

Introduction:

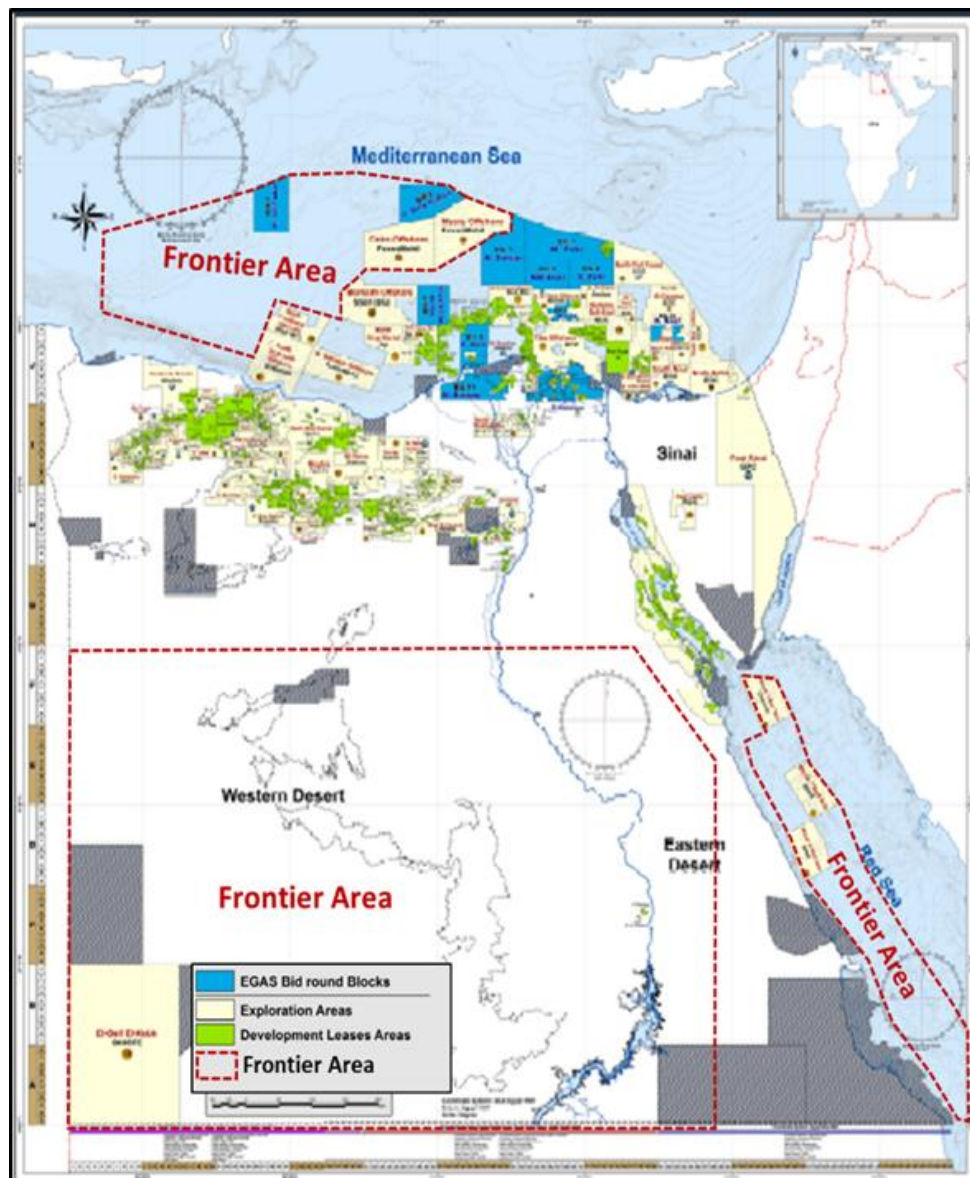
The R Factor (Profitability Factor) is one of the global petroleum agreements mechanism which achieves an appropriate economic feasibility for International Oil Companies (IOCs), especially in the areas with major challenges, as high water depth areas, frontier areas, where no exploration activities have been conducted before, and areas of extracting unconventional gas, which require huge investments when companies will not be able to recover their expenses, except in the presence of such system, which gives IOCs large shares of the production in the early years of the project, also allowing them to recover capital expenditures. Then the IOCs share shall gradually decrease while achieving an appropriate profitability factor. This shall lead that the IOCs continue to invest and condense exploration and production operations till the end of the project.

The R Factor: is a performance-based indicator used to measure the economic performance of an oil or gas project. It is typically defined as the ratio of cumulative revenues to cumulative costs, and it reflects how the project is performing financially over time.

Criteria to Apply R. Factor:

- Frontier blocks where exploration operations have not been conducted before and therefore no geological or geophysical data is available, or where drilling and even the available geological and geophysical data don't conclude the presence of good prospects with reasonable materiality and low risk, especially in the deep western areas of the Mediterranean elements Sea where water depths exceed 2,500 meters, Red Sea basin and Southern Western Desert.
- Far distance from existing facilities, which requires the establishment of new petroleum facilities that require huge investments Which in turn will affect the economics of the project.

- Blocks with a high-risk rate, especially blocks where the existence of an integrated petroleum system has not been confirmed.
- Blocks that require high investments to implement an exploration and development program, and therefore the contractor cannot recover all of its expenses when applying the current production-sharing system.
- HPHT Reservoirs: significant challenges is to control the drilling operations in high pressure/high temperature wells, besides need special facilities to adapt these types of reservoirs.



This frontier area, marked on the map, will be reviewed every two years based on exploration activity, wells drilling status and results.