

G L O B A L E N E R G Y

The Impact of the Financial Crisis on the Hydrocarbon Sector

Focus on Africa / Upstream

Jérôme Halbout

Partner, 4D Global Energy Advisors (Paris)

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Introduction

- 1. What Happened ? From Bank Crisis to Credit Crunch**
- 2. Oil & Gas Equity Markets Collapse**
- 3. Impact on Upstream Companies**
- 4. Who Lives, Who Dies?**

Conclusion, Consequences



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Introduction

4D GLOBAL ENERGY :

- Created 2001 by its 3 Partners with 60 years cumulative experience in O&G finance.
- **4D Global Energy Funds : First European investor in development capital** solely dedicated to Oil & Gas Industry mid-market companies
- **Over US\$260m equity invested in 8 companies** (Upstream, Refining & Marketing, Oil Services Companies) – in Europe / Africa
- **New Fund being raised**, objective US\$300m
- **Supporting Entrepreneurs** who created a resilient position value in the O&G value chain:
 - Upstream: **Fairfield Energy** (UK North Sea), **Fortesa** (Senegal onshore gas)
 - Services: **Geoservices**, **Serimax** (pipeline welding), **IDM** (drilling equipment), **Oil Flow Solutions** (heavy oil additives)
 - Downstream: **IES** (Mantova), **Finoil** (Genoa)



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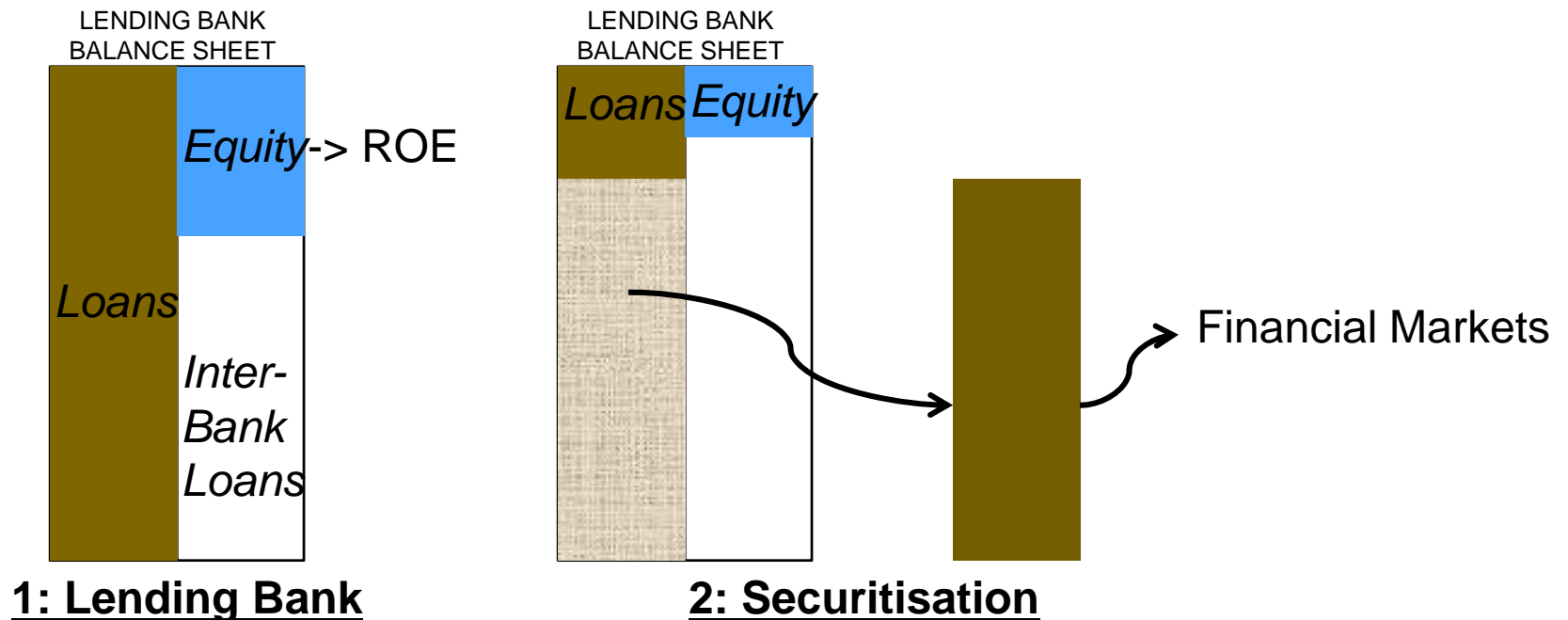
1. What Happened?

- **From Bank Crisis to Credit Crunch**



1) Bank Crisis: From Regulation...

- *Credit regulation:*
 - 8% capital adequacy: 100 € loan = 8 € capital locked
 - Risk Adjusted Return On Capital (RAROC): **reduce capital exposed**
- Leads to *financial market approach*

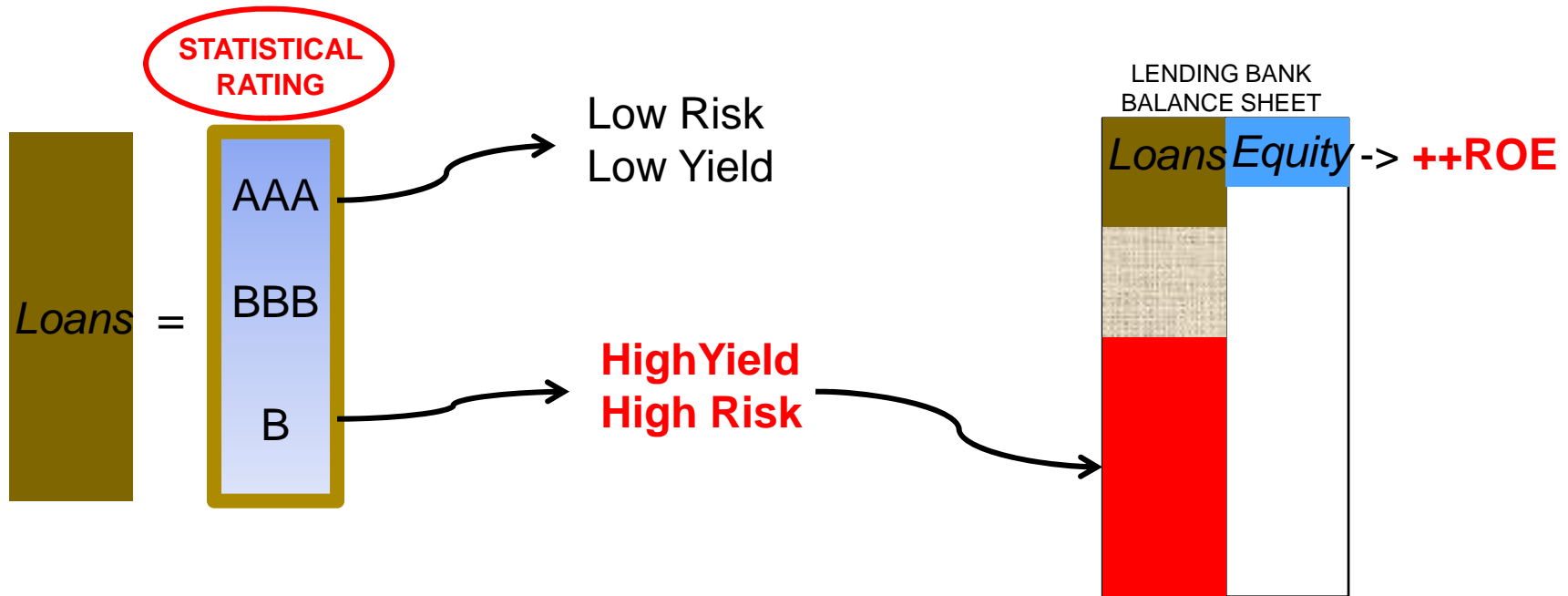




... and Equity Markets pressure ...

- Price-Earning Ratios (PER) demand to maximise revenues

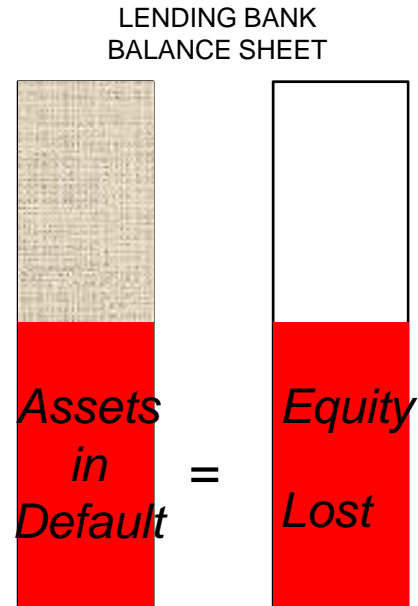
Leads to loss of risk assessment and worsening of the risk on balance sheet.



3: To Increase Return Banks take Worse Risk on their B/S (pretending they don't know it!)



... to Credit Crunch



-> **No more credit possible!**

- 100€ bad loan lost = 100 € capital spent = 2,500 € loans impediment
- **Banks Unable to Lend to One-Another!!**
- Let alone Lend to their Customers!!



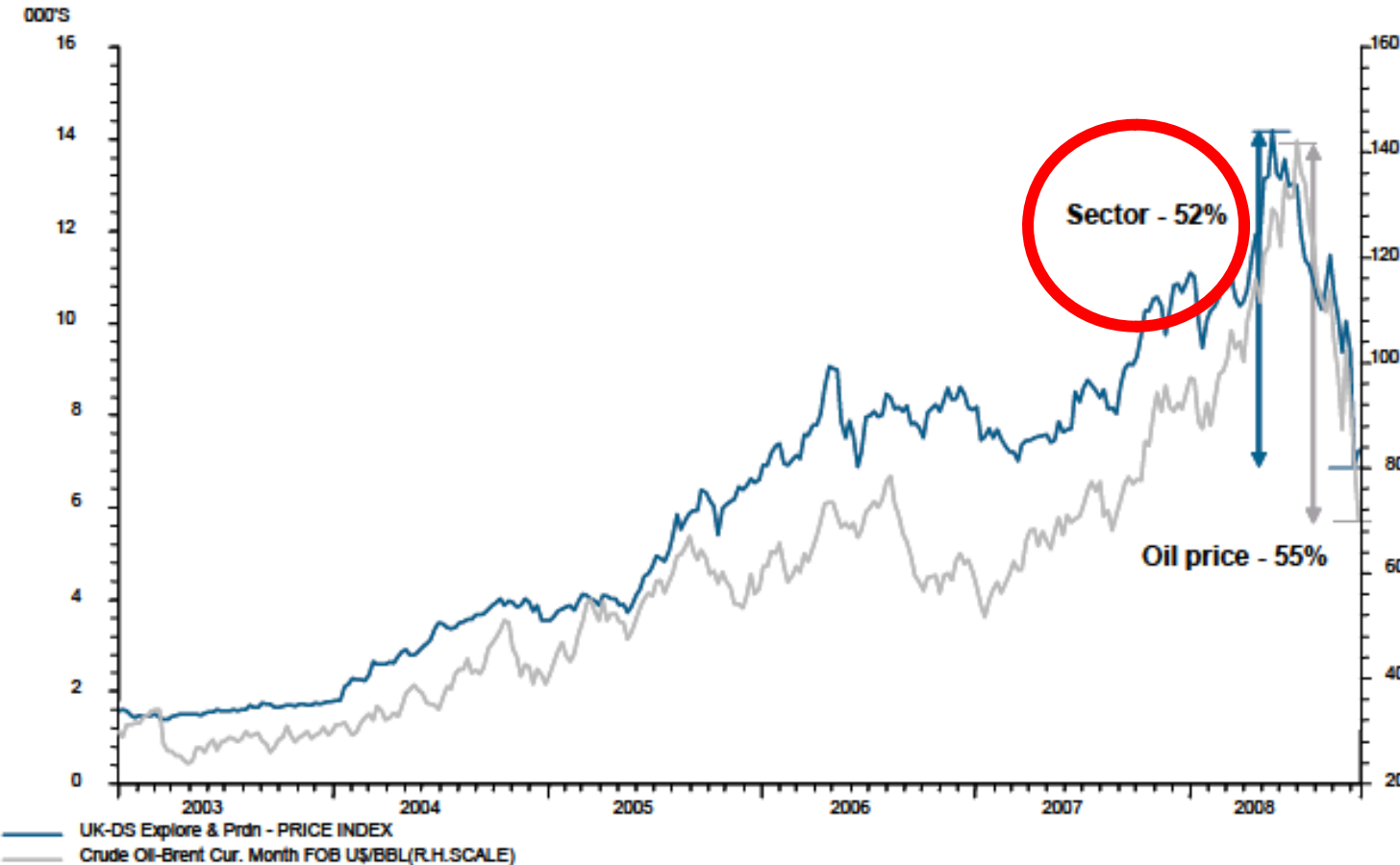
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2. Oil & Gas Equity Markets Collapse



With Oil Prices Divided by Over 2, The Upstream Sector Lost Over 50% Valuation

Fig 4 UK E&P sector (LHA) and Brent oil price (\$/bbl, RHA) 2003–2008



Since 1 August 2008,

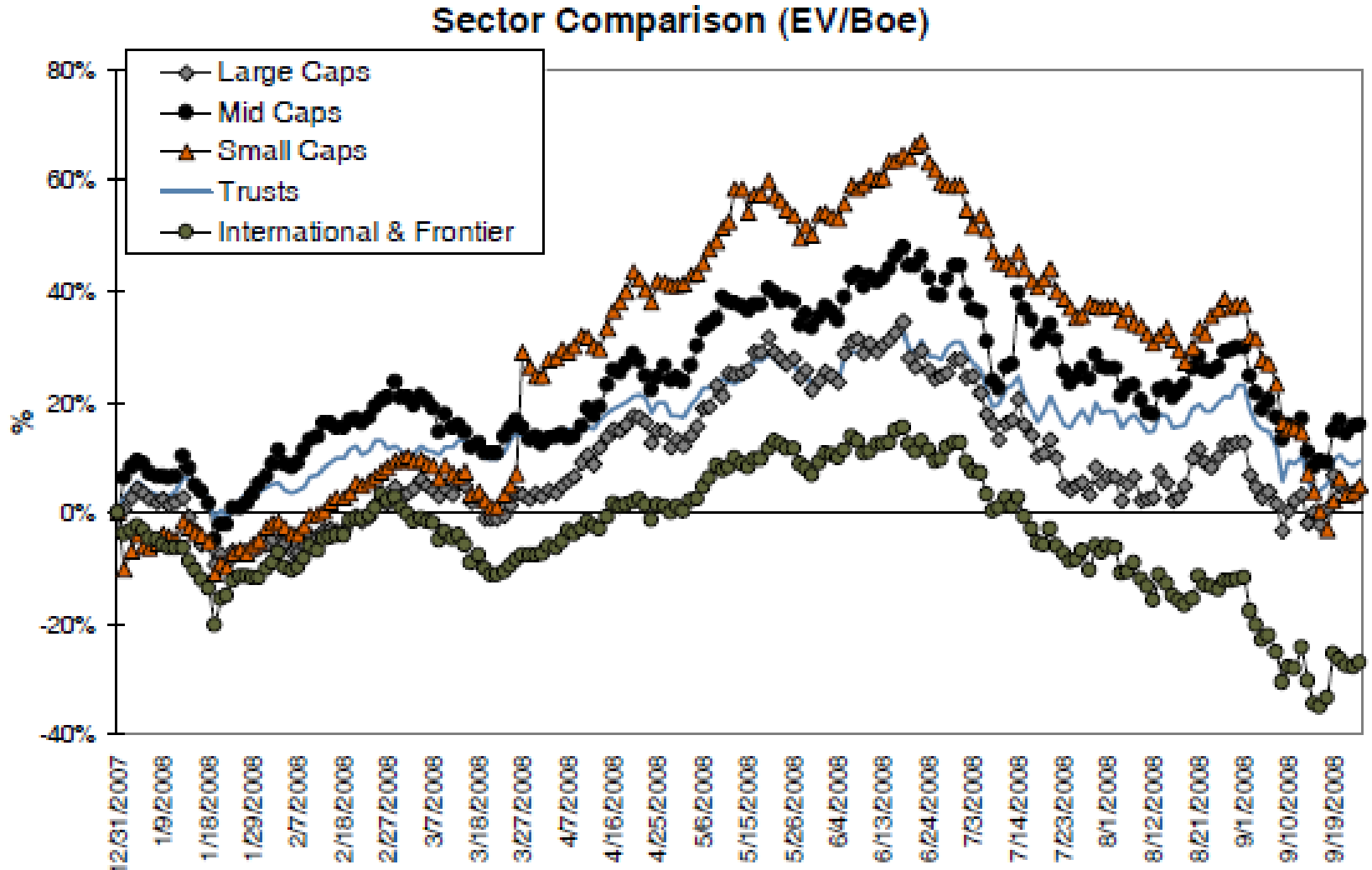
Cpies active in Africa:

- Average: - 54%
- Small Caps: - 69%
- Large Caps: - 47%
- Listed NOC's*: - 51%
- Super Majors: - 21%

*: Petrochina, ONGC, Petrobras, Gazprom,



With “Frontier” Companies Suffering the Most



Source: FirstEnergy Capital Corp., Bloomberg, Company Reports



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3. Impact on Upstream Companies



The Who's Who of Corporate Finance

BILLY-BOB Co
BALANCE SHEET

<u>Equity</u>
<u>Debt</u>

■ What For:

Exploration Capex
 Project Fin Seed
 (Pre-cash flow)

Merg & Acquisitions

Production Capex
 Organic Growth

Working Capital
 Hedging

Acquisitions

■ Sources:

Private Equity

Capital Markets

Debt Capital Markets

Commercial Banks

■ Players:

PE Funds

Institutionals
 Equity Funds
 Hedge Funds

Institutionals
 Debt Funds
 Hedge Funds

Commercial Banks



Sensitivity of Funding Sources to Financial Markets Crisis

	■ <u>Players:</u>	■ <u>Exposure:</u>	■ <u>Resulting from:</u>
<u>Equity</u>	PE Funds	Marginal	Fund raising
	Institutionals Equity Funds Hedge Funds	Uneven	Portfolio management
	Hedge Funds	Maximal	Redemptions, Margin Calls
<u>Debt</u>	Institutionals Debt Funds Hedge Funds	Uneven	Credit Squeeze
	Hedge Funds	Maximal	
	Commercial Bks	Maximal	Credit Squeeze



Facing Mass Extinction?

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Company	Ticker	Rec	Share price high (p)	Date of price high	Share price (p) 17/10/08	% fall from peak
Arawak Energy	AAK LN	Outperform	117.5	4 July	22	81
Cairn Energy	CNE LN	Outperform	3681	21 May	1409	62
Dana Petroleum	DNX LN	Outperform	1972	19 May	831	58
Heritage Oil	HOIL LN	Outperform	350	17 June	162	54
Imperial Energy	IEC LN	In-line	1392	14 January	934	33
Max Petroleum	MPX LN	In-line	209.5	13 July 2007	18.5	91
Serica Energy	SQZ LN	Outperform	128.5	21 August 2005	43.3	64
Sibir Energy	SBE LN	Outperform	814	30 June	225	72
Tullow Oil	TLW LN	In-line	985	23 June	487	51
Average price fall*						63

Source: Cazenove, Bloomberg*Excluding Max Petroleum and Imperial Energy

And those with **no production** are in even **worse shape...**



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4. Who Lives, Who Dies ?



Response is CASH vs. CAPEX Commitments

- Sufficient OPERATIONAL CASH FLOW to fund CAPEX commitments: **OK**
 - Majors, NOC's, Successful Independents, Recently Financed
- Bank or Equity Financing Secured (with no MAC Clause): **OK**
 - Addax Petroleum (\$500m bank financing)
 - Kosmos, Fortesa (Senegal) have solid equity backers
- Funding Commitments need BANK Financing or Refinancing: **Blood Bath**
 - Bow Leven unable to refinance 31/12/08, undertaking "Strategic Review"
 - Verenex successful in Lybia, opens data room for "Strategic Review"
 - Bramlin (Cameroon) forced to merge
 - Baraka (Mauritania, Mali) debacle
- Need to Raise Capital: International Capital Markets: **essentially closed**
Private Equity has Wide Choice of Investment Opportunities
- Other Sources of Finance: **OK, at a cost**
 - From Partners/Utilities (ex: Petroceltic/Iberdrola, Afren/Sojitz & Gasol/EDF)



Conclusion: Consequences

- Projects Abandoned
If not properly financed before the funding crunch
- Projects Postponed
If promoter sufficiently financed to resist credit freeze
- = **Upstream Companies failures**
 - Concentration of the best plays owners
 - Non conventional / frontier / stranded reserves postponed / cancelled
- = **Pressure Released on EPC contractors**
 - Reduce cost base, increase work from Asia, Producing countries
- = **Reduced additional supply, excess capacity remains/back to minimum**
 - Oil Price prone to Large Rebound?
- = **Financial speculators learn their lesson..... No, impossible!**



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Thank You

Jérôme Halbout

Tel : +33 1 56 43 38 63

Cell : +33 6 86 28 32 86

jerome.halbout@4dgea.com

4D Global Energy Advisors

www.4dgea.com

15 rue de la Baume, 75008 Paris, France.