



**AGÊNCIA NACIONAL DO PETRÓLEO, GÁS NATURAL E
BIOCOMBUSTÍVEIS – ANP**
**(Brazilian Regulatory National Petroleum, Natural Gas and
Biofuel Agency)**

**INITIAL TENDER PROTOCOL FOR GRANTING CONCESSION
AGREEMENTS**

PROVISIONS APPLICABLE TO THE ACTIVITIES OF:

**EXPLORATION, EVALUATION, DEVELOPMENT AND
PRODUCTION OF PETROLEUM AND NATURAL GAS IN
BLOCKS WITH EXPLORATORY RISK**

AND

**EVALUATION, REHAB AND PRODUCTION IN BLOCKS
CONTAINING INACTIVE AREAS WITH MARGINAL BUILD-
UPS**

SEVENTH BID ROUND
RIO DE JANEIRO, MAY 11, 2005

ADVICE:

I – Concerning the division of the Initial Tender Protocol in A and B Sections

This Initial Tender Protocol, prepared for the 7th Bid Round, comprises 02 sections: Section A and Section B. Such division is required to adjust the bid to the provisions of the templates as provided in Article 3 of CNPE Resolution number 2, dated December 08, 2004 and Law 9478/97. Such Resolution rules Blocks containing inactive areas with marginal build-ups in which, after statement of marketability, shall occur the rehab aiming Production.

Section “A” comprises provisions applicable to the Exploration, evaluation, Development and Production of petroleum and Natural Gas in Blocks with exploratory risk and Section “B” comprises the entry of the concessionary in the evaluation stage, and provisions applicable to the activities related with rehab and Production in Blocks containing inactive areas with marginal build-ups.

|| - Official version

This Initial Tender Protocol, as well as Sections A and B, is prepared in Portuguese, and this is the only Official version. A translation into English is available, just for guidance of participants and interested parties.

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GENERAL PROVISIONS

1 INTRODUCTION

1. On August 06, 1997, the National Congress approved the Law 9.478/97, called “Lei do Petróleo” (Petroleum Law), ruling the national energy policy and implementing other measures, in compliance with the Amendment to the Constitution number 9 / 1995, providing flexibility for the execution of the monopoly of the Federal Government for the activities of Exploration, evaluation, Development and Production of Oil and Natural Gas. Such Law also contains provisions concerning the conditions to exercise the economic activities covered by the monopoly of the Federal Government, related to the importation and exportation of petroleum and Natural Gas, the refinery of petroleum, Processing of Natural Gas and Transportation of petroleum and Natural Gas and respective derivatives.

2. The Petroleum Law also established the Agência Nacional do Petróleo, Gás Natural e Biocombustíveis (ANP, Brazilian Regulatory National Petroleum, Natural Gas and Biofuel Agency) as agency responsible for ruling, contracting and inspecting the economic activities in the petroleum industry, with the power to, among other attributions, prepare the tender protocols and promote biddings for the concession of the rights to exercise the Exploration, evaluation, Development and Production activities related to petroleum and Natural Gas, executing the respective agreements resulting, and inspecting its enforcement.

3. ANP concluded six Bid Rounds between 1999 and 2004, granting 343 exploratory Blocks. In December 23, 2004, ANP announced the sectors for the 7th Bid Round.

4. This Initial Tender Protocol, with respective Sections A, B and respective Annexes, defines the rules to be complied by all companies interested in participate in the 7th Bid Round. This Initial Tender Protocol was prepared pursuant with the provisions of Law 9478/97, Ordinance ANP number 174 dated October 25, 1999 CNPE Resolution number 08, dated July 21, 2003, Resolution number 2, dated December 08, 2004, Resolution number 2, dated April 13, 2005 and all other legislation applicable.

1.1 Bidding Areas for the 7th Bid Round

SECTION A

The bidding of Blocks with exploratory risk has specific conditions provided in SECTION A of this Initial Tender Protocol. The Blocks offered in the 7th Bid Round were selected considering the planning of the volumes to be incorporated in the country reserves, in order to allow the maintenance of self-sustainability and the preservation of the appropriate reserves volume.

SECTION B

The bidding of the Blocks containing inactive areas with marginal build-ups has specific conditions aiming reactivation of inactive resources Production. Such conditions are provided in SECTION B of this Initial Tender Protocol.

1.2 Templates of the bidding areas

SECTION A

I – Areas in High Potential Basins for Discovering Natural Gas and Petroleum Production, with special focus in the potential for the Natural Gas Production, aiming recomposing the national reserves and addressing the growing domestic demand;

II – Areas in New Technological and Knowledge Frontiers Basins, with the purpose to attract investments for the regions with few geological Exploration or with technological frontiers to be surpassed, allowing the emergence of new Production basins;

III – Areas in Mature Basins, with the purpose to offer opportunities to small and medium size companies, in highly explored basins, allowing the continuity of the Exploration and Production of petroleum and Natural Gas in such regions, where such activities have a significant social-economic role; and

SECTION B

I – Blocks containing inactive areas with marginal build-ups (“Marginal Fields”), aiming the potential reactivation of Production of filed with resources already discovered, which do not attract the economic interest of large size companies, due the low volume of recoverable hydrocarbons, but may represent interesting opportunities for small and medium size companies.

1.3 Modalities of Participation in the 7th Bid Round

The company, when expressing interest in participating in the 7th Bid Round, shall request the Bidding Permission in accordance with the Section A provisions (Table 1) or Section B provisions (Table 2).

Chapter 2 of Sections A and B provides details about the qualification processes.

SECTION A

Table 1. Qualification of companies for the 7th Bid Round for Exploratory Risk Blocks.

Qualification of company *	Authorized areas	Minimum Shareholder Equity Required
A	A, B and C	Equal or Higher than R\$ 22.000.000,00
B	B and C	Equal or Higher than R\$ 20.000.000,00
C	C	Above R\$ 1.000.000,00**

- * Qualified by ANP
- ** May be qualified, as operators for “C” Blocks, companies with shareholder equity higher than R\$ 350.000,00 since presenting proposals through consortiums where the total shareholder equity of companies part of such consortium is higher than R\$ 1.000.000,00.

SECTION B

Table 2. Qualification of companies for the 7th Bid Round for Blocks containing Inactive Areas with Marginal Build-ups.

Qualification of company *	Authorized areas	Minimum Net Equity Required
A	A, B, C and D	Equal or Higher than R\$ 22.000.000,00
B	B, C and D	Equal or Higher than R\$ 20.000.000,00
C	C and D	Above R\$ 1.000.000,00**
D	D	Above R\$ 10.000,00

- * Qualified by ANP
- ** May be qualified, as operators for "C" Blocks, companies with shareholder equity higher than R\$ 350.000,00 since presenting proposals through consortiums where the total shareholder equity of companies part of such consortium is higher than R\$ 1.000.000,00.

1.4 Schedule

The Schedule for the 7th Bid Round is provided in Table 3.

Table 3. Schedule for the 7th Bid Round

Announcement of areas under study for the 7 th Round	January 2005
Public Audience (city of Rio de Janeiro)	February 24, 2005
Disclosure of areas offered for the 7th Round	April 18, 2005
Disclosure Forum in the city of Salvador (State of Bahia)	April 29, 2005
Publication of the Initial Tender Protocol	May 11, 2005
Publication of the Concession Agreement Draft	May 11, 2005
Availability of Data Package ***	May 16, 2005
Legal-Tax Seminar *	May 16 and 17, 2005
Technical Workshop *	May 17 and 18, 2005
Data-Room **	June 2005
Publication of the FTP and Concession Agreement	July 29, 2005
Final deadline to present the Expression of Interest and delivery of documents	August 25, 2005
Final deadline to pay the Participation Fee	October 07, 2005
Bid day	October 17 and 18, 2005
Execution (Signature) of the Concession Agreements	January 16, 2006

* Event specific related with the bidding for Blocks with Exploratory Risk (Initial Tender Protocol, Section A)

** Event specific related with the bidding for Blocks containing inactive areas with marginal build-ups (Initial Tender Protocol, Section B)

*** The data about the Blocks containing inactive areas with marginal build-ups will be available on May 31, 2005.

2 SUBJECT OF BIDDING

1. This bidding has the purpose to grant Concession Agreements for exercising the following activities:

SECTION A

Exploration, evaluation, Development and Production of petroleum and Natural Gas in Exploratory Risk Blocks located in 34 Sectors in 14 Brazilian Sedimentary Basins. The Bidding areas are described in ANNEX 1, Section A of this Initial Tender Protocol.

SECTION B

Evaluation, rehab and Production of petroleum and Natural Gas in Blocks containing inactive areas with marginal build-ups: 11 in the State of Bahia and 06 in the State of Sergipe. The Bidding areas are described in ANNEX 1, Section B of this Initial Tender Protocol.

2. To exercise such activities, the Bidder Winner companies or consortiums shall sign Concession Agreements, whose drafts are provided in the Annexes of this Initial Tender Protocol, as follows:

SECTION A

Blocks with Exploratory Risk.

SECTION B

Blocks containing inactive areas with marginal build-ups.

3. The main contractual provisions are described in detail in Chapter 2 of Sections A and B.

3 DELIVERY OF PROPOSALS

3.1 Bidding Procedures

1. The bidding process for the exploratory risk Blocks of the 7th Bid Round will start after the opening process described in item 3.2.
2. The bidding process for the Blocks containing inactive areas with marginal build-ups of the 7th Bid Round will start after closing the offerings for the exploratory risk Blocks.

3.2 Schedule and Bidding Place

1. The Bidding will be executed on October 17 and 18, 2005, in place to be disclosed by ANP in the webpage of the 7th Bid Round (www.brasil-rounds.gov.br).
2. The bids for each Area or Block shall be delivered in sealed envelopes, at the time and place of the bidding.
3. All envelopes and forms to deliver the bids, attached with additional information required, shall be forwarded, until October 10, 2005, for the companies qualified as operators. The companies will receive the envelopes for the sectors to which they are qualified as operators and also shall pay the Participation Fee.
4. The bidding subject herein will be executed with the following schedule:

October 17 – Monday

0730 AM – Registration of the bidding' participants. The registration will be opened until the closing of the offerings of the first day.

0845 AM – opening of session to deliver the bids for the 7th Bid Round

0900 AM – Opening of the offering Block, as described in Section A. The Chairman of the Special Licensing Committee will establish the breaks and the interruption period of the bidding in such day, to continue in the next day, strictly complying the schedule attached.

October 18 – Tuesday

0800 AM – Registration of the bidding' participants. The registration will be opened until the closing of the bidding.

0900 AM – Opening of the offering area. If the Section A bidding process is not closed (concluded) in the previous day, the process will continue, strictly complying the bidding schedule provided, pursuant with Section 3.1 of Section A of this Initial Tender Protocol.

In the closure of the schedule provided in Section A, the Chairman of the Special Licensing Committee will open the bidding for the Blocks containing inactive areas with marginal build-ups as provided in Section B of this Initial Tender Protocol.

4 RATIFICATION OF AWARD

1. To execute the 7th Bid Round a Special Licensing Committee (CEL) was created, exclusively for this bid, duly approved by the ANP Collegiate Executive Board.

2. The final result of the bid of each Block or area will be part of the AwardReport, in which CEL will propose the adjudication of the bid subject to the respective Bidder Winner (company or consortium). Such report will contain also the information about the offers that did not won, and those eventually disqualified or declared as unenforceable with due grounds provided.

3. The Award Report will be submitted to the ANP Collegiate Executive Board.

4. After approval of the Award Report, in whole or in part, CEL will publish the result of the Bid in the Federal Official Gazette and in significant distribution newspapers.

5. After published the result of the bid judgment, ANP will call the Bidder Winner (company or consortium) to sign (execute) the Concession Agreements.

5 EXECUTION (SIGNATURE) OF THE CONCESSION AGREEMENTS

1. Law 9.478/97 provides that Exploration, evaluation, Development and Production activities related to petroleum and Natural Gas shall be exercised upon the execution of Concession Agreements, granted upon Bid. Although along the qualification process national and foreign companies may participate, to sign the Concession Agreement will be mandatory the incorporation of a Brazilian Company with registered office and management in Brazil to act as concessionary.

2. Companies or consortium awarded as Bidder Winner may delegate the signature of the Concession Agreement for other company or consortium, in the following cases, provided they are accepted by ANP:

- For affiliated company(s) of the Bidder Winner(s), since that the qualified Bidder Winner(s) fully ensures the liabilities assumed by the signatory company(s) through Performance Guarantee(s); or
- For a company controlled by the Bidder Winner (or its respective affiliated companies, as provided in the Concession Agreement) or for a Brazilian Company controlled by the companies composing the consortium awarded as Bidder Winner. In this case, the interests, directly or indirectly, of each controller company(s) or respective affiliated(s) shall be equal to the interests provided in the standard offering delivery envelopes. The liabilities of the signatory company will be fully ensured by Performance Bonds / Guarantees issued by each of the qualified companies whose affiliated companies are part of the consortium.

3. In the cases provided above, each qualified company shall also provide:

- A guarantee ensuring the enforcement of contractual obligations (Performance Bond / Guarantee, pursuant to Annex X, of respective Sections A and B). If in English, the Performance Bond / Guarantee shall be notarized, legalized by the respective Consulate / Embassy, and translated by sworn translator.
- Power of Attorney of the signatory company appointing the person authorized or competent to sign in its behalf, pursuant to template to be provided by ANP.

4. If the signatory company is an affiliated company of the qualified company, as provided in the Concession Agreement, shall provide a copy of respective Bylaws or Articles of Incorporation. The original documents shall be authenticated by a legal representative of the signatory company.

5. The execution (signature) of the Concession Agreement depend upon previous consultation in the “Cadastro Informativo de Créditos Não-Quitados do Setor Público Federal” (CADIN, Briefing Notes about Unpaid Credits in the Federal Public Sector), and if the signatory company is registered as default company, such company cannot be hired, unless if such company provides evidence that:

- already filed suit with the purpose to discuss the nature of the liability or respective value, providing adequate guarantee for the Court, as provided by Law.
- It is suspended the liabilities of the credit subject in the respective registration.

6. Up to 20 days prior the execution of the Concession Agreements, the Bidder Winners shall provide the following documents:

- Constituent Articles of the company that will sign the Concession Agreement and respective amendments, duly filed in the respective Trade Board, if the company qualified chose to sign the Concession Agreement through an affiliated company created for such specific purpose, or Bylaws of the company(s) duly registered and certified in Notary Public in compliance with the Civil Code applicable in force.
- Legal Opinion accepted by ANP, containing information about the corporate relationship between the qualified company and the company that will sign the Concession Agreement, duly certified in Notary Public. If in English, shall be notarized, legalized by the respective Consulate / Embassy, and translated by sworn translator.
- Performance Bonds / Guarantees, if the company or consortium awarded as Bidder Winner chose to sign the Concession Agreement through an affiliated company or other company created for such specific purpose.
- Document evidencing the qualification of the Legal Representative that will sign the Concession Agreement in behalf of the company, duly certified.
- Financial Guarantee for the obligations of the Minimum Exploratory Program or Initial Works Program, as applicable, pursuant to templates provided in ANNEXES VIII and IX (of respective Sections A and B). Upon its sole discretion, ANP may accept other enforceable financial guarantees, even if not like those provided as Letter of Credit or Bid Bond pursuant to the templates provided in ANNEXES VIII and IX. The financial guarantees for the Minimum Exploratory Program / Initial Works Program may be:

a) LETTERS OF CREDIT

Such letters of credit shall be issued by banks or guarantor institutions “approved by ANP”:

SECTION A

The guarantor institutions shall have a net equity of at least R\$ 500.000.000,00 (five hundred million Reais) or “A” Grade – or higher – in the publications of Standard & Poor’s Ratings Group or Moody’s Investors Service, Inc.

SECTION B

The guarantor institutions shall have a net equity of at least R\$ 500.000.000,00 (five hundred million Reais). ANP has the right to accept or not the Letter of Credit issued by other institution;

b) BID BOND

The Bid Bond shall be issued by insurance company regularly registered in the Superintendência de Seguros Privados – SUSEP (Private Insurance Comptrollership). The insurance policies shall have reinsurance coverage provided by IRB – Brasil Resseguros S/A, pursuant to template provided in Annex IX. (applicable to Sections A and B);

c) LIEN OF THE OIL OR GAS PRODUCTION

The lien of the Production of Oil or Gas produced in the national territory (applicable to Section A);

d) MORTGAGE ON REAL ESTATE:

SECTION A

When offering PEM (Minimum Exploratory Program), the bidder, in case of C operator, shall provide financial guarantees. The guarantee requested, in this case, may be the Mortgage on Real Estate.

SECTION B

When offering PTI (Initial Works Program), the bidder, in case of C or D operator, shall provide financial guarantees. The guarantee requested, in this case, may be the Mortgage on Real Estate. *

** For both cases the real estate guarantee shall be valued by experts appointed by ANP in compliance with the regulation applicable in force.*

- In case of consortiums, the liability to provide guarantees, or certificate of Contractual Obligation Performance, may be satisfied by presenting more than one letter or certificate, provided that the total amount is equal to the amount provided for the Block subject of the Concession Agreement, in compliance with the specifications of the Minimum Exploratory Program.

7. In case of consortium, it is required the registration of the consortium pursuant to article 38 of Law 9.478/97.

8 . The evidence of the payment of Signature / Execution Bonus offered shall be provided at least 05 (five) business days prior the date of the execution of the Concession Agreement. The Payment of the Bonus shall be executed individually and pursuant with the percentage of interest of the company in the consortium, if applicable.

9. The financial guarantee of the Minimum Work Program (offered in WUs) may be provided in more than one Letter of Credit or other paper accepted by ANP, provided that the total amount is equal to the value specified for the area subject of the Concession Agreement, in compliance with the specifications in Table 2 of Sections A and B of this Initial Tender Protocol. When applicable, ANP will provide the value equivalent in Reais to be used if the guarantee(s) is issued in Brazil.

10. If the Bidder Winner is a consortium and one of its companies do not provides the documentation required, the other companies in the consortium shall assume the responsibility of the Party in default. Under no circumstances will be allowed the entry of a new company in the consortium awarded as Bidder Winner prior the signature of the Concession Agreement.

11. If one company or consortium, awarded as Bidder Winner, due any reason, does not execute the Concession Agreement up to the date provided for such execution, the competitor that provided the offer classified in Second Place will be called, since

assuming the values offered by the Bidder Winner relinquishing the bid, and since providing the respective Bid Bond.

12. For the exploratory template (as provided in Section A of this Initial Tender Protocol), case of Blocks located in the same sector, with the same consortium in adjacent areas, such will be grouped in only one contractual document, with multiple subjects, each related to one Block. Each subject may be denied, individually, and in this hypothesis, a new Concession Agreement will be created. The Financial and Performance Guarantees / Bonds, as well as all other documents related to the management of the concession, may be presented for each instrument, even if it is composed by multiple Blocks.

6 ADDITIONAL EXPLANATIONS ON THE BIDDING

6.1 JUDICIAL DISTRICT COURT (Venue)

1. Any dispute resulting from the execution of this Initial Tender Protocol, which cannot be administratively settled, shall be processed and judged in the Federal Justice Court – Judicial Section of the State of Rio de Janeiro, and no other may be elected, regardless of its privileges.

6.2 Phone, Fax and E-mail Questions

1. ANP will provide explanations and additional information related to the bid process, contractual conditions or bid areas. The questions shall be forwarded to ANP via mail, fax or email, as provided below. General interest questions and respective answers will be published, without identification of the companies that questioned, in the *website* of the Bid Rounds (www.Brasil-Rounds.gov.br).

- Mail:

7th Bid Round
AGÊNCIA NACIONAL DO PETRÓLEO, GÁS NATURAL E
BIOCOMBUSTÍVEIS – ANP (Brazilian Regulatory National Petroleum, Natural Gás
and Biofuel Agency)
Superintendência de Promoção de Licitações (Bid Promotion Inspection
Committee)
Avenida Rio Branco 65, 18th floor
20090-004 Rio de Janeiro - RJ, Brazil

- Telephone:

(21) 3804-0200 (in Brazil)
+55-21-3804-0200 (from abroad)

- Fax:

(21) 3804-0202 (in Brazil)
+55-21-3804-0202 (from abroad)

- Email:

brasil-round7@anp.gov.br

- ANP also has a *website* about the Bid Rounds:

<http://www.Brasil-Rounds.gov.br>

2. Technical information or explanations about the areas will only be provided for the companies that pay the Participation Fee for such areas.

3. Requests concerning explanations about the Concession Agreement or legal nature issues shall be requested in written.

4. All the information requests will be addressed in first come first served basis at the ANP Superintendência de Promoção de Licitações (Bid Promotion Inspection Committee).

6.3 Delivery of Documents

1. All documentation delivered to ANP shall be recorded in the Protocol located in the address provided in item 6.2, Monday to Friday from 09:00 AM and 11:45 AM and 02:00 PM and 04:30 PM.

7 ANP RIGHTS AND ASSURANCES

1. ANP may revoke, in whole or in part, at any time, this bid process, whenever considering reasons of public interest. May also annul this procedure when evidencing illegality in its processing.

2. The Special Licensing Committee (CEL), composed by ANP representatives and public representatives, responsible for managing the bid process in all its stages, may execute any relevant due diligences considered appropriate to explain or aid the instruction of the bid process.

3. ANP has the right to, unilaterally, review the schedules and procedures related to the 7th Bid Round, as well as to disqualify any company previously qualified in case of evidenced false impersonation, misbehavior or delivery of offers or documents not compliant with the rules demands, and in this case the Participation Fee will not be refunded.

4. Issues not provided herein, and respective Sections A and B attached, related to the 7th Bid Round, will be analyzed by CEL and submitted, as administrative remedies, to the approval of the ANP Collegiate Executive Board.

7.1 Administrative Resources

1. Considering CEL actions, administrative remedies may be filed up to 05 (five) business days as from the date of the summons of the contested action, to be received only in the remanding.

2. Such appeal filed by the interested competitor against CEL shall be provided in written and attached with the documents evidencing the alleged reasons, and shall be registered in ANP.

3. Considering the filing of the appeal, CEL will notify the other competitors so, in case they want to contest is, they may do it up to 05 (five) business days after receipt of respective notification.

Specific Provisions

Section A contains specific provisions for Blocks With Exploratory Risk.

Section B contains specific provisions for Blocks containing Inactive Areas with Marginal Build-ups.