Hannon Westwood

THE FUTURE POTENTIAL OF THE UK IN GLOBAL DEAL FLOW

APPEX Global
March 2016

ESIA

Agenda

1. Global Deals
2. The North Sea in Context
3. UK Focus – Deal Activity & Values
4. UK Focus – Deals by Tier
5. Opportunities Across the Value Chain – Future Potential
6. The Next 2 – 3 Years…

Global Context: 2014 Upstream and Midstream Deals

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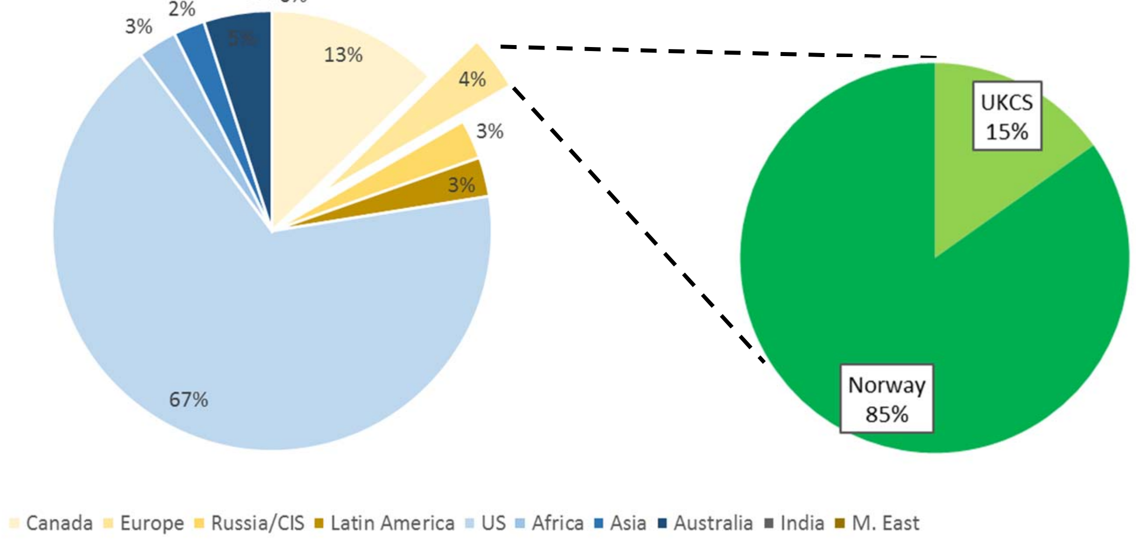
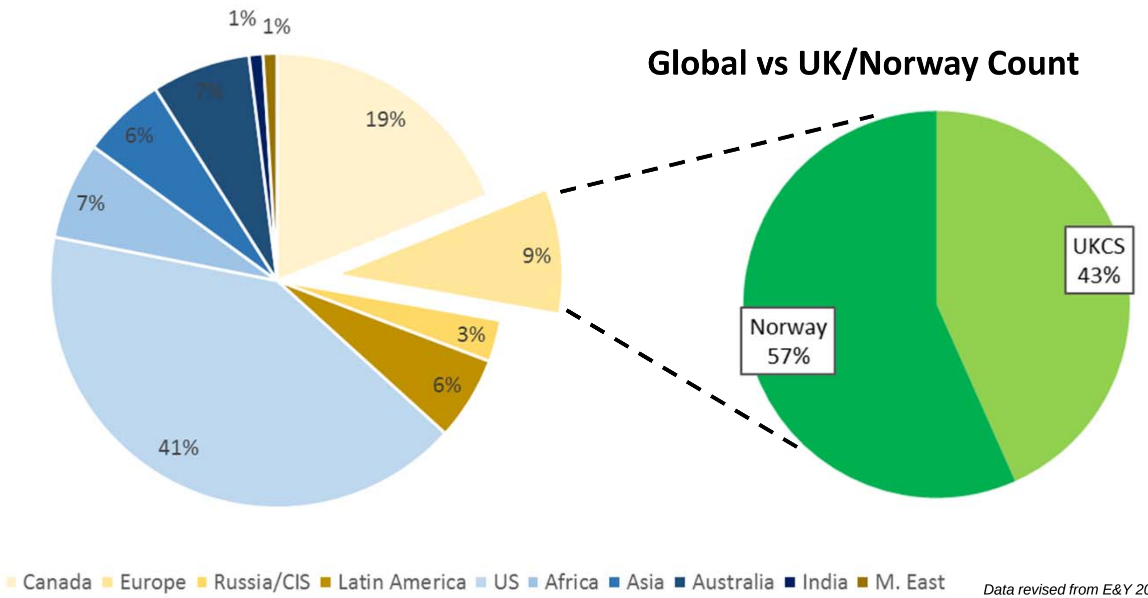
Global vs UK/Norway Values



Global vs UK/Norway Count



Data revised from E&Y 2014 Report

- **C. $320 billion upstream and midstream published deals in 2014**
- Europe comprised 4% of all global deal values in 2014
- Despite UK and Norway seeing similar count, Norway value was far higher – three deals worth over $4 billion alone
- **C. 1400 global deals in upstream—midstream space in 2014**
- In 2014 UK saw a large number of small asset sales with little value – contributing to its minority value share in Europe
- Low value, in particular in the UK, is illustrated with 9% of the global volume, but only 4% of the global value

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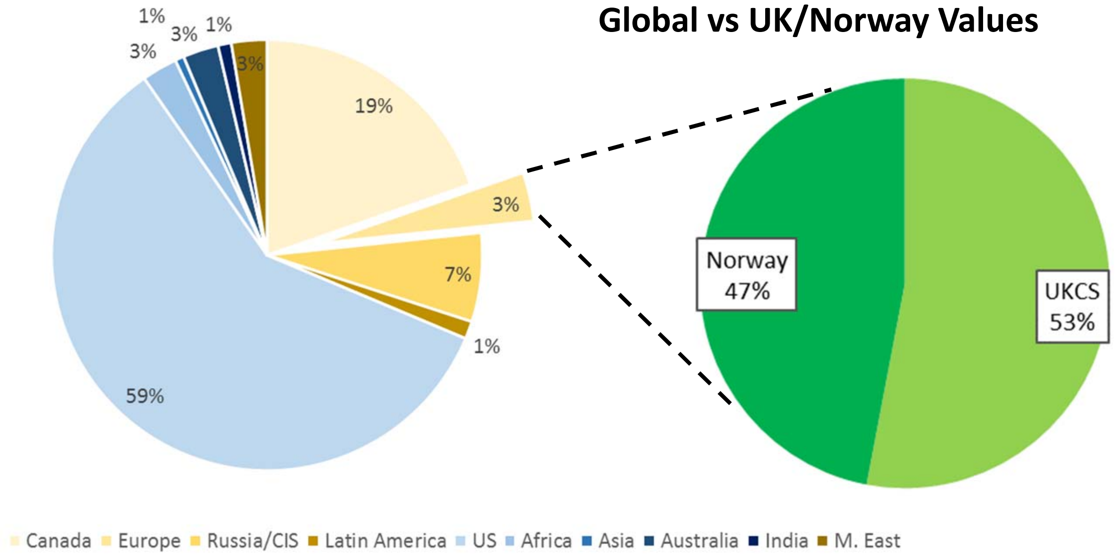
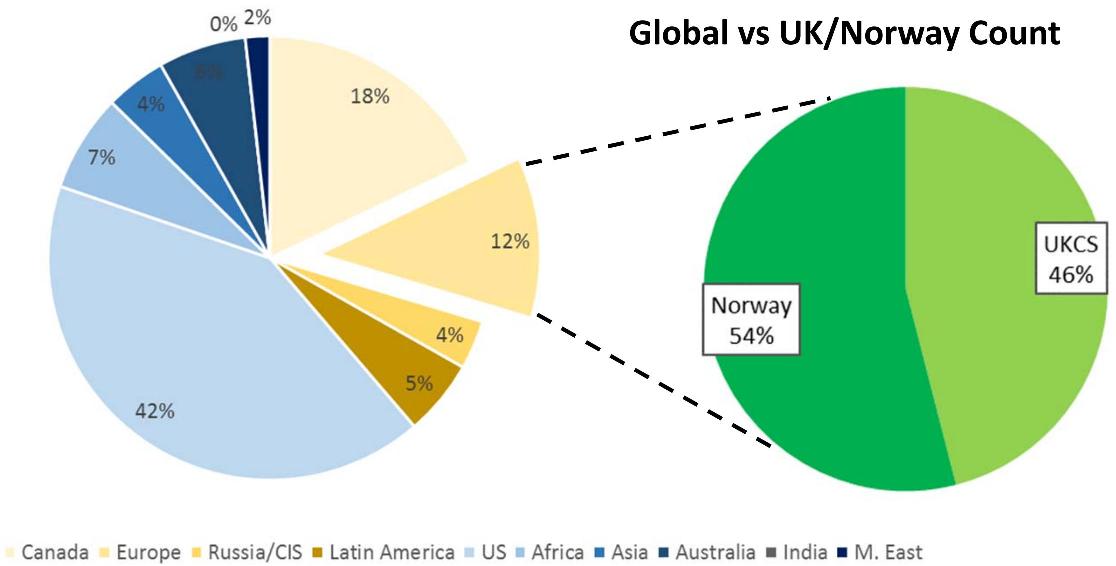
Global Context: 2015 Upstream and Midstream Deals

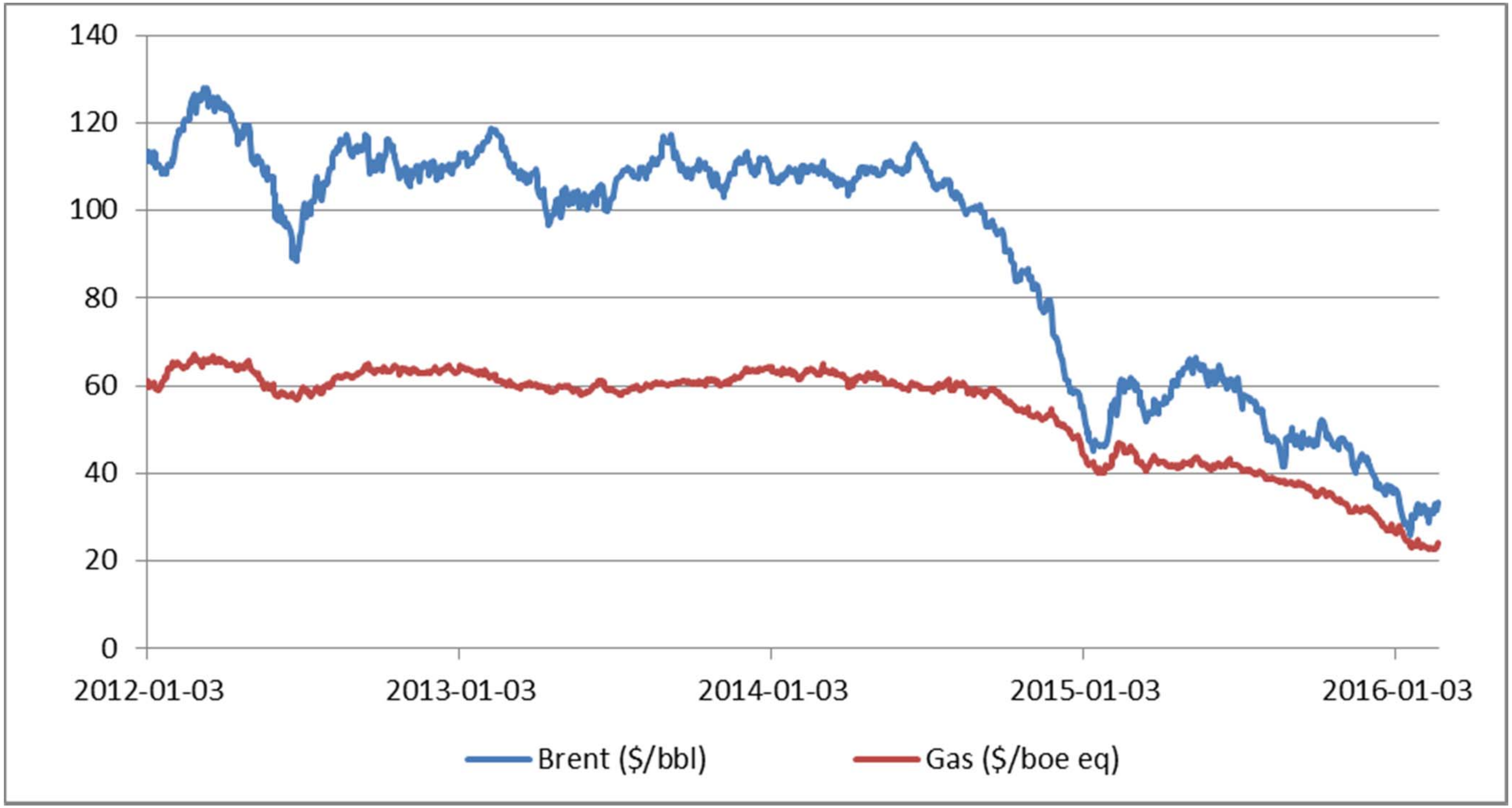




- **C. $300 billion worth of global deals in 2015** (vs. $320 billion in 2014)
- Just 3% of global deal values are ascribed to Europe
- UK & Norway on a more level value footing across upstream-midstream
- **Approx. 1000 upstream and midstream deals in 2015**
- UK saw $1.4 billion worth of midstream deals in 2015
- The low value for Europe seen in 2014 is relatively greater in 2015 – 12% of global transactions with just 3% of the global value

Data revised from E&Y 2015 Report

UK Oil vs Gas



140
120
100
80
60
40
20
0
2012-01-03
2013-01-03
2014-01-03
2015-01-03
2016-01-03
Brent ($/bbl)
Gas ($/boe eq)

UK Deal Activity 2012 – 2016 YTD

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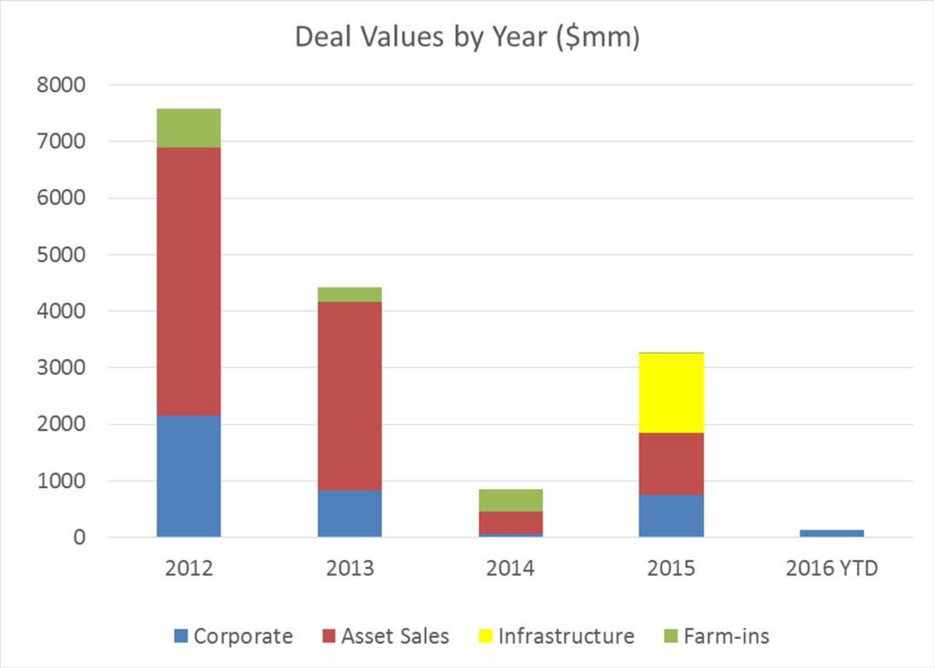

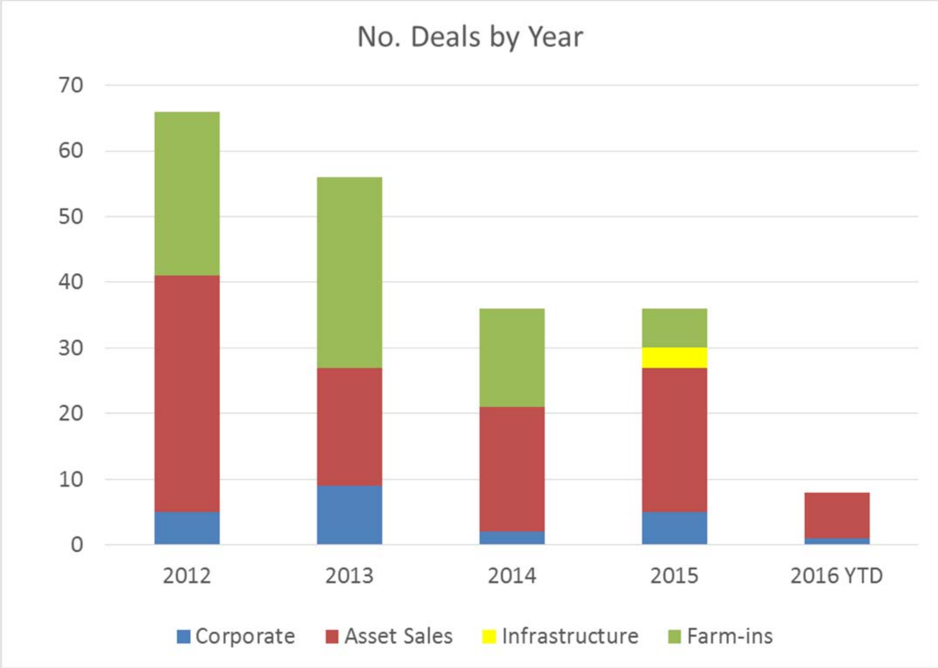

- Increase in 2015 values is partly as a result of infrastructure deals, which totalled c. $1.4 billion alone
- Recent trend has seen infrastructure focused companies taking pipeline interests from operators – positive in the sense of a greater impetus to keep infrastructure open for longer – MER implications
- UK portion of Shell/BG deal (2015) worth c. 7% total deal value, whilst Talisman/Repsol deal (2014) had a significant portion of value in the UK
- Overall reduction in farm-in deals has matched the decline in E&A drilling over the past five years

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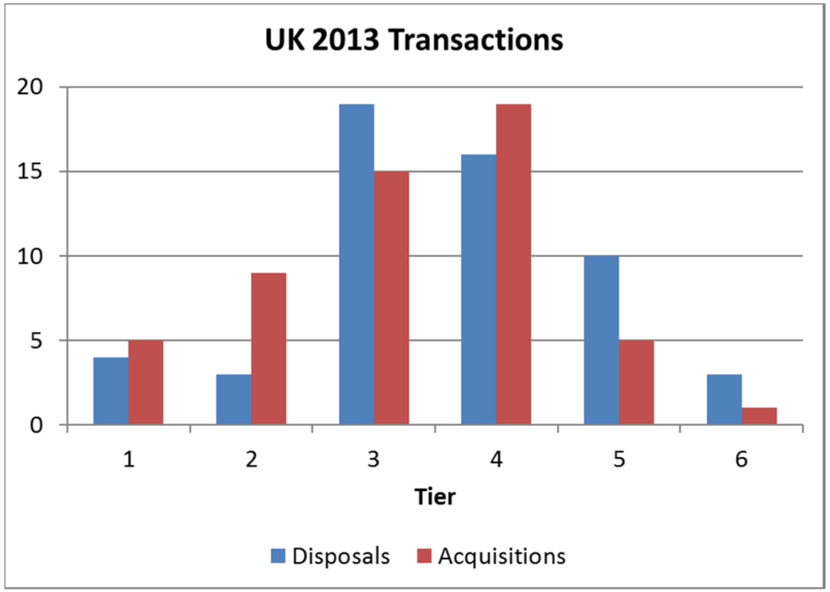
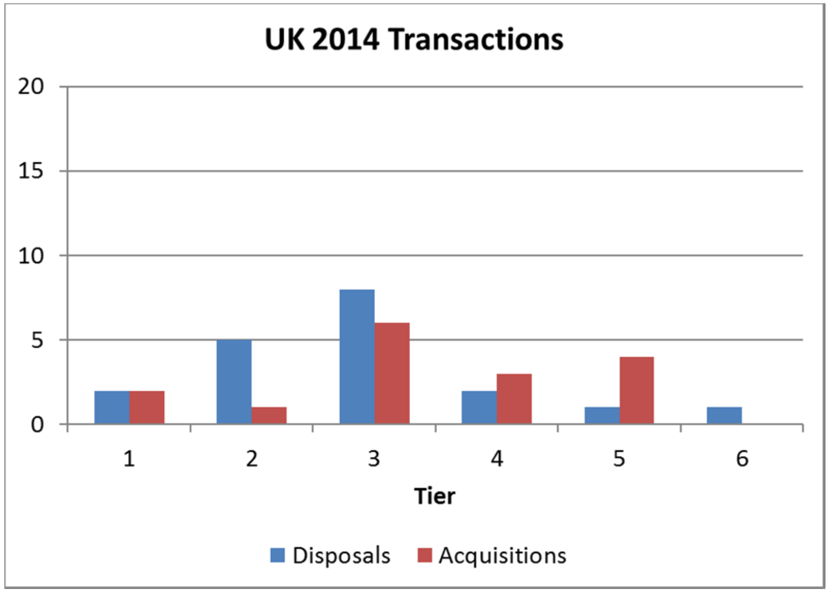
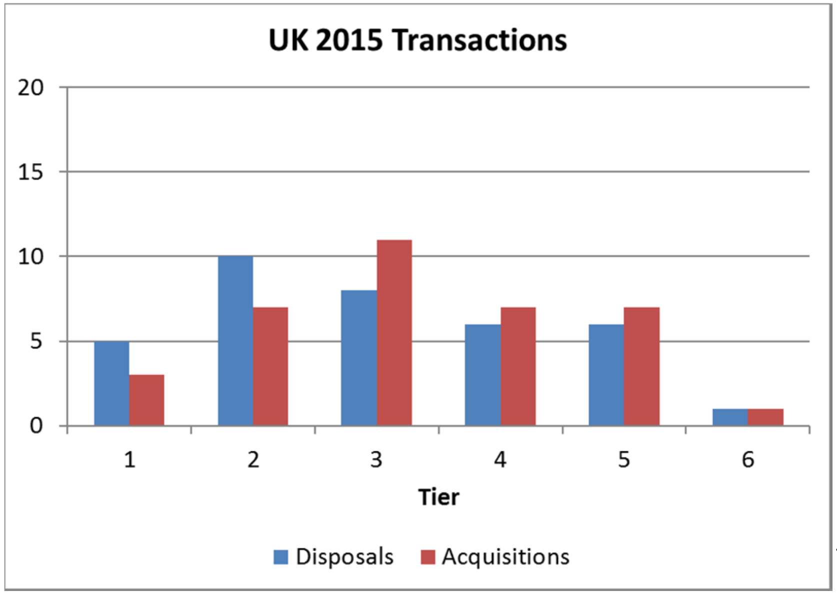
UK Upstream Focus

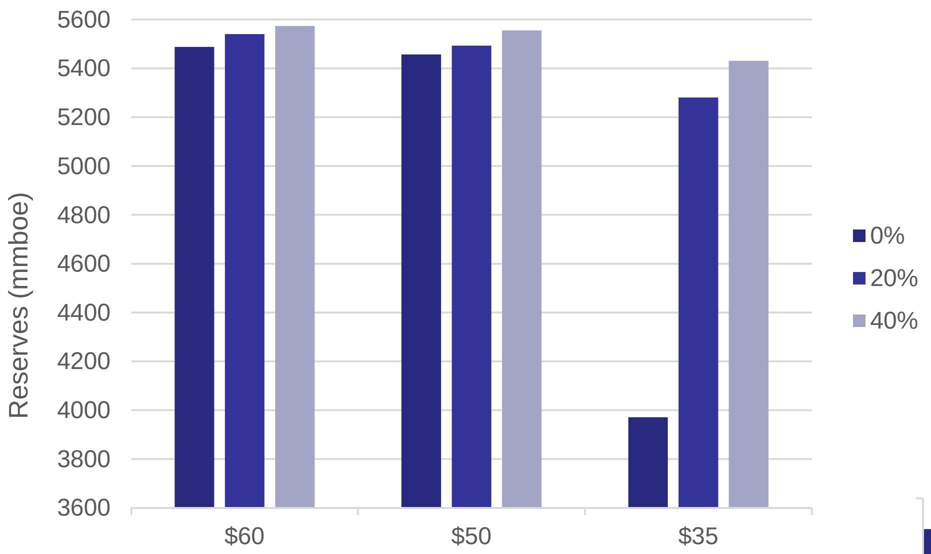






- Is it really a buyers market? A lot of companies in the UK were under-funded **before** the price crash, compounded with budget cuts after
- Many assets available but difficulty in matching buyer / seller expectations, unless corporate distress
- 2015 – increase in activity .Top two tiers dominate disposals. Activity is more evenly spread across the tiers. Portfolio/strategic repositioning .

Indication of last 12 months' effect on basin

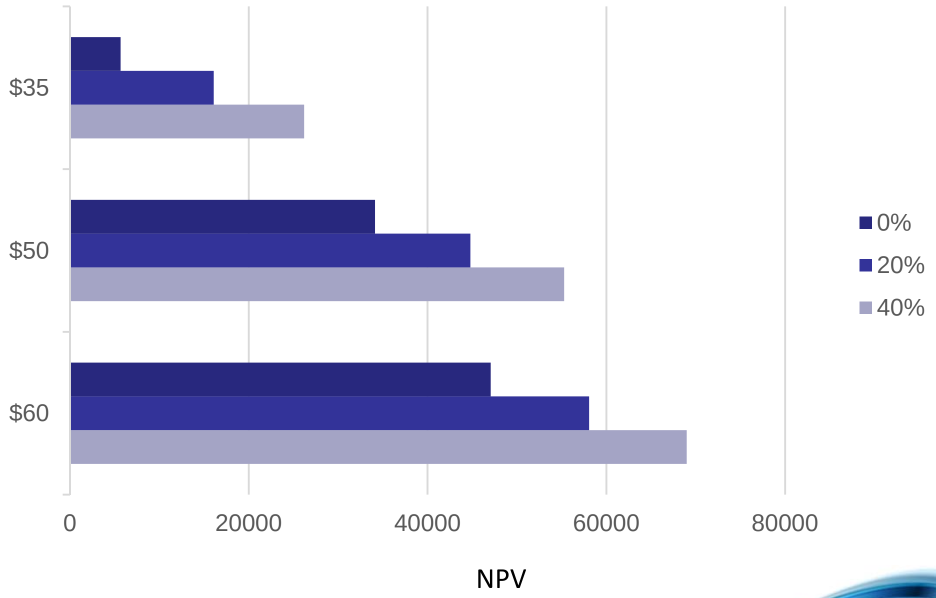


- Over past 12 months, the further collapse in oil price has had a negative effect on the consolidated reserves the UKCS basin will be able to generate.

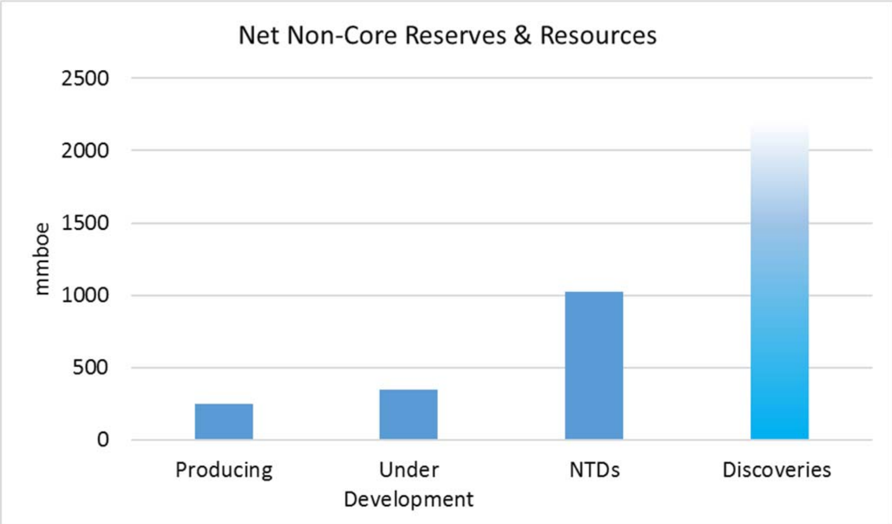
- Cost reductions of up to 40% have been indicated. Modelling shows cost reduction as having the greatest effect at current low oil & gas prices.

- At $35/boe with no cost reduction NPV of consolidated production is only just positive

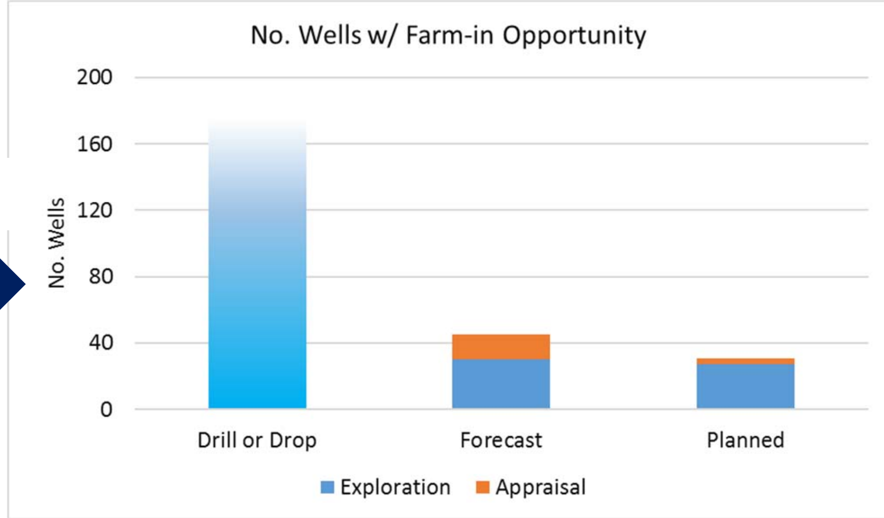
- Modelling a 40% cost reduction indicates nearly half of UKCS fields (51%) could be NPV negative at $35/boe with 6% likely to be operating at a loss in 2016, compared with 16% if no cost reduction



Opportunities Across the Value Chain



E&A



- 153 individual non-core interests in fields that are either producing or under development – amounting to c. 600 mmboe of available 2P reserves.
- 35 non-core interests in NTDs, amounting to c. 1000 mmboe net contingent resources.
- In the E&A space, 31 planned wells in the next three years each with one or more farm-in opportunities. Including forecast wells, a further 40+ wells are available for farm-in – although progression is less certain

The next 2 – 3 years…

- Have we reached the bottom
- Price predictions – slow increase for oil ; gas possible renewal of interest, but LNG production may squeeze prices
- Distress will continue in the short term with some companies not making it through
- Those that do will be better positioned to weather the storm (high value/ low cost assets)
- Asset sales will increase as companies reposition or have to sell
- Corporate sales will increase
- Midstream /infrastructure sales will increase
- Companies will continue to look for strategic acreage holding (licence rounds)

Summary

- Globally UK as part of Europe ranks second after North America for commercial activity, albeit at much lower level.

- Europe provides roughly 25% of the non-North American deals

- UK still has one of the largest population of company participants outside North America and this will ensure future high ranking in global deal flow.

- Deal flow in Europe an d particularly the UK will increase over the next 2-3 years driven distress, strategic repositioning, rise of private equity funded companies and midstream buyers

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Hannon Westwood Ltd

100 Brand Street, Glasgow G51 1DG

Tel: +44 (0) 141 534 7903. Fax: +44 (0) 141 419 9949 e-mail: info@hannonwestwood.com

www.hannonwestwood.com

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Reg Office: Collins House, Rutland Square, Edinburgh, EH1 2AA