CENTURION
LAW GROUP
Lawyers and Business Advisors

AFRICA ENERGY FRONTIERS

CONGO BRAZZAVILLE

www.centurionlawfirm.com

CENTURION
LAW GROUP
Lawyers and Business Advisors

Centurion Law Group is a pan-African corporate law conglomerate. Operating at the cutting edge of business practices today, Centurion stands ready to provide outsourced legal representation and a full suite of legal services to new, expanding and established corporations.

From our main offices in Malabo, Equatorial Guinea, and Johannesburg, South Africa, we specialise in assisting clients that are starting or growing a business in Africa. We navigate the regulatory environments of the region's different legal jurisdictions to make sure that you can do business efficiently and successfully.

NJ AYUK
Chief Executive Officer

+1 647 308 6325
nj.ayuk@centurionlawfirm.com

ADITYA POOJARI
Author, Africa Energy Frontiers, Congo Brazzaville Report

CENTURION OFFICES

Suite 24 Katherine & West, 114 West Street
Sandton, Johannesburg
South Africa

Malabo II
Carretera entre Arab Contractors y SOGECO
Casa Centurion, Malabo
Equatorial Guinea

2nd Floor, Immueble Pallas
Rue Drouot, Akwa
P.O. Box 1319 Akwa , Douala
Cameroon

7A Church Crescent
Labone, Accra
Ghana

Abax Corporate Services Ltd.
6th Floor, Tower A, 1 CyberCity Ebene
Mauritius

info@centurionlawfirm.com

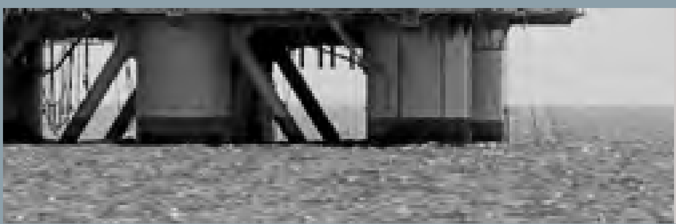
Congo Brazzaville
in Profile

The geological features and legal framework of Congo Brazzaville (known formally as The Republic of the Congo) have made the country an attractive oil and gas province, despite its reduced oil output in recent years. Deepwater developments and new pre-salt finds are stimulating investment interest in this mature producer and promise to increase production over the medium and long term.

PETROLEUM LEGISLATION
Law No. 28-2016 (October 12, 2016)

MINISTRY OF HYDROCARBONS
Minister Jean-Marc Thystère-Tchicaya

SOCIÉTÉ NATIONALE DES PÉTROLES DU CONGO SNPC
Director General Maixent Raoul Ominga



ENERGY FRONTIERS
Ultra-deepwater oil and gas production; pre-salt discovery and development; oil sands appraisal; investment in gas production and utilization.

OVERVIEW AND BACKGROUND

Oil has dominated the economy of Congo Brazzaville since the entry of supermajors Total and Eni in 1968. The country's first oilfield, Pointe Indienne, was discovered in 1951 and production started in 1957. Following independence in August 1960, Congo Brazzaville suffered a series of revolts, coups and decades of political turmoil under Marxist government, and a brief period of turbulent democratic rule from 1992 to 1997, culminating in civil war in 1997 and 1998. Peace and stability has returned to Congo under the nominally democratic rule of Denis Sassou Nguesso over the last 16 years. According to a 2013 EITI report, oil accounted for 80 percent of government revenue and 90 percent of exports before the plunge in oil prices.

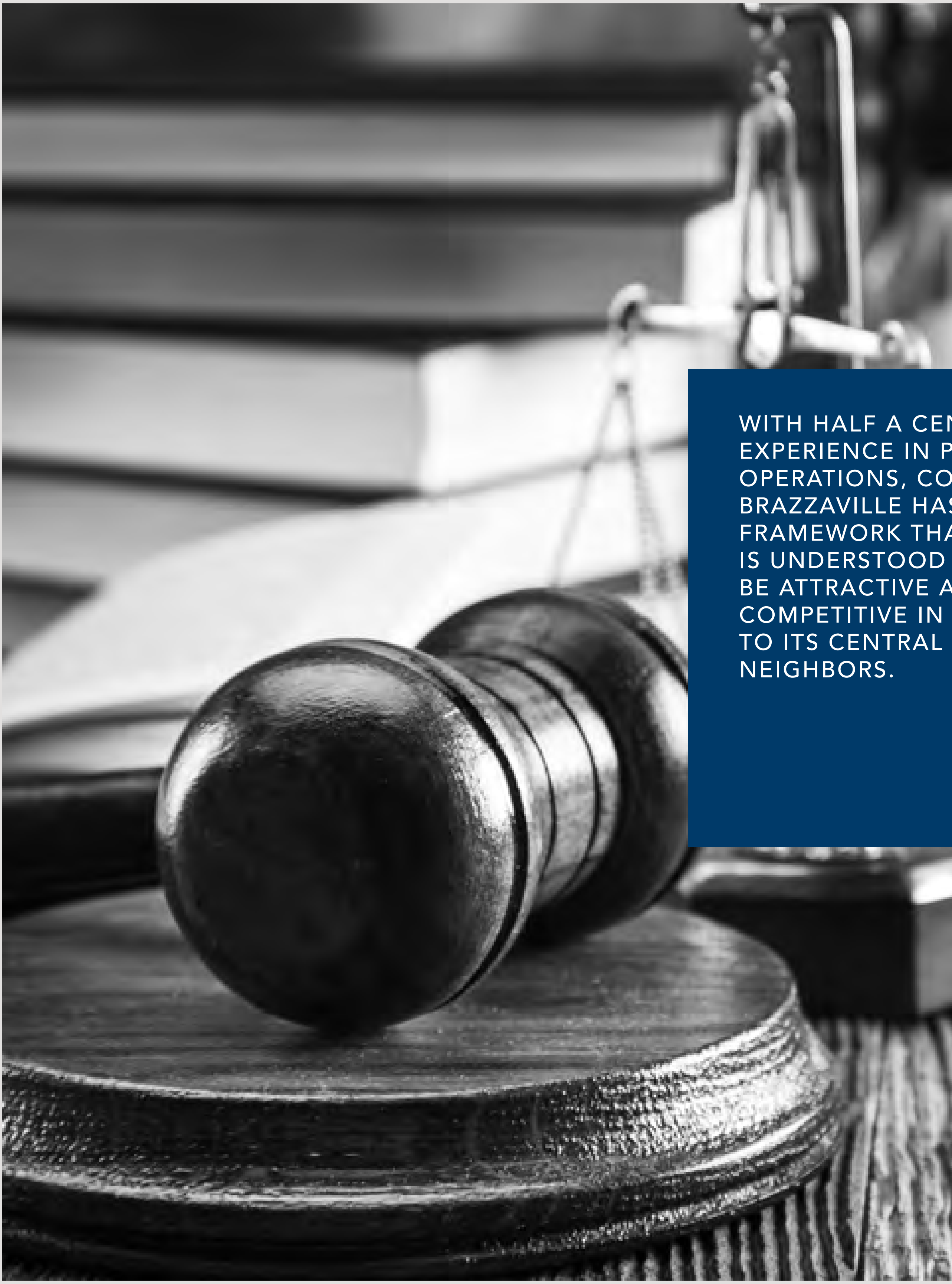
The Republic of the Congo is currently the fourth largest oil producing country in sub-Saharan Africa. In 2016, Congo Brazzaville's oil production was 238,000 barrels of oil per day. From 2006 to 2013, the country's proven oil reserves remained steady at 1.6 billion barrels, according to the BP Statistical Review for 2017.

Congo Brazzaville is a mature petroleum province, and has been one of Africa's largest oil producers since the 1970s. Although output fell during the 2000s, the entry of deepwater fields since 2008 provided a temporary production boost. New pre-salt discoveries could spur the development of mega-projects that would revive Congo Brazzaville's flagging production, along with the continued development of deepwater projects that are coming onstream from 2015.

In 2017, Congo Brazzaville was expected to produce around 260, 000 barrels per day by the end of the last quarter. With new projects scheduled to boost output by more than 25 percent by 2018, production remaines expected to increase to 350, 000 barrels per day as new offshore fields come online. Despite new finds and better drilling technology, a decline in oil production to 275,000 barrels per day by 2020 is still expected due to older oil fields reaching maturity.

Gas is mostly re-injected at producing fields. According to the Oil & Gas Journal and the Energy Information Administration (EIA), Congo Brazzaville has 3.2 trillion cubic feet of reserves, and of the 335.14 billion cubic feet produced in 2012, just 16 percent was used commercially or sold.

Congo Brazzaville's main producers are Total and Eni, both operating in the country for almost five decades and accounting for the majority of oil production. Total produces almost 40 percent of Congo's oil and and Eni is the largest gas producer with a 35 percent market share. Eni is also exploring the development of an oil sands pilot project in the south of the country at Tchikatanga and Tchikatanga-Makola. Also present are international firms Chevron, Maurel & Prom, Perenco, Murphy Oil, CNOOC and SOCO International. The government has stated that it will offer 10 new blocks for bidding once new petroleum legislation is passed, although at present there is no stated timeline.



WITH HALF A CENTURY OF EXPERIENCE IN PETROLEUM OPERATIONS, CONGO BRAZZAVILLE HAS A LEGAL FRAMEWORK THAT IS UNDERSTOOD TO BE ATTRACTIVE AND COMPETITIVE IN RELATION TO ITS CENTRAL AFRICAN NEIGHBORS.

LEGAL FRAMEWORK

The Hydrocarbons Code (Law no. 28-2016 of October 12, 2016) is Congo Brazzaville's principal legislation for oil and gas activities. This new Code boasts 146 new provisions which take into account the various concerns previously expressed by oil companies operating in the sector.

Laws governing the oil and gas sector in Congo Brazzaville include the following:

• Law No. 28-2016 of October 12, 2016, the Hydrocarbons Code has repealed and replaced the old hydrocarbon code, Law no. 24-94 of August 23, 1994 in its entirety. The Hydrocarbons Code regulates the legal, tax, customs and foreign exchange regimes applicable to upstream operations and activities in the sector, as well as details the rights and obligations of the companies active in the sector, and sets forth the rules and policies on health, safety, environment and local content

•Law no. 1-98 of April 23, 1998 established the national oil company, Société Nationale des Pétroles du Congo (SNPC).

•Law no. 4-98 of August 28, 1998 sets out decommissioning and rehabilitation responsibilities for oil companies.

•Law no. 6-2001 of October 19, 2001 (modified on March 1, 2002) sets out legislation that regulates the refining, import, export, transit, re-export, storage, bulk transport, distribution and marketing of hydrocarbons and by-products.

A set of three decrees govern VAT in the oil and gas sector (2001-522 of October 19, 2001), rates and collections including area levies (2000-186 of August 10, 2000) and the granting of hydrocarbon mining titles (2008-15 of February 11, 2008 - known as the Attribution Decree).

Environmental and investment laws also apply to companies active in Congo Brazzaville's oil and gas sector. These include:

• Law no. 003/91 of April 23, 1991 concerning environmental protection.

• Law no. 6-2003 of January 18, 2003 (as well as ECCAS no. 17/99/CEMAC-20-CM-03 of December 17, 1999) that establishes the investment charter.

• Law No. 2017-24 of June 9, 2017 which creates special economic zones and determines their regime and processes.

• Law no. 10-2017 of March 9, 2017 relating to transparency and accountability in the management of public finances, which makes provisions for, inter alia, the preparation and presentation of public budgets, monitoring of policies and public finance transactions, the implementation of legal procedures for revenue collection, the implementation of public expenditure and as to the legality and regularity of transactions of all public financial transactions.

Congo Brazzaville, like its Francophone regional neighbors, adheres to OHADA law, meaning that companies working in the country are subject to a set of business-specific legislation that is common to member states.

Offshore drilling and exploration remain the principal activities in Congo Brazzaville.

The government has stated that it will offer 10 new blocks for bidding once new petroleum legislation is passed, although at present there is no stated timeline. Offshore drilling and exploration remain the principal activities in Congo Brazzaville, however some opportunities exist in onshore prospection, research and development, refining and services (e.g., logistics, construction, drilling, maintenance, and supplies).

With the new hydrocarbons code being enacted in October 2016, 8 blocks were available for bid at the national bid round in January 2017; however, the challenge of low oil prices remains a damper on the sector.

ENERGY SECTOR ORGANIZATION

State regulation and actors

Congo Brazzaville's Hydrocarbons Code states that all hydrocarbons present in the soil and sub-soil are the exclusive property of the state, with all permits granted by the Ministry of Hydrocarbons. The state is responsible for its management through the Ministry in charge of Hydrocarbons. The current minister is Jean-Marc Thystère-Tchicaya.

The national oil company is the Société Nationale des Pétroles du Congo (SNPC), which plays a very active role across the oil and gas value chain through its five subsidiaries: SONAREP, SFP, ILOGS, CORAF and SNPC-Distribution. In the upstream segment, SNPC holds non-operating interests in many of Congo Brazzaville's oil and gas developments, including with operators Total, Eni and Chevron. Five years ago the company began operating an asset for the first time its exploration and production subsidiary Sonarep is now producing onshore at Mengo-Kundji-Bindi. Congolaise de Raffinag (CORAF) is the group's refining subsidiary and operates the Congolaise de Raffinage refinery in Pointe-Noire. SNPC was established in 1998 and its director general is Maixent Raoul Ominga.

With the Ministry of Hydrocarbons administering and regulating the petroleum industry, the SNPC acts as the state's participating agent in oil and gas developments. Through its interests in producing assets the national oil company accounts for the majority of government revenues. Increasingly, as seen in neighboring Gabon with the creation of the Gabon Oil Company and its entry into operating positions, the SNPC intends to build technical capacity and operate its own assets. Its central role in the oil and gas sector and the economy at large means that SNPC is an advisor to the government on petroleum policy.

Companies entering the Congolese upstream sector are granted either a prospecting authorization or a mining title. These are in the form of exploration or exploitation permits for exploration and production activities following a call to tender under normal circumstances or, under exceptional circumstances, by mutual agreement. Eligibility is determined by the Hydrocarbons Code and the Attribution Decree.

Contracts

The Hydrocarbon Code states that the state can undertake any upstream activity alone or may entrust the exercise of any upstream activity to the national company or to one or more legal persons in partnership with the Société nationale des pétroles du Congo (SNPC).

In the latter Congo Brazzaville requires that all companies enter oil contracts in the form of production sharing contracts (PSCs), generally signed by all the oil and gas companies in the contractors group, including the SNPC where relevant, or services contracts with the state prior to starting operations in the country (with the exception of a prospection authorization). In the case of a PSC, the state entrusts the contractor with the carrying out of exploration and/or exploitation operations for hydrocarbons in a given area and the contractor, after having invested and recovered its investment at the time of production, can recover its investment in the gross production (cost oil), but the profit (profit oil) is shared between the signatory parties to the contract. In the case of service contracts, the state entrusts certain exploration and/or exploitation operations to a contractor in return for payment in cash for services rendered. A service contract may, in particular, be concluded in order to entrust the carrying out of oil operations to a contractor upon the expiry of a PSC.

The Ministry of Hydrocarbons has not publicized a PSC model contract, but does use a standard version that sets out the rights and obligations defined by the Hydrocarbons Code. The Hydrocarbons Code states that models of oil contracts, including PSCs, are adopted by decree of the Council of Ministers, and all oil contracts negotiated between the state and contractors must be submitted to Parliament for approval before their execution.

The oil contracts usually determine and set out the conditions under which the contractor carries out oil operations, the methods and conditions of remuneration of the contractor, the procedure for accounting and the contractor's commitments on local content. The contractor alone bears the technical and financial risk attached to carrying out the oil operations.

Public participation of the state in the upstream petroleum activities consists of the state holding a participative interest in the PSCs through the SNPC, and if need be, in the direct holding of shares in the social capital of oil companies. The national company or national companies, together where applicable, hold a mandatory minimum non-transferable interest of 15 percent in all oil contracts. The minimum participatory interest reserved for domestic private companies is 25 percent in the context of an oil contract concluded for the continued operation of an oil field whose initial operating license has expired (i.e: projects aiming to relaunch production on old fields).

Oil contracts must be concluded for a period corresponding to the duration of the mining title granted and may be renewed or extended in two instances: the duration of the exploration permit or, if applicable, the duration of the exploitation permit issued for each hydrocarbons commercial deposit discovered within the scope of the exploration permit concerned and for which it has been decided to continue the exploitation.

In addition to PSCs and services contracts, companies can enter into a concession agreement, or mining title, that allows a company to exploit a title area for its own benefit. This type of agreement is much more rarer than the PSC.

Permits for exploration and exploitation of hydrocarbons are granted by decree of the Council of Ministers and upon report to the Minister of Hydrocarbons. Exploration permits have an initial validity period of four years and can be renewed twice for periods of three years each time. However, this period may be extended for up to six years for permits located in frontier areas, such as the Congo Basin and/or in marine areas beyond five hundred meters of water depth. Of the initial surface area defined by the exploration permit decree, up to 50 percent must be relinquished each time the permit is renewed. The decree also defines the work obligations of the contractor.

Where a contractor makes a discovery of hydrocarbons within the ambit of an exploration permit, the contractor must immediately notify the Ministry of Hydrocarbons, and must also inform it, without delay, of any discovery of substances other than hydrocarbons. Contractors that can demonstrate commercial petroleum deposits in their block can apply for an exploitation permit, also granted by decree of the Council of Ministers. Development according to an approved work plan must begin within 12 months of its start date. The permit is valid for a maximum of 25 years in the case of a deposit of liquid hydrocarbons and 30 years in the case of natural gas deposit or solid hydrocarbons, renewable once for five years. Once this time limit is reached, the contractor must apply for a new permit.

Contractors that wish to farm-out assets, or make any form of transfer of assets, interests or obligations must gain the prior approval of the Minister of Hydrocarbons for any new contract. In cases where there is a change of control of a company with assets, interests or obligations, the Minister of Hydrocarbons must also be informed beforehand.
The Hydrocarbons Code establishes a land register of all oil fields in Congo Brazzaville and also requires the contractor before commencement of all oil work to submit to the Minister of Hydrocarbons, an environmental and social impact study. The institution of the national fund for prevention of environmental and social risks capable of coping with emergencies related to disasters is provided for this purpose.

Local content

The Hydrocarbons Code contains no provision for local employee quotas. However, permit holders are obliged to train Congolese nationals, give them priority, and give preference to local service and goods providers. Minimum contributions to training locals and other obligations are defined in the exploration and exploitation permit decrees and/or the PSC.
The Hydrocarbons Code states that the contractor is required to register with the Trade and Personal Property Credit Register and to carry out any other formality arising from such registration. Where the contractor is composed of several legal persons, one of them must be designated as operator, to undertaking the oil operations.

During the exploration period, the operator is authorized to open a branch in Congo Brazzaville to undertake any oil activities in accordance with conditions set by the regulations in force applicable to oil operations. During the exploitation period, the operator must register as Congolese companies having a registered office in Congo Brazzaville.

Insurance

The Hydrocarbons Code imposes an obligation on any company undertaking activities in the upstream sector to take out an insurance contract with approved insurance companies through the services of insurance brokerage companies, in order to hedge the risks associated with its upstream activities in Congo Brazzaville.

TAX AND FISCAL REGIME

Under the terms of PSCs signed in Congo Brazzaville, allocation of cost oil relative to the interest held by the contractor is limited to 60 percent of annual production and 70 percent in exceptional cases (deep water and high technology usage, for example). Profit oil share is calculated according to total production minus cost oil and mineral fees. If no hydrocarbons are discovered, the company assumes all costs. Accounting procedures are also specified in an appendix of the PSC.

The shares of profit oil assigned to the contractor and the state is determined by the contract, not the Hydrocarbons Code. Profit oil is determined by annual net production and is adjusted annually according to changes in production.

Net profits (net asset value minus cost oil, recovery provisions and other costs) of oil companies are subject to income tax at 30 percent. Bonuses for exploration and exploitation permits are payable, and determined by the relevant decree. A pollution tax of 0.2 percent on producing companies, paid quarterly, is applied.

Annual surface rent of 3,000 XAF per square kilometer is payable for exploration permits, and 800 USD per square kilometer is payable for exploitation permits. There is no difference between royalty rates for onshore and offshore activity. A 15 percent mineral fee is due monthly on oil that is produced, stored and used for operations excluding re-injection.

The Hydrocarbons Code has provision for depreciation rates: exploration costs incurred at 100 percent and all other capital expenditure at a rate of 20 percent from first commercial production for five years.

Congo Brazzaville provides customs tax exemptions on goods and materials used for exploration and production that are listed under Act No. 2-92-UDEAC-556-CD-SE1 of April 1992 and VAT is exempt on goods and services for most segments of the petroleum industry, as detailed in Decree No. 2001/152 of October 2001 and Law No. 12–97 of May 1997.

POWER SECTOR

Access to power is a major impediment to development for many areas in Congo Brazzaville. According to the World Bank, 12 percent of the rural population and 59 percent of the urban population have access to power.

To satisfy recent increases in demand for power, the country imports electricity from the Inga dam in the Democratic Republic of Congo. Most of Congo Brazzaville's electricity (around 60 percent) is generated by the Imboulou, Bouenza, and Djoue hydroelectric plants.

The Imboulou dam exemplifies the increased Chinese investment in Congo when it was inaugurated in 2011 the 120MW facility almost doubled the nation's generation capacity, according to the EIA. Imboulou was built by the China Machinery Engineering Company at a cost of $372.5 million.

Although Congo has large remaining hydropower potential and numerous projects in the pipeline, locally produced gas is increasingly providing power to the grid. Italian major Eni has been instrumental in exploiting Congo-Brazzaville's gas potential by commercializing its gas production and reducing flaring. The company has been supplying gas from its M'Boundi fields and building power infrastructure for the 50MW Djeno power plant, expanded in 2009, and the 300MW Centrale Électrique du Congo (CEC), constructed in 2010. The gas-fed CEC remains to date Congo-Brazzaville's largest power station.

Société Nationale d'Electricité (SNE) is Congo's national electricity company, with responsibility for generation, transmission and distribution.

The principal legislation governing the power sector is Law No 14-2003 of April 10, 2003: the Electricity Code.

In addition to the Electricity Code, the following legislation applies: Law No 17-2003 of April 10, 2003 for development funds for the electricity sector; Law No 16-2003 of April 10, 2003 for the regulatory agency; Law No 15-2003 of April 10, 2003 for the national agency for rural electrification; and Law No 10-2003 of February 6, 2003 for transfer of powers to local communities.

KEY PROJECTS

Tilapia Oil Field

The SNPC has proposed and unconditionally recommended the award of a new 20-year licence to Anglo African Oil & Gas PLC covering the Tilapia Oil Field in Congo Brazzaville, in which Anglo African currently holds a 56 percent interest and the SNPC 44 percent. Under the terms of the new licence, Anglo African's wholly owned subsidiary, Petro Kouilou, will continue to hold a 56 percent interest in and operatorship of Tilapia.

The 50 sq. km Tilapia licence area is located in the prolific Lower Congo Basin and lies adjacent to one billion-barrel fields producing from multiple pay zones. It is drilled from onshore and has production and storage facilities onshore.

The Tilapia Field has been in production since 2007 and is currently producing 38/bopd of 39-41 API light sweet crude, from wells in the R1/R2 horizon. Anglo African intends to drill a new multi-horizon well targeting two million barrels of proven reserves in the R1/R2 producing reservoirs, an 8.1 million barrel gross contingent resource discovery in the Mengo interval, and a deeper prospect, which has been assigned 58.4 million barrels of gross unrisked prospective resources in the Djeno Sands, which have proved to be highly productive on adjacent fields.

Drilling is expected to begin on or around June 15th, 2018, and to take around 64 days.

Pointe-Noire-Ouesso Pipeline

Following oil and gas shortages, Congo Brazzaville is set to build an oil pipeline which will span over 1,200 km and link the cities of Pointe-Noire in the South and Ouesso in the North to ensure the availability of petroleum products and will respond to the need for the growing domestic consumption. The study on the construction of this pipeline is being completed between the various actors of its implementation.

Moho Bilondo

Out of the 23 producing fields in the country, Total operates 15, according to the operator. Moho Bilondo, commissioned in 2008, was Congo's first deepwater field to enter production and had a revitalizing effect on the industry. In March 2017, the Moho Nord field was brought on stream, and has a production capacity of 100,000 boepd making it the biggest oil development to date in the country. In combination with the Moho Bilondo Phase 1bis project, Total's most recent E&P investment in Congo will total $10 billion. The licence area is operated by Total E&P Congo (53.5 percent), with Chevron (31.5 percent) and SNPC (15 percent).

Lianzi

The Chevron-led Lianzi project is the result of cooperation between Congo Brazzaville and Angola in the maritime border area between the two countries. In 2012 a unitization agreement was signed that will allow a consortium of (operator, 31.25 percent), Total (36.75 percent), Eni (10 percent), Sonangol (10 percent), SNPC (7.5 percent) and Galp Energia (4.5 percent) to develop the deepwater field. Lianzi will produce up to 46,000 boepd. Chevron announced commencement of production in November 2015.

Nené Marine

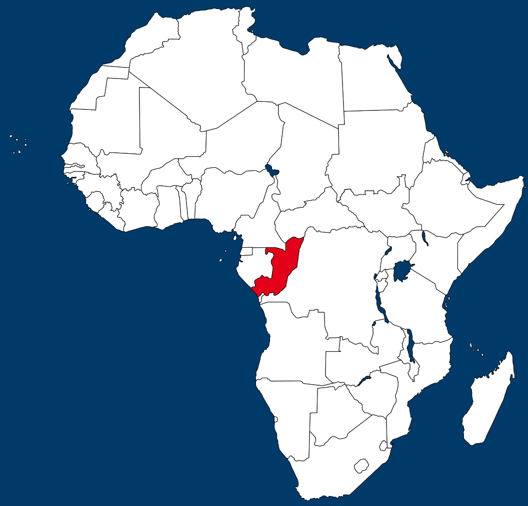
Eni began production in December 2014 at the Nené field 16 months after discovering oil on the Marine XII permit. The field will be developed in stages, leading to plateau production of 20,000 boepd at the end of 2017. Eni's success in bringing Nené to production is complemented by further discoveries on the block, all of which are located in the Djeno pre-salt formation 2.5 kilometers below ground. The Marine XII permit is in shallow water (28 meters for the Nené discovery).

CORAF Refinery

Congo Brazzaville's sole crude oil refinery, owned 100 percent by SNPC since 2000, has a nominal capacity of 1 million tonnes per annum. Ground was broken in 1972 and the refinery began operations in 1976. Congolaise de Raffinage (CORAF) produces gasoline, jet fuel, butane, diesel and fuel oil. In 2008, Saudi Arabia's Rawabi Holding Group won a contract to quadruple production at the refinery.

CONCLUSION

Doing business in Congo Brazzaville is challenging; it was ranked 178 out of 189 countries by the World Bank in 2014, but the EITI has reported “significant improvements in the timeliness and overall quality” of its extractive industry transparency reports. In general the country is safe and stable following the civil war and unrest of previous decades. Despite the uncertainty surrounding revised petroleum legislation, the favorable regulatory conditions and possibilities for investment in gas, deepwater E&P, pre-salt developments and oil sands make this a highly interesting Central African energy market.



GAS PRODUCTION

Natural gas production was **335.14 bcf in 2012**

OIL PRODUCTION

Oil production in 2014 was **281,000 bpd**

PEAK PRODUCTION

Oil production peaked in 2011 at **302,000 bpd**

HYDRO POWER

Imboulou dam **almost doubled power generation capacity** to 120 MW in 2011

Chevron | LIANZI

- Landmark cross-border development by Congo and Angola
- Production of up to 46,000 boepd expected
- 105km offshore, water depth from 820m to1,070m
- Unitization agreement signed in 2012 for parts of Haute Mer (Congo) and Block 14 (Angola) concessions
- Estimated investment of $2 billion

Eni | NENE MARINE

- Situated in the Marine XII block operated by Eni
- Contains 1.5 barrels oil equivalent
- Began producing December 2014, 16 months after discovery
- Producing from the Djeno pre-salt formation
- Plateau production of 140,000 barrels oil equivalent per day expected

TOTAL MOHO BILONDO

DEVELOPMENT

Moho Nord and Moho Phase 1 bis under development

PRODUCTION

140,000 barrels oil equivalent per day expected production plateau

DELIVERY

Brought on stream in March 2017, projects operated by Total

COST

combined project cost of $10 billion

PROJECTS

water depths up to 1,200 meters, operator will use 45 wells