



Divestment from Oil & Gas Assets Nigeria. June 2013



Westpaq

Upstream Insight

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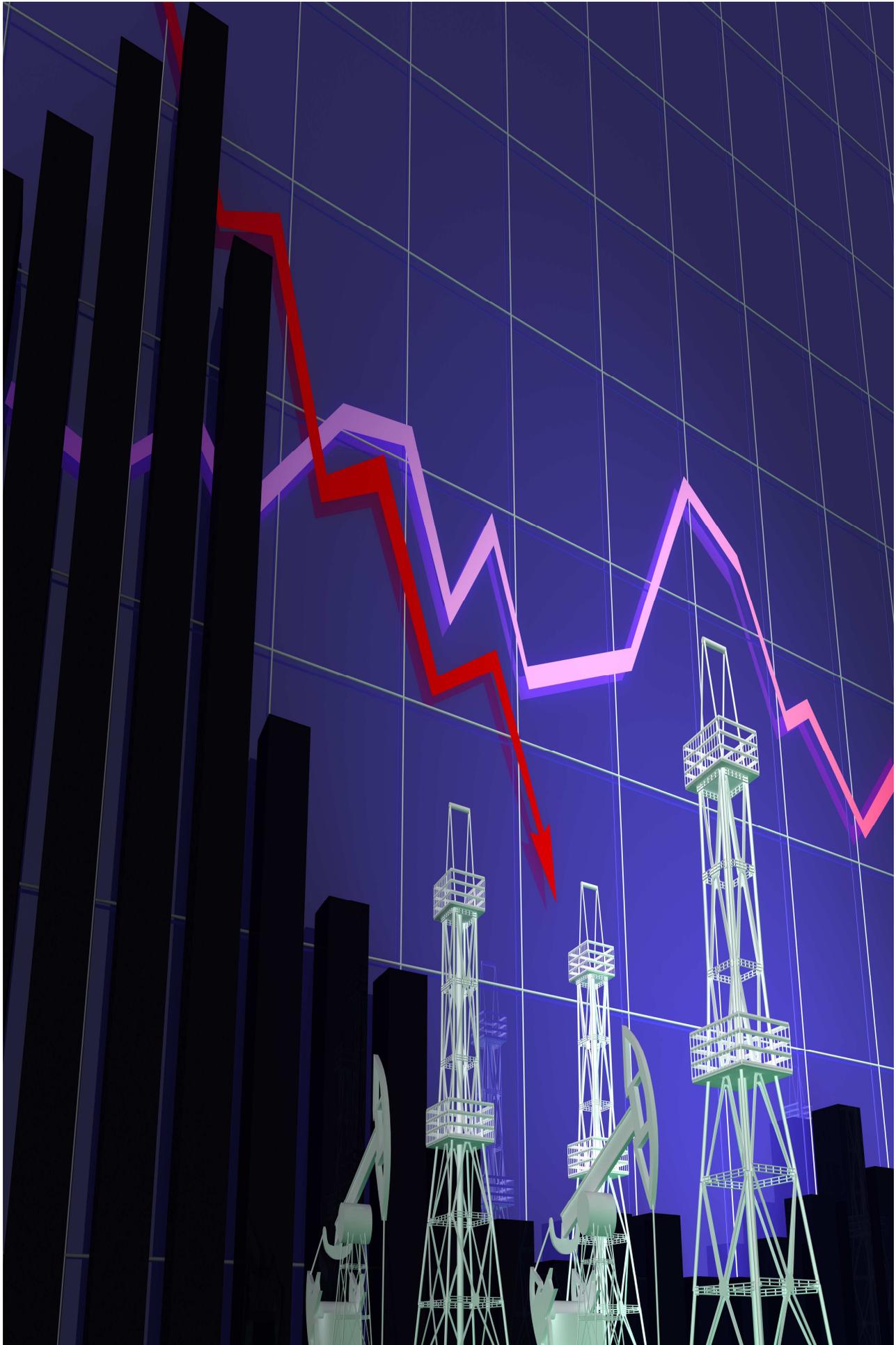
A Westpaq Upstream Insight

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Introduction

Key Abbreviations

MM= Million.

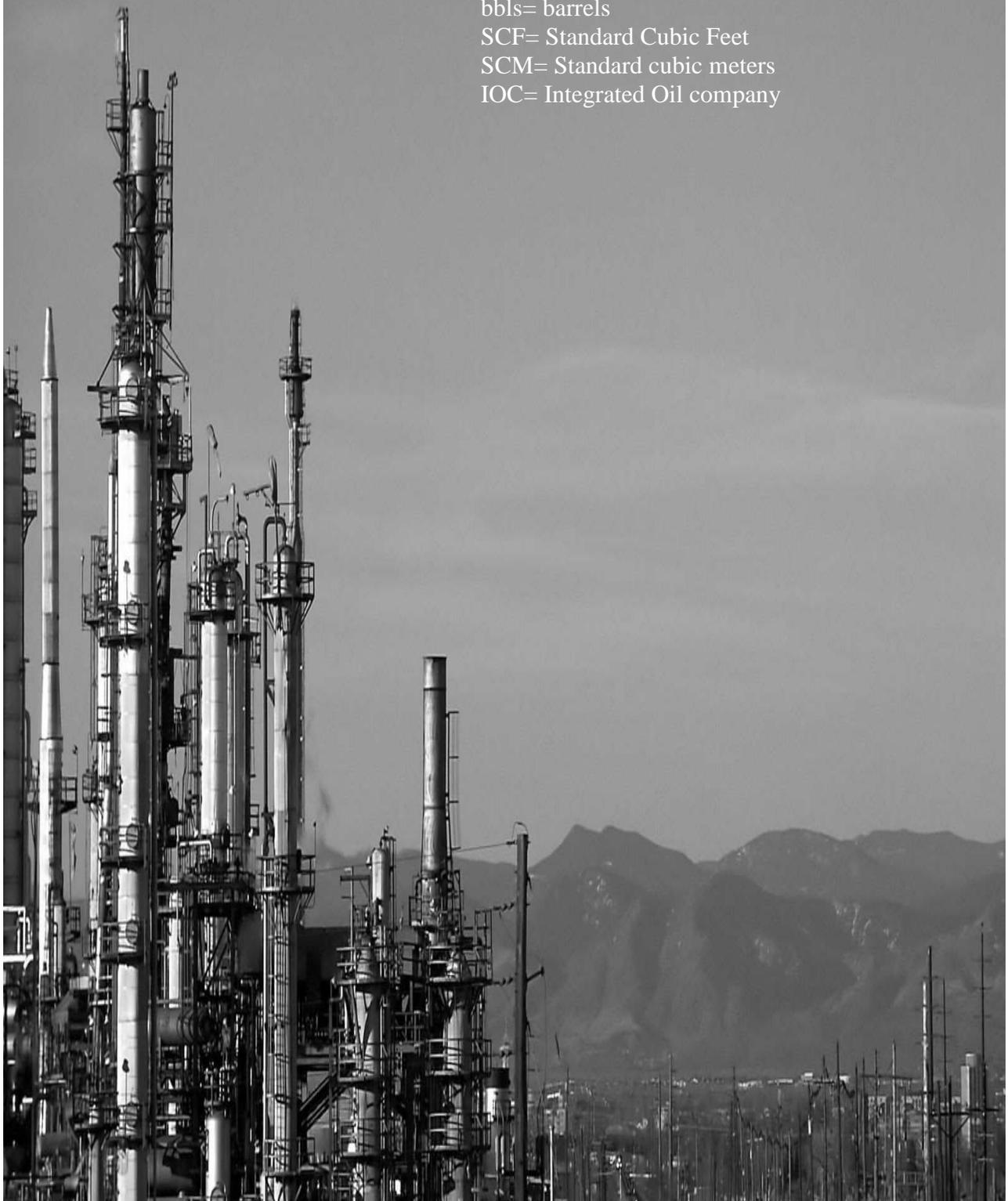
M=Thousand.

bbls= barrels

SCF= Standard Cubic Feet

SCM= Standard cubic meters

IOC= Integrated Oil company



Introduction

IOC's operating in Nigeria have divested from some oil and gas/Energy assets in the country within the past four years. This report reviews some of those divestments with a view to analyzing their implications for the Nigerian oil and gas industry.

SHELL

OML-40: Acquired by Elcrest Exploration and Production Nigeria Ltd

Proven and Probable Reserves –	225.7 MM bbls
Field Status	Production rate was less than 5000 bbls/day before it was capped
Acquisition date	September 2012
Reason for IOC's divestment	Strategic. Company has a long-term objective of reducing onshore operations in the Western Niger Delta to refocus portfolio on more Stable offshore production. Production rate is less viable with increasing cost of operations for IOC's on onshore and shallow water operations.
% Interest divested and Pre-Transaction ownership structure	Operating Asset. Operator - Shell (30%), NNPC (55%), Total (10%), NAOC (5%). Shell divested its 30% interest. Total and NAOC also divested their interests. Elcrest currently owns 45% of OML 40 with the NNPC Retaining 55%
Transaction Amount for 30% Shell equity	\$102Million

OML-34 – Acquired by ND Western Ltd

Production	15 000 bbls/d of oil and condensate. 300 MM SCF/day of gas
Field Status	Operating asset
Acquisition Date	Sept 2012
Reasons for Divestment	Same as OML-40
% interest Divested	Same as OML -40
Transaction Amount for 30% Shell Equity	\$400 Million

OML – 30 – Acquired by Shoreline Natural Resources Limited

Production	35,000 bbls/day of oil and condensate
Field Status	In Operation
Acquisition Date	November 2012
Reason for divestment	Same as OML 34 and 40
% Interest Divested	Same
Transaction Amount	\$567Million

Note: Production rates for the Shell divestitures are not in the range that holds the interest of Major IOC's in Nigeria going forward. Future strategy for IOC's chart a part for divestment from such fields, mostly onshore and in shallow water for profit while refocusing on bigger and more stable offshore production.

TOTAL

OML – 138, Usan Oil Field – Acquired by Sinopec

Reserves	Proven 500 MM bbls
Production	165, 000 bbls/day
Field Status	In operation Acquisition date: November 2012
Reason for Divestment	Refocus growth investment in funding Egina Field development plan. OML – 130
% Interest divested	20%
Pre- Transaction ownership structure	Total (20%), Chevron (30%), Esso (30%) and Nexen Petroleum (20%).
Transaction Amount	\$2.5 billion

Note: Major producing offshore field. Reason for divestment is to refocus for growth investment in a much more prolific Egina Field, OML 130, with estimated reserves of more than 550 MM bbls.

Currently Total has drilled a total of five wells; exploration + appraisal wells, and have invested billions in orders for the main FPSO and other field development drilling units and equipment pursuant to the Egina Field Development Plan.

ConocoPhilips

Entered into an agreement with Oando PLC to sell its Nigerian business units.

This includes two offshore operations consisting of 94% operated interest in OML 131 (Chota Field), 20% non-operated interest in OPL 214 (Uge field), 20% non-operated interest in Kwale-Okpai independent power plant and a 17% non-operated interest in Brass LNG project.

Net Value of ConocoPhilips Nigerian assets is approximated at \$600Million, the entire assets are being sold to Oando at \$1.79 billion; this by all ramifications is an excellent business.

Transaction anticipated closing by mid 2013

Note: ConocoPhilips is currently carrying out a global asset sales, the company sold approximately \$11billion of assets in 2012.

PROPOSED SALES INCLUDE:

Chevron

OML - 83

Reserves	Combined OML – 83 and 85 Estimate = 200 MM bbls
Status	Exploration, shallow water
Reason for divestment	Portfolio evaluation and business prioritization. Priority is larger offshore fields

OML – 85

Reserves	Combined OML – 83 and 85 Estimate = 200 MM bbls
Status	Same as OML - 83
Reason for divestment	Same as OML - 83

Petrobras

Proposed to auction \$5Billion of Nigerian oil assets

Purpose: To raise cash for Brazilian domestic projects/profit taking.

Several Asian oil companies have indicated bid interests in the hope of adding more assets to their portfolios; Western and Asian private equities have also shown very strong interests in the acquisition of Petrobras equity.

PETROBRAS ASSETS FOR DIVESTMENT

AGBAMI FIELD

% interest	8%
Operator	Chevron
Status, Production and Pre-divestment ownership structure	Major offshore producing field Production began in 2008 at over 70,000 barrels per day (11,000 m ³ /d) with peak production estimated to be at approximately 250,000 bbls/d. Reserves – 900 MM bbls

AKPO FIELD

% Interest	20%
Operator	Total
Status, Production and Pre-divestment ownership structure	Major offshore producing field. First production was in 2009. Output = 175 000 bbls per day of light condensate oil and 9 MM SCF of gas
Reserves	Proved and probable 620 million bbls of condensate and 28 billion cubic meters of gas

Notes: Petrobras is divesting assets and redirecting investment towards higher-return activities at home (Brazil). Petrobras currently plans to finance a full year, \$237 billion capital spending plan, the worlds largest corporate investment program

Petrobras is currently seeking to raise funds from its assets due to falling output and a rising debt above its internal limits.



Analysis and Conclusion

IOC divestments in recent years in the Nigerian oil and gas sector, which are listed above are mostly strategic.

Most of the IOC's divestments have been from lower producing onshore and shallow water assets, all run under JV with the NNPC. IOC's have a preference for offshore production in Nigeria.

IOC Challenges on onshore and shallow water assets include:

- Widespread oil theft
- Difficult relationship with local communities onshore, leading to production disruptions as well as driving up cost of production
- Compliance with local participation and content laws in-line with the Federal Government of Nigeria's aim of developing Nigerian companies in the country's upstream oil and gas operations
- Powerful local companies, and individuals exert considerable pressure via political structures on the regulatory agencies and IOC's to acquire smaller producing assets/marginal fields from IOC's
- Difficult business relationship with NNPC (All onshore fields in which IOC's participate are mandatory JV's with the NNPC owning 55% equity)

Industry uncertainty as a result of the long-delayed petroleum industry bill (PIB) also has some implication for future investments, especially in new offshore projects, which the IOC's have a preference for.

IOC's are largely withholding further investments offshore till a level of certainty is available in terms of future legal framework, operating structure, royalties, taxes, credit and production allowances etc. These are necessary for any efficient economic evaluation studies, which is mandatory prior to making long term capital and technical intensive investments/commitments

Companies/investors looking more towards deep-water offshore fields are less likely to invest in large new projects until the PIB is passed.

Divestment from onshore and shallow water assets by the IOC's so far, do not portend negative implications for the Nigerian petroleum industry. It provides opportunities for local operators and diverse partnerships from mid-level O & G companies as well as private equity funds. There are quite many of these resources available to take up O & G assets that become available at the current onshore/shallow field divestment rates in Nigeria.

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