SPECIAL REPORT ON IRAN:

IMPLEMENTATION DAY

AND WHAT IT MEANS FOR INTERNATIONAL OIL & GAS COMPANIES

AFRAZ ADVISERS

What is implementation day?

Under the agreement U.S. and European Union nuclear-related sanctions (which include oil-related sanctions) will be suspended on Implementation Day after the International Atomic Energy Agency (IAEA) verifies that Iran complied with key nuclear-related steps.

In June 2015, Iran and the P5+1 (the United States, United Kingdom, France, Russia, and China) reached a comprehensive agreement regarding Iran's nuclear program. The finalisation of this agreement was subject to the approval of the congress in US and the parliament in Iran and recently passed through both of these hurdles. See Table 1 for various steps agreed within this joint programme. Iran has now successfully passed the verification by the International Atomic Energy Agency (IAEA) and today 16th January 2016 marks the Implantation Day effectively opening the door for Non-US companies to do business in Iran.

MILESTONE	DETAILS FROM JOINT COMPREHENSIVE PLAN OF ACTION (JCPOA)
14 July Finalisation Day	Draft resolution terminating all previous UN economic and financial sanctions submitted to UN Security Council (UNSC) and unanimously endorsed. Iran and International Atomic Energy Agency (IAEA) start developing arrangements to implement transparency measures under JCPOA.
12 October Adoption Day	EU & member states to adopt EU regulation to take effect on Implementation Day, terminating the significant majority of nuclear-related economic and financial sanctions. US Congressional review will be completed by Adoption Day.
16 January Implementation Day	Will only occur once the IAEA has verified implementation by Iran of specified nuclear-related measures. Upon verification, EU regulation terminating economic and financial sanctions will take effect. US will license certain activities by US individuals, remove sanctions on certain individuals, entities and vessels. It will cease enforcing nuclear-related secondary sanctions that currently expose non-US persons to adverse consequences. All UN sanctions related to the Iranian nuclear issue will be terminated.
Transition Day	Occurs 8 years after the Adoption Day or on a date that IAEA concludes all nuclear material remains in peaceful activities. Iran is to ratify the IAEA 'Additional Protocol (providing greater visibility)' and further UN provisions concerning arms and missile proliferation will be terminated.
UNSC Resolution Termination Day	Occurs 10 years after Adoption Day, the UNSC Resolution endorsing the JCPOA will terminate such that the UNSC is "no longer seized of the Iran Nuclear Issue".

Table 1: Key milestones within the JCPOA

Will the non-US and US companies treated the same?

Post Implementation Day, non-US companies will be much better placed than their U.S. counterparts to capitalise on Iranian opportunities. Please see Appendix A for further details.

The Office of Foreign Assets Control (OFAC) at the US Department of Treasury will issue guidance following the Implementation Day. Prior to implementation Day, US persons were prohibited from engaging in contracts even with caveats related to removal of sanctions.

Non-US companies will by in large be able to engage in all areas of economic activity permitted under the JCPOA. The FCO will update its existing guidance on doing business with Iran. Companies will be allowed to engage in dealings in all the areas permitted under the JCPOA.

We believe even after Implementation Day, U.S. persons will continue to be prohibited from engaging in transactions involving Iran, with the exception of a few specific categories of transactions that OFAC will license. Whether the foreign subsidiaries of those US entities can be engaged in dealing with Iran is something that have to be seen in the upcoming OFAC guidance.

The US will lift the secondary sanctions against non-US persons and entities not subject to US "primary" sanctions. These are designed to deter non-US persons and firms from engaging in various activities involving certain sectors of the Iranian economy, including oil and gas. This will effectively allow non-US companies and persons to engage in transactions with Iran in these sectors, unless the non-US companies and persons are subsidiaries of US companies or otherwise subject to US primary sanctions. American companies and persons will still need to comply with the "primary sanctions".

Ever since the Islamic revolution in Iran, US companies (specially oil and gas companies) have not conducted any major business with Iranian Government. There has often been the issue of sanctions. In contrary European oil and gas companies and in general EU companies have a significant business interest in Iran. Many have visited Iran with their government delegations or independently to renew their relationships and evaluate the emerging opportunities. US companies have not been able to do any significant business development activity and benefit from no diplomatic or support within Iran which we believe disadvantages them beyond the technical issue of sanctions.

What is a no-go for non-US companies post Implementation Day?

Companies need to seek legal advice every step of the way and engage professional Iranian firms with on the ground experience to conduct due-diligence on the companies and entities they wish to do business with. This is even more important for E&P companies as they will be required to partner up with a local Iranian company.

The US publishes and regularly updates the Specially Designated Nationals (SDN) list here. The EU (in addition to each member state) has also a list of sanctioned entities which is publishes here. The targeted financial sanctions provisions prohibit directly or indirectly making funds or economic resources available to designated persons.

As discussed the SDN list will be updated on Implementation Day since US will no longer apply a broad range of secondary sanctions related to the oil and gas sector of the Iranian economy, and will remove certain Iranian parties from the OFAC list (SDN List).

What is the upstream opportunity in Iran?

The Iranian government has been preparing for the removal of sanctions. In addition to revamping the old buy-back contracts, the National Iranian Oil Company has introduced one of the largest investment packages in the history of petroleum industry.

During the Tehran Summit on 28th November , 51 upstream fields were introduced to foreign companies. According to our analysis, Iran is offering 70% of its untapped oil and liquid reserves from a range of green and brownfield projects. In total these fields can add over 1.28 million bbl/d (which is a conservative estimate) to Iran's production. For the gas fields, over 8 bcf/d production is on offer. See Figure 1 for the breakdown of the production based on projects.

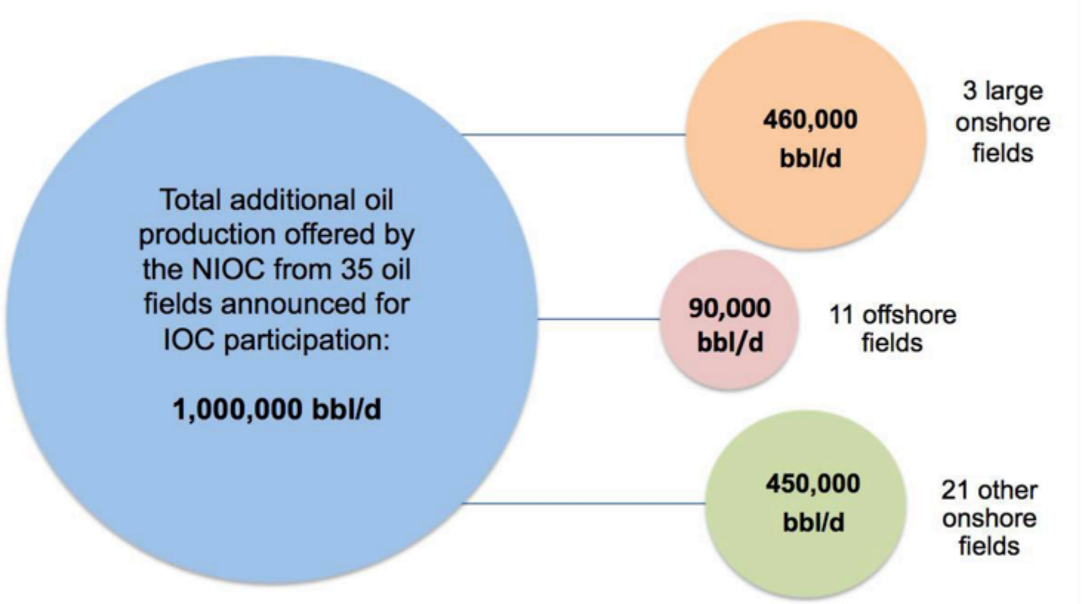

Figure 1: The NIOC target for increasing the production from the oil & gas fields on offer

The new Iranian Petroleum contracts (IPC) if implemented properly, are well suited to the development needs of the Iranian fields, and could offer investors better terms than otherwise available in the region. Since 2013 the Iranian Government has embarked on an unprecedented overhaul of the contractual regime. The new contracts will offer significant incentives to IOCs over the previous buy-back contracts.

These include:

- Longer contract horizon (between 20-25 years)
- Appointment of the IOC as “Operating Manager”
- Development fee per barrel linked to the market price of oil
- Alignment of interests for all parties to encourage long-term collaboration

Through the new contracts NIOC is seeking to encourage participation from IOCs to address gaps in the local Iranian market. Some of the main objectives of the new contracts are given below.

- Advanced technologies for IOR and EOR in order to improve or maintain recovery in existing fields and reduce the gas injection in oil fields, a commodity Iran is looking to export
- The latest technologies for drilling and related services
- Technologies for drilling and producing heavy oil fields, deep reservoirs and sour gas fields
- Reservoir management & optimisation
- Surface asset integrity management

A number of smaller fields on offer require lower CAPEX investment encouraging smaller and medium sized IOCs to enter the Iranian market, providing revenue incentives for fields with smaller production in the range go 3-5k bbl/d.

Why should upstream companies act now?

At ever-time low oil prices of today, Iranian projects offer a compelling case for a commercial long-term upstream investment. The break-even costs of Iranian onshore oil fields could be in the size of $20-35 /bbl USD with a lifting cost of $4.5 /bbl. These are likely to fall post –sanctions as Iran will be able to import good and services at more competitive prices where needed.

Large group of oil and gas companies have begun studying Iranian fields and are putting a plan in place to approach the country. Some in fact have prepared a great deal to be the first-mover by conducting screening of fields and visiting the country to meet potential local partners.

In addition to major Russian, European and Asian IOCs who are directly approaching NIOC for projects, smaller E&P companies are forming consortiums with other companies to reduce their costs and risks as they enter what could be a short race to tenders.

There has not been any official date announced for the first round of tenders, however there are talks that there will be more than 1 tender this year and up to 8 oil and gas fields (large and small) will be put for bid in March 2016. As it stands, we believe the NIOC has kept the door open and remains open to negotiate on fields as well as consider qualifying companies who are expressing interest to participate in tenders.

What advice would Afraz give the companies who are starting to look at Iran now?

Bear in mind that, they are joining a race that started a while ago. The best place to begin is to conduct a screening of fields and establish whether they are right for your company and portfolio. Iranian fields require reasonably large capex meanwhile the G&G risk is very low. NIOC is looking to award projects to companies that have the technical and financial capability to make a meaningful difference to some of the least developed or more challenging fields. In addition to in-depth knowledge of carbonate reservoirs , they need to be able to demonstrate they can produce heavier oil or put in place EOR programmes.

We would also suggest looking for local and international partners in parallel. This is especially true in the case of mid-cap and smaller E&P companies. The race to project in Iran can be time consuming, to increase your chances of success its important to reduce your risk by partnering up with international firms who will be interested in similar fields.

What are the challenges that Afraz's clients face and how do we address them?

There are broadly two issues that oil and gas companies, large and small are grappling with. Both are somewhat related to availability of reliable insights from compliant sources on the current status of the upstream industry in Iran.

1. Understanding the nature of Iranian fields on offer and the operational status of these fields. During the nearly 10-year period of far reaching sanctions, the international industry has become ever more distant from Iran.

We identified this issue in 2013 and have worked tirelessly since 2013 to address it. Today we are the industry standard for upstream insights on Iranian fields offered. We provide up-to-date technically assured insights on Iranian fields including reservoir characteristics and operational status. This enables our clients to screen fields quickly with the least costs. For those who wish to pursue studying any particular field further we provide asset evaluation services unique in the industry.

2. Local partners: the new Iranian Petroleum Contracts are designed to encourage maximum local content delivery. In fact the core of these contracts is to nurture the formation of a local E&P industry that has been missing in Iran. See my LinkedIn article here.

we have unrivalled insights on competent Iranian oil and gas companies capable of becoming partners for upstream companies post implementation Day. We provide a well-round overview of these companies technical and commercial capability to our clients and facilitate road shows on the ground as requested. Since the announcement of JCPOA, we have successfully organised and delivered 6 delegations for our major and smaller IOC clients to Iran. This is a testament to strength of our industry contacts in Iran, knowledge of the system and independence that enable us to provide our clients with non-biased hands-on advice they need to get ahead in Iran.

How is Afraz different?

We were the first Iran focused oil and gas advisory house incorporated in London. Because we started early, we have been able to analyse significant amount of public information and insights of independent technical experts with many years of experience in Iran to build our database of insights.

Our competition is mainly twofold:

1. The bigger firms like IHS and Woodmac who have not been able to approach Iran due to their American shareholding base and;
2. Other Iranian and foreign companies, many of whom have had serious compliance issues and could not be contracted by established oil companies

I want to tell you why both independents and majors have chosen us as their knowledge partner in Iran:

Quality of Insights: You can be sure of the quality and the source of the insights you receive

We provide a preview of our database to potential clients ahead of any purchasing decision, so they see for themselves the depth and breadth of our field insights before they commit.

We have one of the best Iranian technical teams lead by Hadi Parvizi in London. This group is considered be the top talent in the industry, they had left Iran because of stagnation in the industry in recent times after many years of working on Iranian projects, to work in international projects. It's the knowledge and experience of these people that makes our field reports unique. They are the best source of insights and knowledge available on the market.

Compliance & our Values: we see compliance as a way of building a long-term business

- We are a British company and complaint with the rules and regulations of the UK and the EU
- We abide by our compliance policy which includes anti-bribery and anti-corruption
- We have a code of conduct policy that is comprehensive and provides guidelines from employment to how we procure services
- We have taken up one of the toughest , most transparent conflicts of interest policy to ensure we always stay true to our client

Value for Money: we beat the larger data-houses both in quality and value

In case of Iran, larger data-houses (in addition to not having up to date insights) are not able to provide the personal and hands-on service we give to our clients. Simply selling information doesn't work with Iran. Its needed to be updated and kept up-to-date continuously.

To find out more about Afraz, call +44 203 371 7286 or email info@afrazadvisers.com

Appendix A

The EU

The EU and EU member states' commitment to the termination or amendment of existing sanctions under the Regulation and Decision will see the removal of sanctions, from Implementation Day, in respect of:

- The transfer of funds between EU persons and entities and Iranian persons and entities
- Various financial, banking and insurance measures
- Financial support for trade with Iran
- Commitments for grants, financial assistance and concessional loans to the Government of Iran
- Transactions in public or public-guaranteed bonds
- The import and transport of Iranian oil, petroleum products, gas and petrochemical products
- The export of key equipment or technology for use in the oil, gas and petrochemical industries
- Investment in the oil gas and petrochemical sectors
- The export of key naval equipment and technology
- The design and construction of cargo vessels and oil tankers
- The provisions of flagging and classification services
- Access to EU airports for Iranian cargo flights
- The export of gold, precious metals and diamonds
- The delivery of Iranian banknotes and coinage
- The export of graphite and raw or semi-finished materials such as aluminium and steel, and export of software for integrating industrial processes
- Associated services (including financial and technical assistance) in respect of the above
- The asset freeze and visa ban in place on all individuals and entities listed in Attachment 1 to Annex II to the JCPOA

Certain sanctions will remain in place for up to eight years until the Transition Day, including: (i) sanctions on financial messaging services; (ii) nuclear proliferation-related measures; (iii) certain sanctions concerning metals and software; (iv) arms and missile related sanctions; and (v) the asset freeze applied to persons designated in relation to proliferation-sensitive, nuclear, arms and ballistic missile-related activities.

The US

The key feature of the U.S.'s commitments under the JCPOA is that they generally do not extend to permitting U.S. persons to engage in activities currently prohibited by U.S. sanctions. With certain exceptions, only non-U.S. persons will benefit from the U.S.'s relaxation of sanctions (by way of waivers and other Presidential actions) on Implementation Day relating to:

- Financial and banking transactions with specific entities, including the Central Bank of Iran (CBI); the National Iranian Oil Company (NIOC), Naftiran Intertrade Company (NICO), National Iranian Tanker Company (NITC) and certain current Specially Designated Nationals and Blocked Persons (SDNs).
- The Iran Rial, Iranian sovereign debt, and the provision of U.S. banknotes
- Underwriting services, insurance, or reinsurance concerning activities subject to sanctions relaxation under the JCPOA
- The energy and petrochemical sectors
- The shipping, ship building, and port sectors
- Gold and other precious metals
- Graphite, raw or semi-finished metal, and software for integrating industrial processes
- The automotive sector
- Nuclear proliferation, but only to the extent consistent with the JCPOA

The U.S. also has committed, as of Implementation Day, to removing specified individuals and entities from the SDN List or other relevant sanctions lists and to licensing: the sale and provision of commercial passenger aircraft and related and associated parts and services; activities consistent with the JCPOA by non-U.S. entities that are owned or controlled by U.S. persons; and the importation of Iranian carpets and foodstuffs.

Upon Transition Day, the U.S. will seek to modify or terminate certain sanctions-related legislation, and remove additional individuals and entities from the SDN List or other relevant sanctions lists. The JCPOA does not alter U.S. sanctions on Iran relating to terrorism, human rights abuses, and ballistic missiles.

Snap-back

The agreement contains a 'snap-back' provision resulting in the re-imposition of previous UN sanctions which may be invoked by any party to the JCPOA in the event of "significant non-performance" of a party's JCPOA commitments. Such reinstatement of sanctions, which is subject to a bespoke dispute resolution process triggered by a belief by one or more of the parties that another is not meeting its commitments under the JCPOA, could be achieved within as little as 65 days.

Whilst the snap-back provision does not automatically apply to EU and U.S. sanctions, the fact that complaining parties are entitled to cease performing their commitments under the JCPOA suggests the ability ultimately to reinstate their own domestic sanctions if they wish.

Significantly, any UN sanctions that are reinstated **will not apply retroactively to contracts** entered into by any party and Iran and/or Iranian individuals prior to the date of application of such reinstatement, provided the activities thereunder were consistent with the JCPOA and previous and current UNSC Resolution.

AFRAZ ADVISERS

ABOUT AFRAZ ADVISERS

Afraz Advisers is the world leader in providing independent information and guidance to international companies looking to successfully navigate entry into Iran’s oil & gas market.

Our company is comprised of exploration & access professionals, analysts and subsurface specialists who all have direct experience in the upstream oil & gas value chain in Iran.

Working on the ground in Iran since 2013, we have accumulated and performed detailed analysis on:

- All the oil and gas fields on offer to foreign companies
- The value drivers of the new Iranian Petroleum Contract (IPC)
- The capability gaps in skills and technology in Iran’s oil & gas value chain
- Market entry strategies for oil & gas companies

THE AUTHOR OF THIS REPORT

Mahdi Kazemzadeh BEng(Hons) MPhil (Cantab) is the founder of Afraz Advisers. Mahdi started out as an engineer in 2007 and spent the next four years in engineering consultancy firms delivering major infrastructure projects in the UK. He left the energy services industry in Aberdeen in 2011 to join BP exploration and production in London. He recognised the real prospect of Iranian market opening in December 2013 and left BP to set up Afraz Advisers a week after the first successful deal had been negotiated by the P5+1 and Iran in Geneva in November 2013. He set out to build a company that would help oil companies and service providers to prepare for a successful market entry.

AFRAZ ADVISERS

FIND OUT MORE ABOUT AFRAZ

We've been helping oil companies (from small independents to majors) successfully navigate entry into Iran since 2013, when we first published our insights on some 52 Iranian fields.

Today, Afraz Advisers leads the world in paving the way for international oil & gas companies to enter Iran. Whether it's assistance in analysing field data, introducing our clients to local Iranian partners, guidance on the Iranian Petroleum Contracts or crafting entry strategies for our clients, we are the most trusted consultancy dealing exclusively in Iranian oil & gas.

Call +44 203 371 7286 or email info@afrazadvisers.com

to find out how we can help you with your specific needs in assessing or entering Iran