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Association (Back-in) Option for a National oil Company: Analysis for a Commercial Discovery Scenario Offshore Uruguay

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Introduction

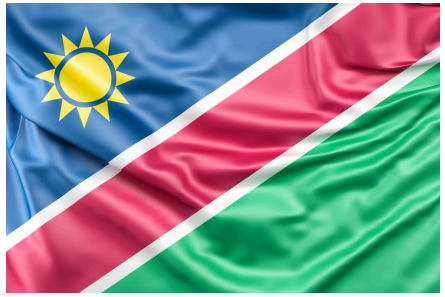
NOC Association Examples

Suriname



- Small country and economy (~1/20 of UY's GDP, ~1/6 of its population), yet:
  - Exercised a 20% back-in option in the **GranMorgu** development.
  - Financed its >2 billion share through: bonds, loans, and internal cash flow.

Namibia



- Large country with a small economy (5x UY's area, ~1/5 of UY's GDP, similar population), yet:
  - Holds a 10% interest in major offshore discoveries (e.g., **Venus**).
  - Uses carry-financing mechanisms: development costs to be recovered from future production rather than paid upfront.

Norway



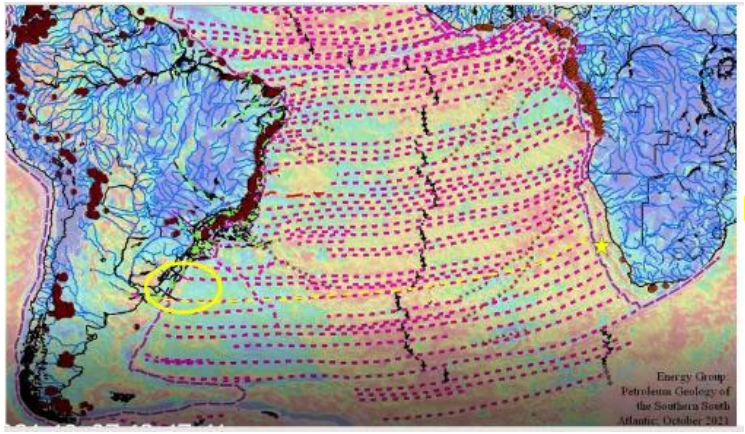
- Large country and economy (2x UY's area, 6.5x UY's GDP, 1.7x UY's population):
  - Strong state participation, with rights to associate after discoveries and increase ownership in developments.
  - Evolved from state-led participation to a commercially competitive NOC, while the State retained direct interests through a separate vehicle (SDFI/Petoro).

Renewed interest in the Atlantic Margin

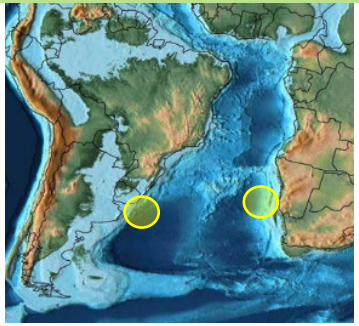
Upper Jurassic (150 Ma)



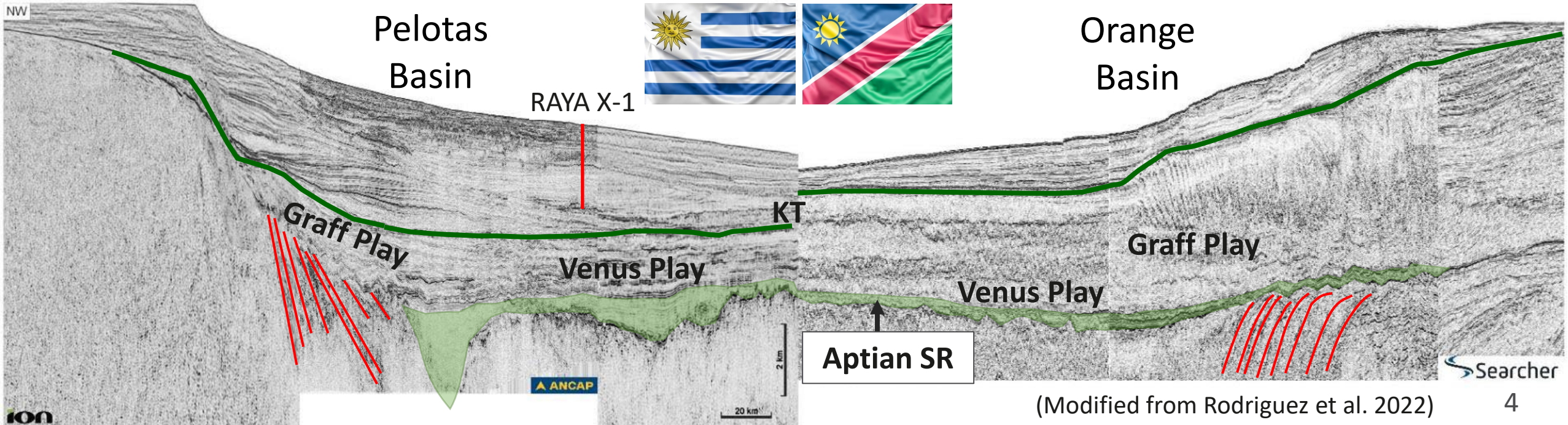
Modified from Scotese (2014)



Turonian (90 Ma)

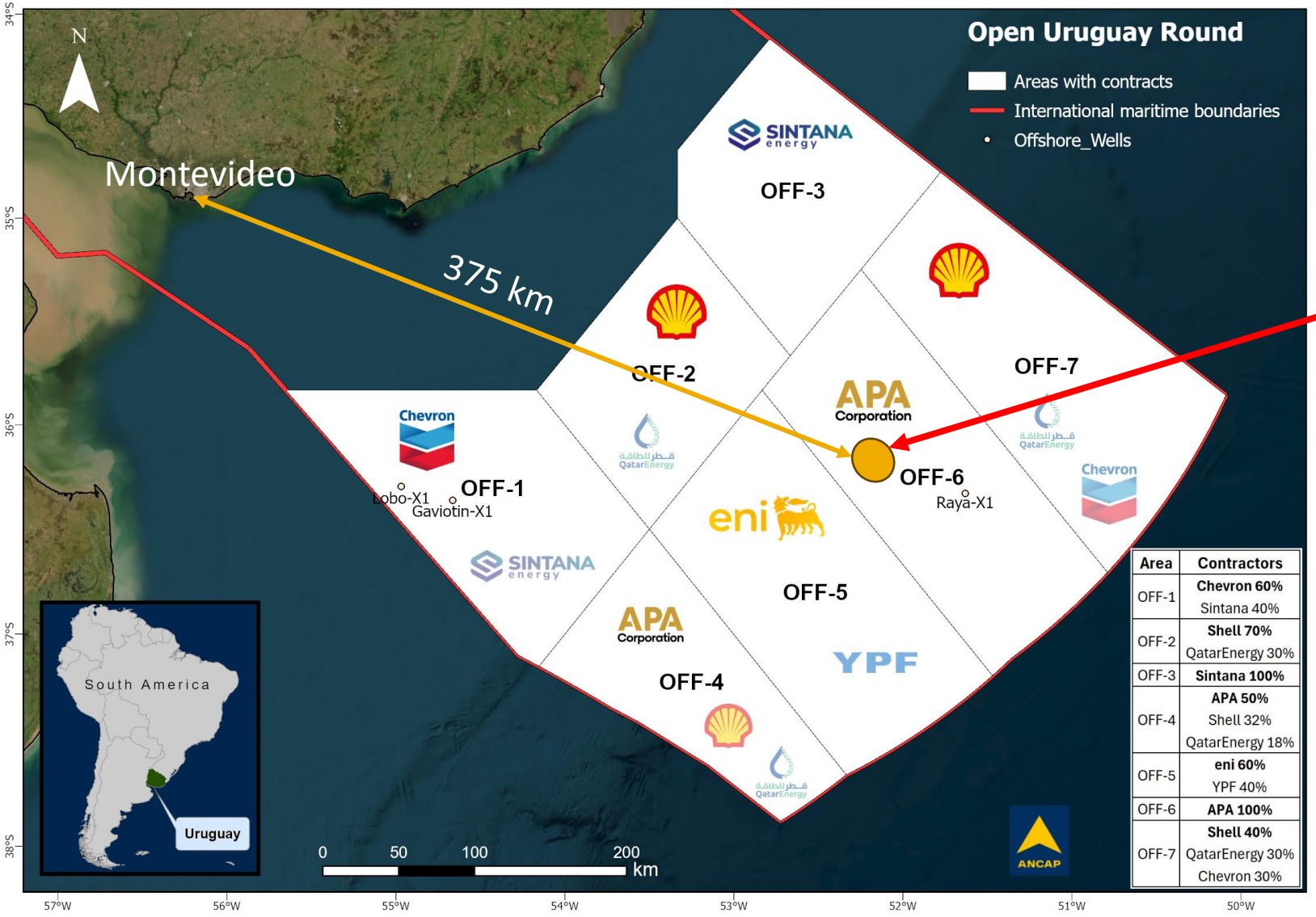


Modified from Scotese (2014)



(Modified from Rodriguez et al. 2022)

Hydrocarbon Exploration Offshore Uruguay



Area	Contractors
OFF-1	**Chevron 60%** Sintana 40%
OFF-2	**Shell 70%** QatarEnergy 30%
OFF-3	**Sintana 100%**
OFF-4	**APA 50%** Shell 32% QatarEnergy 18%
OFF-5	**eni 60%** YPF 40%
OFF-6	**APA 100%**
OFF-7	**Shell 40%** QatarEnergy 30% Chevron 30%

All blocks taken (top industry players)

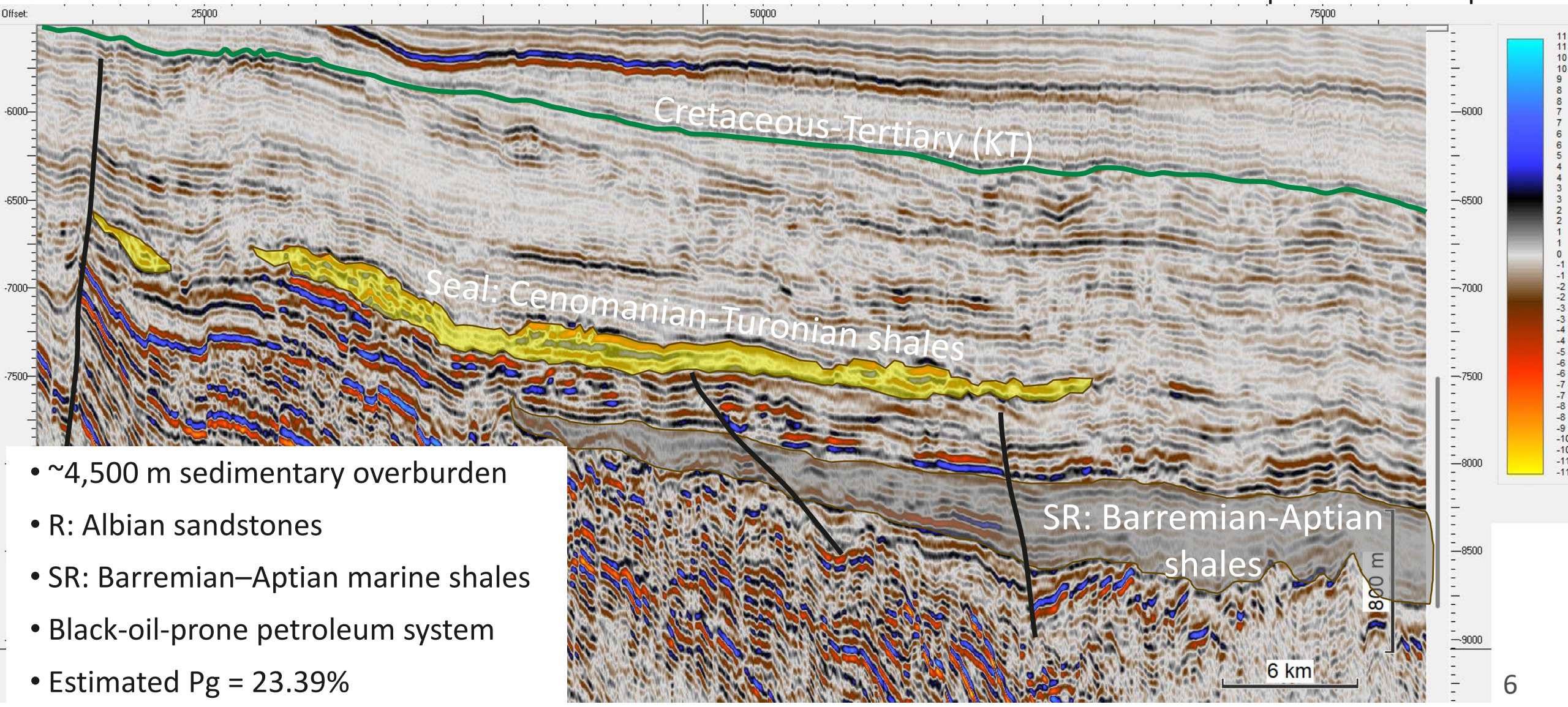
Farm-ins in progress

Chafalote prospect

- Aka Chaleco–Bonanza
- Exploration well (Q3-Q4 2027)
  - Water Depth ~2,600 m
- Complex channelized turbidite system
- Area OFF-6, Pelotas Basin:
  - ~375 km from the Port of Montevideo
  - ~230 km from the coast

Chafalote Deepwater prospect

Representative Dip Line



- ~4,500 m sedimentary overburden
- R: Albian sandstones
- SR: Barremian–Aptian marine shales
- Black-oil-prone petroleum system
- Estimated Pg = 23.39%

Hydrocarbon E&P Contracts

- **Government Take (GT)**
  - Uruguayan State captures economic rent from hydrocarbon projects through:
    - Profit Oil
    - ANCAP's net economic participation through its back-in right (bided %)
    - Corporate Income Tax (25%)
  - Average GT = 58.30% (reflecting the incorporation of actual contractual parameters and prospect-specific techno-economic model inputs).
- **Back-in Right (A)**
  - Upon declaration of a commercial discovery, ANCAP may exercise a back-in right to acquire a participating interest (A) in the development project, up to a maximum value which was bid during the licensing round.

Contractor			Government
ANCAP	**IOC**	Gross Revenues	
		100	
		Royalty →	
		0	0
		Net Revenues	
		100	
		Total Recovered Costs	
6.72	24.23	←30.95	
		Total Profit	
		69.05	
10.64	38.39	← Profit Split →	**20.02**
		Taxable Income	
		49.03	
-2.66	-9.6	→ Tax Rate →	**12.26**
		25.00%	
14.7	53.03	Revenues	32.28
7.98	28.79	Division of Net Cash Flows	32.28
11.56%	41.70%	Take	46.74%
		NOC Participation	
		21.70%	7.98
41.70%		Take	**58.30%**

Uruguay: Opportunity & Capital Need

Rule of Law

- #1 in Latin America for Rule of Law
- Strong contract enforcement and property rights protection
- Investment-grade (BBB+) and low sovereign risk
- Predictable regulatory and business environment



Financial Constrains

- ANCAP equity: ~USD 920 million.
- Uruguay GDP: ~USD 90 billion; annual public budget ~USD 25 billion.
- Largest projects executed in Uruguay (pulp mills, power generation assets) ~USD 1–3 billion.
- **Challenge:** deepwater offshore developments typically require multi-billion-dollar investments.

Methodology

How can ANCAP maximize value capture for the Uruguayan State?

Five scenarios were evaluated:

Scenario	Description
0. Base Case	20% direct participation, equity contributions
1. No Participation	0% interest (no exposure, no revenues)
2. Debt Financing	20% financed through debt
3. Farm-Down	Partial divestment to fully cover required CAPEX of retained stake.
4. Development Carry	20% WI, carry mechanism whereby development costs are recovered from future project revenues.

Results

Qualitative Analysis: Key Trade-Offs of Exercising the Back-In Right

✓ Benefit	⚠ Key Risk	✓ Mitigation
Higher State value capture through participation in project cash flows and exposure to oil-price upside	Increased financial exposure and potential growth in ANCAP debt	Flexible participation structures (debt financing, farm-down, development carry)
Development of national upstream capabilities in technical, regulatory, and project management areas	Organizational complexity and execution challenges	Capacity building, institutional strengthening, and support from experienced partners
Greater strategic influence over resource development	Governance and conflict-of-interest concerns between ownership and regulation	Clear separation of commercial and regulatory functions
Strengthened E&P portfolio and progress toward vertical integration	Exposure to project underperformance, cost overruns, and commodity-price volatility	Partnerships and robust risk management practices

Quantitative Analysis: Base Case Analysis

Project-Level Metrics (P50)

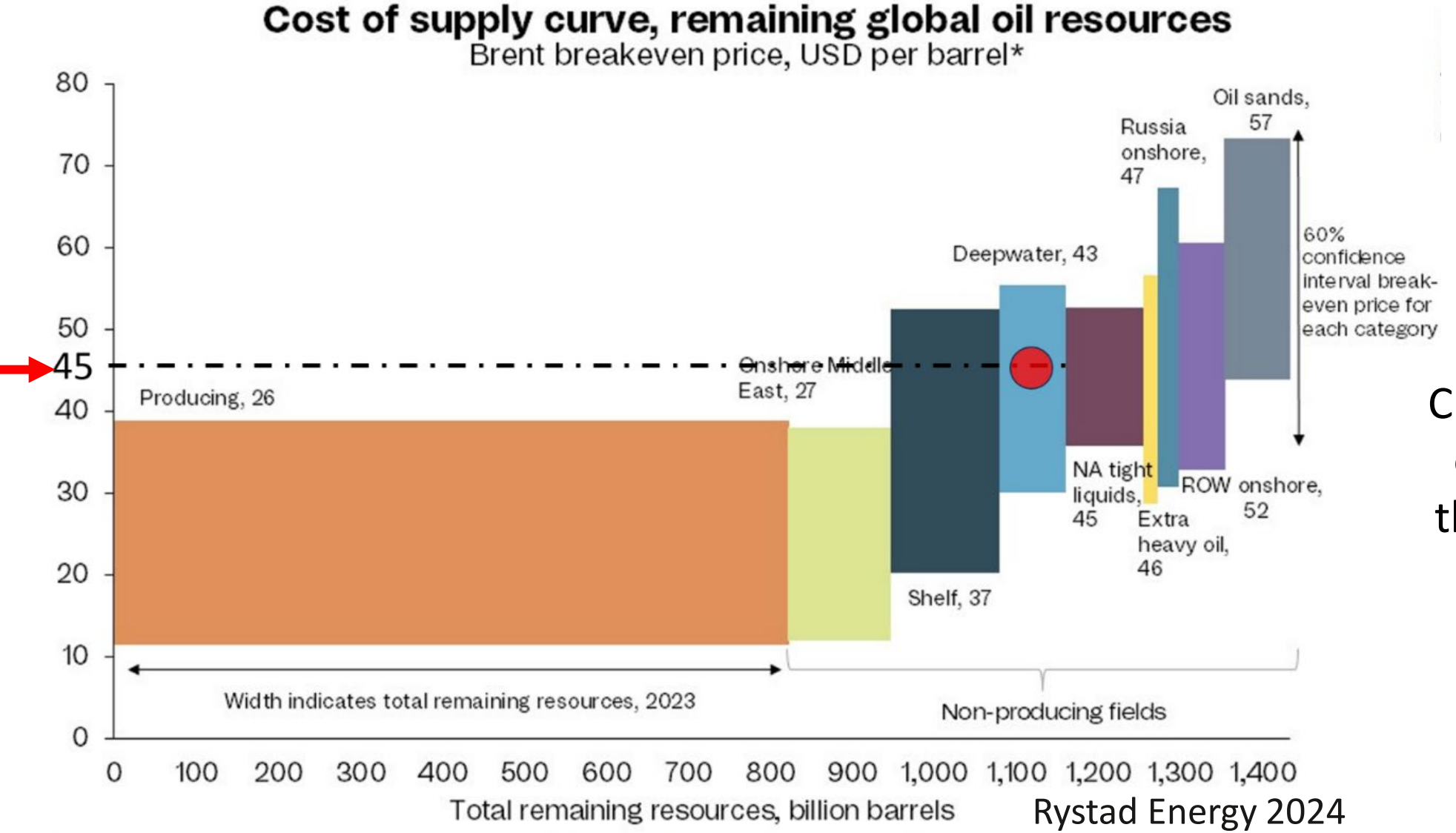
Metric	Value
Recoverable Resources	~2.0 BBOE
Gross Revenue	USD 145.3 billion
CAPEX	USD 17.5 billion
OPEX	USD 28.5 billion
Total Profit	USD 97.4 billion
CAPEX Intensity (USD/BOE)	USD 10.8/BOE
OPEX Intensity (USD/BOE)	USD 15.7/BOE

Economic Indicators (P50)

Metric	Value
Government Take	57.8%
IOC NPV10	USD 4.9 billion
ANCAP NPV10	USD 1.3 billion
Government NPV10	USD 7.1 billion
IRR	21.4%
Payout	13.4 years
Breakeven Oil Price	USD 45/bbl
NPV10/BOE	USD 3.09/BOE

Development CAPEX attributable to a potential 20% ANCAP interest: ~USD 3.5 billion

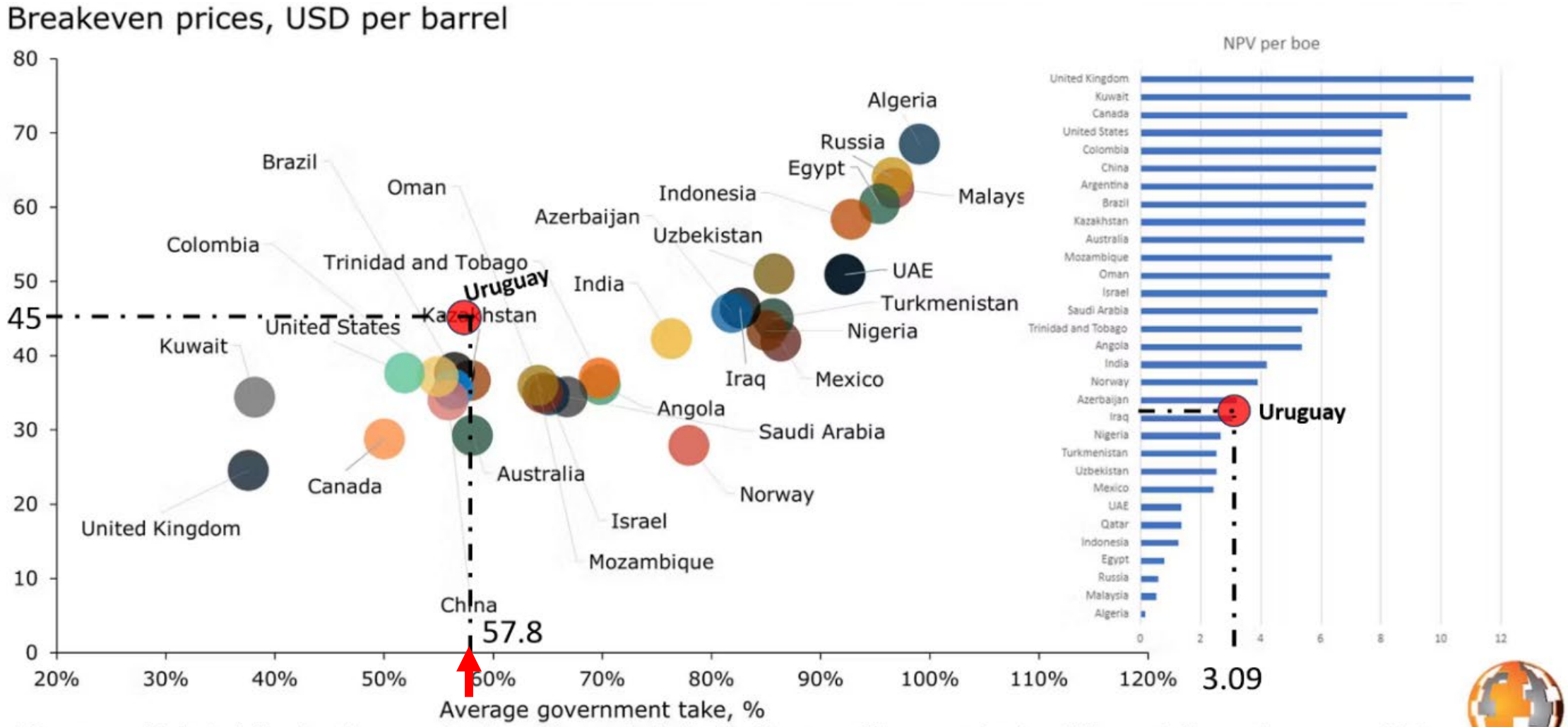
Global Deepwater Cost Competitiveness



Chafalote's breakeven oil price falls within the global deepwater range.

Rystad Energy 2024

Project Competitiveness (BE oil price + GT)



*Government take is defined as the present value of free cash divided by the sum of the present value of free cash flow and government take

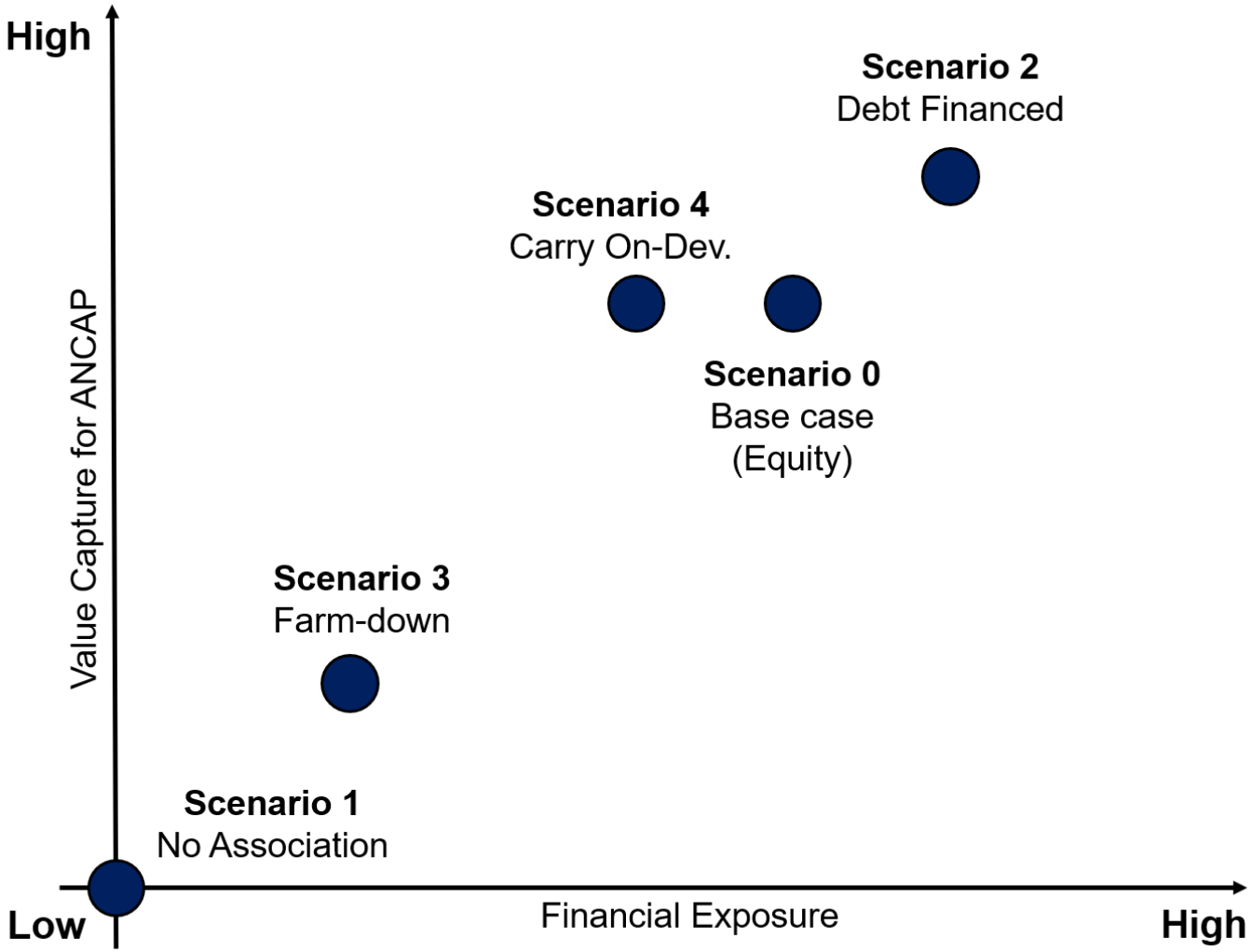
Source: Rystad Energy UCube, Rystad Energy Fiscal Regime Report

Quantitative Analysis: Comparison of Participation Alternatives

Scenario	ANCAP WI	ANCAP NPV10 (USD million)	ANCAP Profit (USD million)	Government Take	Funding Requirement	Observations
Base Case	20.0%	1,265	10,249	57.8%	High	Reference case
No Participation	0.0%	0	0	47.3%	None	Lowest value capture
Debt-Financed Participation	20.0%	1,736	10,249	57.8%	Very High	Highest economic return
Break-Even Farm-Down	5.31%	336	2,721	50.1%	Minimal	CAPEX funded through divestment
Development Carry	20.0%	1,600	10,249	57.8%	Low to Moderate	Preserves value Reduces upfront funding needs

Comparison of Participation Alternatives

Value Capture vs. Financial Exposure



No Participation: minimizes financial exposure but results in the lowest value capture.

Debt-Financed Participation: delivers the highest economic returns but also entails the greatest financing requirements.

Farm-Down: reduces capital commitments at the expense of lower value capture.

Development Carry: preserves value capture broadly comparable to direct participation **(Scenario 0)** while significantly reducing upfront financing requirements and capital exposure.

Conclusions

- Chafalote represents a potentially transformative discovery for Uruguay: ~2 BBOEs (P50)
- The back-in right creates substantial value, 20% working interest could generate:
  - ~USD 10.3 billion cumulative net profit
  - ~USD 1.25 billion NPV10
- The key challenge is financing, not project economics:
  - A 20% WI would require ~USD 3.5 billion of capital
  - This exceeds ANCAP's current financial capacity
- While non-participation avoids CAPEX commitments, it sacrifices an estimated USD 10.3 billion of potential value for the Uruguayan State.
- International experience demonstrates that financial constraints do not necessarily preclude State participation when appropriate financing structures are in place.

Participation drives value creation. The challenge is not whether ANCAP should participate, but how participation can be financed in a sustainable manner.

Thank you!

Q&A