, the transportation-related payments will be made as they are generated.

This transport-related revenue represents only one segment of the payments being made to the two host countries. In addition to the transport-related revenue, Consortium activity generates for both countries a variety of customs duties, employee taxes, and license fees. In addition, each country has particular sources of revenue. As 2004 ended, Chad had received from the three Consortium members a total of \$149 million in royalties from the sale of its oil and Cameroon had received \$26 million in transit fees paid by COTCO.

For more information on the Project completion and financial closing milestone, see the section on *Production & Construction* in this report. More information on Chadian oil production levels and revenue from oil sales can also be found in that section, along with the background material in *Quarterly Report #16* in the section *Context: Marketing of Chad's Oil*.

#### Oil Transportation Costs

Delivering the Chadian oil to market consumes nearly one-third of the total revenue the Consortium members receive from sales of Chad's Doba Blend crude oil. A major portion of these transportation-related costs goes to recover the investments made by the shareholders of the pipeline companies. The shareholders had to pay for the construction of a pipeline system where none existed before, and cover the daily expense of operating and maintaining the new system.

- About 60% of the roughly \$4 billion Project construction cost went to building the Export System with its pipeline, pump stations and marine terminal.
- In addition, about one-half of the Project's day-to-day costs go to operating the Export System.

A multi-layered set of interlocking contracts and agreements dictates the calculation of the oil transportation charges that TOTCO and COTCO collect from the members of the Consortium, the shippers of the crude oil. However, the transportation charges can be simplified into four categories: a transit fee paid to Cameroon by COTCO, the costs of operating and maintaining the Export System, the repayment of commercial lender debt that helped finance the construction, and recovery of the investments made by the shareholders in the Export System including the Republics of Chad and Cameroon.

**Cameroon's Transit Fee:** In the negotiations prior to construction of the Project, COTCO agreed to pay the Republic of Cameroon a transit fee for the passage of Chad's crude oil through its territory. The fee is \$.41 per barrel sold through the marine terminal.

**Operating and Maintenance Costs:** The costs of operating and maintaining the Export System must be covered. These costs include the full range of day-to-day expenses for any similar business, including salaries and benefits of the

pipeline company employees; vehicles; supplies; spare parts; equipment and maintenance; medical treatment facilities; fuel to operate the facilities; administrative offices in Douala, Komé and N'Djaména; along with many other operating and maintenance costs.

**Repayment of Debt:** During the construction phase, payments were not required on the debt incurred to make the construction possible. However, now that the Project has been declared complete, the debts must be repaid with interest.

**Recovery of Partner Investments:** Each of the shareholders in the two pipeline companies have a contractual right to recover the investments they made in the Export System. A complex calculation, called a Throughput Payment, has been designed to accomplish that goal. The calculations are adjusted annually to ensure that the shareholders will recover their investment.

The Republic of Cameroon owns slightly more than 5% of COTCO. The Republic of Chad owns nearly 3% of COTCO and more than 8% of TOTCO. The affiliate operating companies of the Consortium members own the remaining shares of the two pipeline companies.

Together, all of these oil transportation costs absorb approximately the first 30% of the selling price of a typical barrel of Chad's Doba Blend crude oil.

Agreements A multi-layered array of more than 250 documents — loan agreements, security pledges, covenants, escrow instructions, conventions, guarantees, treaties, and other types of documents — control the allocation of the Project's revenue and expenses. These documents include thousands of pages of precise instructions.



These are a few of the more than 250 controlling legal documents that determine how the Project allocates payments to Chad and Cameroon, as well as the Consortium partners.

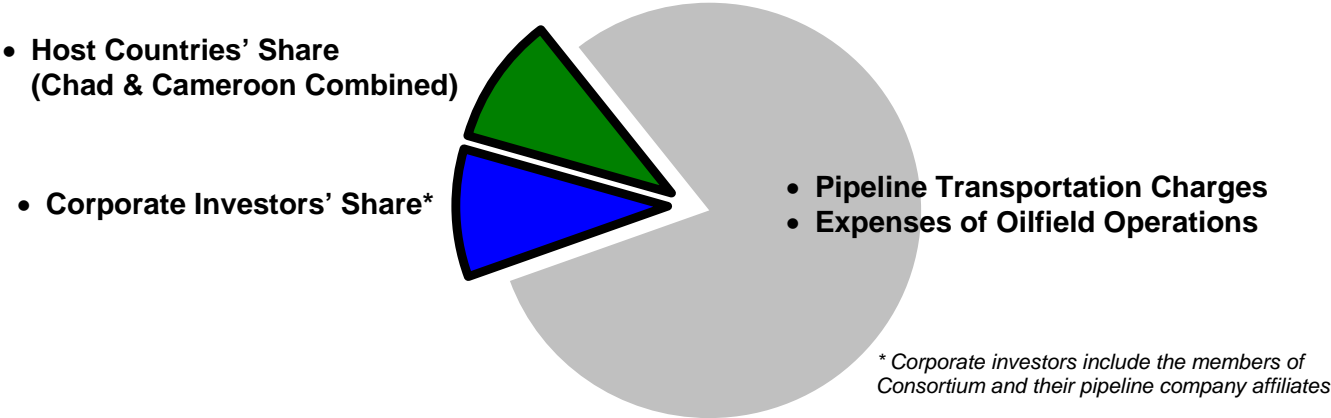
### Computing Chad's Royalty

Once transportation charges have been subtracted from the sales price of the crude oil, the Consortium pays to Chad a royalty of 12.5% on the remaining revenue. The royalty payments are disbursed to the Citibank escrow account in the United Kingdom and in turn flow to Chad as specified by Chad's Revenue Management Law.

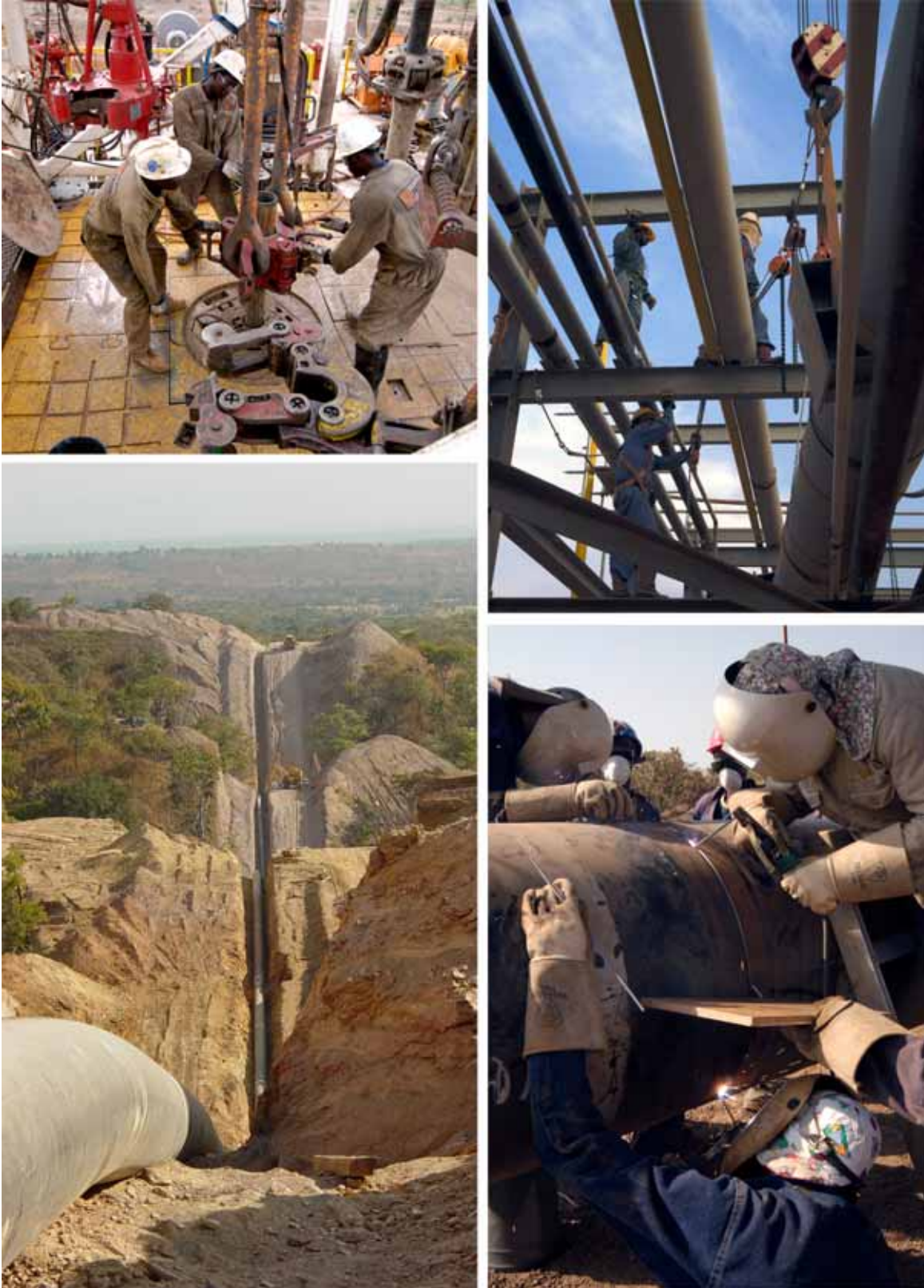
◀	Hypothetical Royalty Calculation for a Shipment of Crude Oil
\$30,875,000	Gross revenue from sale of Doba Blend crude oil <i>(950,000 barrel shipment times \$32.50 per barrel actual sales price)</i>
—\$8,550,000	Deduction for transportation charges <i>(Cameroon transit fee, operations costs, debt service, throughput payments)</i>
<u>\$22,325,000</u>	<u>Net revenue for calculating Chad's royalty</u>
\$2,790,625	Chad's royalty payment <i>(12.5% times the net revenue)</i>

The steps for computing Chad's royalty on a sale of crude oil have been spelled out in detail in the agreements negotiated by Chad prior to the Project construction. The calculation takes into account the per barrel sale price and a deduction for transportation costs before applying the royalty percentage to the net price per barrel. As provided in the agreements, independent auditors conduct annual audits to validate all sales data, cost allocations and revenue distributions. (For detailed information on the pricing of Doba Blend crude oil see *Quarterly Report #16* and the section on *Context: Marketing of Chad's Oil*.)

◀ Sharing the Revenue  
(Estimated 30-Year Project Lifetime)



As the graph shows, over the estimated 30-year Project lifetime, about equal shares of the net revenue from crude oil sales will go to the host countries and the Consortium. During the early years, the Consortium and the pipeline company shareholders must work to pay back the construction loans and to recover the money invested to build the Project. In later years, the Consortium will pay to Chad a corporate income tax ranging from 40% to 65% on its audited level of profits. In addition, the Project will continue to pay royalties and other charges such as licensing fees and employee taxes.



The construction of the Export System and the oilfield and processing facilities cost approximately \$4 billion. The construction loans must now be repaid and the investments to build the Project need to be recovered. This is accomplished using revenues from the transportation and sale of the crude oil.



In addition to the construction costs, the expenses for operations to extract the oil, process it, and then deliver it to the marine terminal also absorb a significant portion of the revenue from crude oil sales.