



Expected M&A activity and crude oil flows

Expected recovery in the context of the Global risk envelope

28th May 2010, London



Impact of M&A activity on crude oil flows

M&A activity set to accelerate further in 2010

Yet, return to the rapid pace of deal flow seen in the 2005-08 period is unlikely

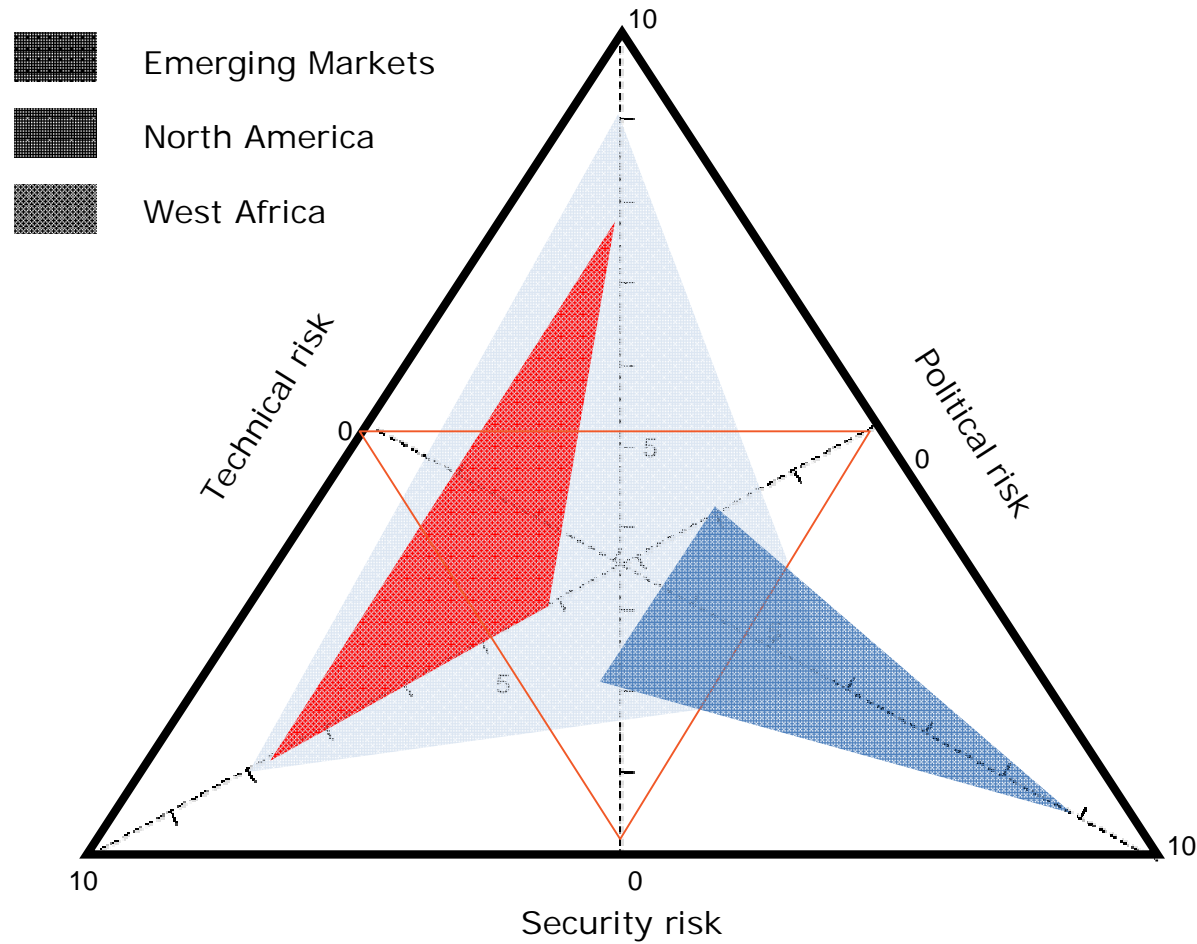
- **Crude oil price higher and more stable making price projections and asset valuations easier**
- **Oil companies' balance sheets in better shape and capital markets recover, key buyers remain:**
 - **NOCs vs. IOCs**
 - **Independents** – having spent the last year focusing on efficiency, now have cash available
- **Equity fundraisings returning** (a number of oil IPOs scheduled on LSE) **but only hesitantly**, driven primarily by projects' need of funding and private equities efforts to raise cash by exiting their oil investments, and not by overwhelming demand seen in 2005/6; and only some of these fundraisings may succeed
- **Yet, investors' appetite for risk is slowly growing – whilst** a year ago, funding for exploration was scarce and secondary listings were almost the only success stories, 2010 seeing some capital available for exploration, as well as for both geographic and technical frontiers:
 - e.g. **West Africa asset-level activity set to continue / accelerate**



The risk envelope

M&A multiples in high political / security risk provinces **high**

Exploration companies in high – political and security risk areas seeking to positioning on the scale of lower technical risk





West Africa primer: Nigeria

- Crude oil and gas production in Nigeria has fallen by ca. 30% over the past five years, following a slowdown in exploration and production activity in the country and due to insurgency
- Pick-up in oil production and exports since October last year, with substantial improvement in actual operating capacity following the amnesty initiative
- The positive trend perceived to continue and Government targets 4 million b/d by the end of 2010, double the recent output
- Presidential elections scheduled to start at the beginning of 2011 and important policies and laws, such as the Petroleum Industry Bill (PIB) still to be promulgated into laws
- If we believe that 2 million in an 86 million bbl market is a small percentage, the effect in regional markets remains significant – e.g. more than half the country's oil production being exported to the US
- Most super-majors bullish, e.g. Total has presented a plan to invest \$20 billion in Nigeria over the next five years together with its partners, focusing on four upstream projects in particular



West Africa primer- Nigeria: legislative and political changes (a)

Nigeria, example where legislative changes hinder short term activity, and serve as a catalyst of medium and long term M&A

Note: Illustrative examples from the DPR website

International Oils		
Onshore Fields	Recoverable Reserves (mmbbl)	Start-up Year
Shell / NNPC JV	19,670	1958
ExxonMobil / NNPC JV	6,550	1970
Chevron / NNPC JV	6,510	1965
Eni / NNPC JV	3,180	1970
Total / NNPC JV	2,030	1971
Offshore Fields	Recoverable Reserves (mmbbl)	Start-up Year
Bonga	610	2005
Erha	460	2006
Agbami	770	2008
Akpo	600	2009
Usan	650	2010

Void between the International Oil Companies & Pure Local Companies

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Expected M&A activity space to include small and medium size players

NNPC



Pure Local Companies
<i>Financially and technologically constrained</i>
<i>Niger Mangroove Pet. Co.</i>
<i>Coral oil & Gas Co. Ltd</i>
<i>Drake Oil & Gas Producing Ltd</i>
<i>Sapele Petroleum Ltd.</i>
<i>Britania-U Nig. Ltd</i>



West Africa primer- Nigeria: legislative and political changes (b)

Nigeria, example where legislative changes hinder short term activity, and serve as a catalyst of medium and long term M&A

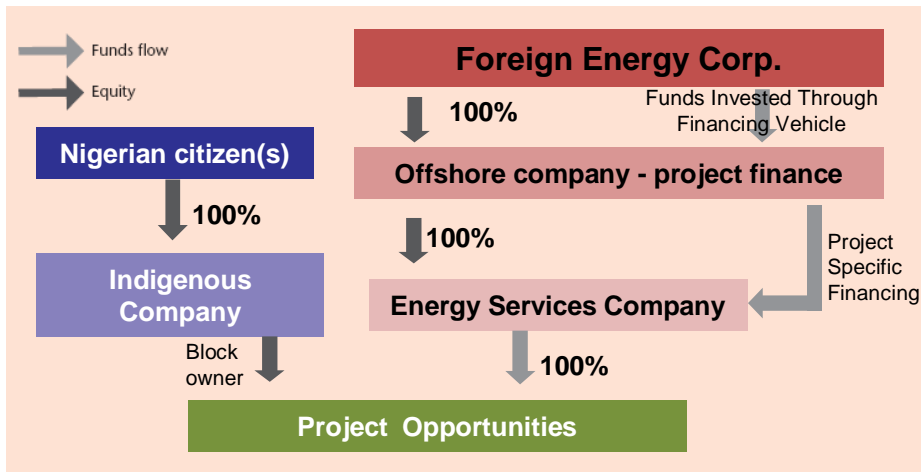
Oil Royalties	Indigenous	Non-Indigenous		
		Offshore		
Oil rate, bbl/day		0 < D <= 100	100 < D <= 200	D > 200
0 < R <= 5,000	2.50	2.50	1.50	Negotiable
5,000 < R <=10,000	7.50	7.50	3.00	Negotiable
10,000 < R <=15,000	12.50	12.50	5.00	Negotiable
15,000 < R <=20,000	18.50	18.50	10.00	Negotiable
> 20,000	18.50	18.50	16.65	Negotiable

Petroleum Profits Tax	Year 1 to Year 5	Year 6 and beyond
Indigenous	55%	55%
Non-Indigenous	65.75%	85%

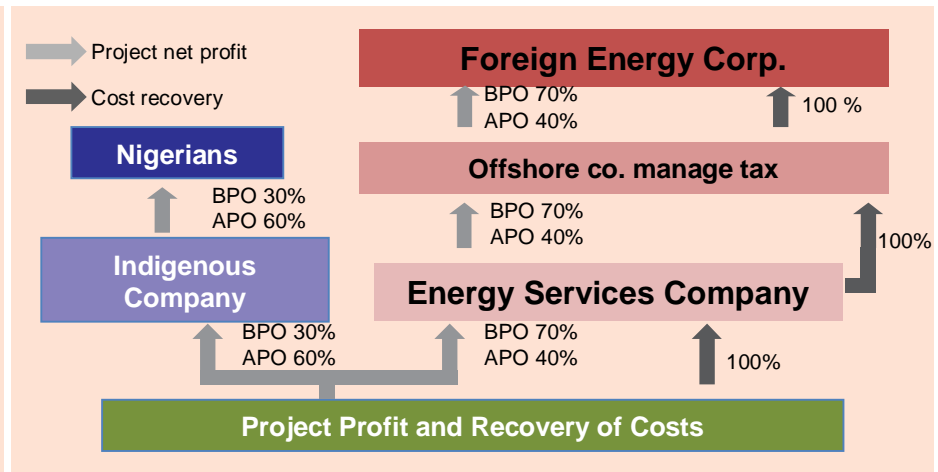


West Africa primer- Nigeria: typical M&A and financing structures

Typical Structure



Profits



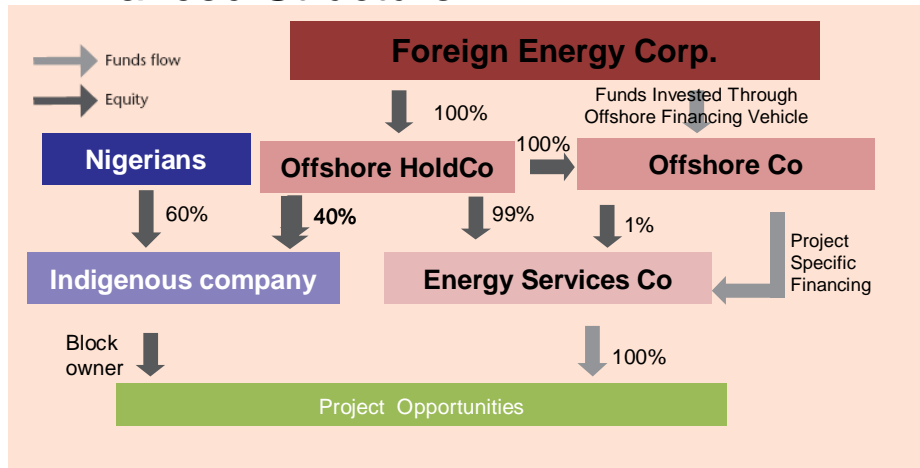
- Funds flow from Foreign Energy Co. to Project 100%
- While, equity remains held by the Nigerian citizen(s)

- Foreign Energy Co.'s share of profit before payout capped at 70%
- Foreign Energy Co.'s share of profit after payout capped at 40%

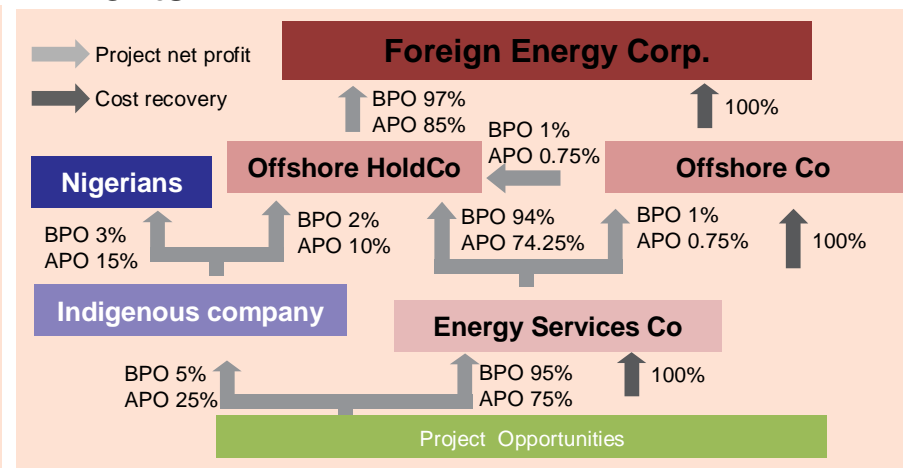


West Africa primer- Nigeria: enhanced M&A and financing structures

Enhanced Structure



Profits



- Foreign company funds 100% of project funding, as before, but indigenous company now 40% owned by foreign company whilst remaining indigenous

- **Foreign Energy Co.’s share of profit BPO and APO, previously capped at 70% and 40%, now total 97% and 85%, respectively**

PIB (Petroleum Industry Bill) still to be promulgated into a law encourages use of “indigenous service companies”.

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Effects on the existing structures to be determined.



LB Capital's West Africa mandates 2009 / 2010

Healthy demand for producing assets and exploration licences evident

Sample West Africa M&A mandates by LB Capital:

❖ **Nigeria, sell-side by a foreign company holding a stake in an indigenous oil producing company:**

A typical sell-side mandate in West Africa is by a foreign company (in cooperation with a local partner), seeking to sell either a minority or a majority equity stake either in the foreign company (in case of developers) or in the project (e.g. an offshore entity) in order to fund projects possibly at a late stage of development.

❖ **Mauritania, mandate by foreign owners of an indigenous company seeking an appropriate farm-in structure solution to their oil exploration and production blocks:**

Sustained exploration success in the Coastal Basin coupled with favourable fiscal regime relative to regional peers - consistent interest by majors and independents both in offshore and onshore.



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