



KPMG Gulf of Guinea Oil and Gas Conference
5-6 February, 2008
Abuja

I Introduction

The inaugural KPMG Gulf of Guinea (GoG) Oil and Gas Conference was held on 5 and 6 February 2008, at Abuja, Nigeria.

Christopher Steckel, the Chief Operating Officer, Tax, Europe, Middle East and Africa, delivered the welcome address. The theme of the Conference- "*Maximising Opportunities in the Gulf of Guinea Region*" was apt, given the increased significance of the GoG region to the global oil and gas market. The oil producing countries of GoG region, comprise: Nigeria, Angola, Cameroon, Gabon, Democratic Republic of Congo, Equatorial Guinea and the islands of Sao Tome and Principe. The region, hailed as the last frontier in the search for accessible oil and gas deposits, has an estimated reserve of about 60 billion barrels of crude oil and an unspecified reserve of gas. Sharp increases in the prices of crude oil, instability in the Middle-East and unpredictability of Venezuela, have made the GoG region, with its relatively stable condition and vast crude deposits, a centre of attraction to oil majors.

2 Summary of Papers Presented

Below is the summary of papers presented at the Conference:

<i>S/N</i>	<i>Speaker/Paper</i>	<i>Issue</i>	<i>Communique</i>
1	Keynote address by Henry Odein Ajumogobia, the Minister of State for Energy (Petroleum)	<ul style="list-style-type: none">• Necessity for reforms• Funding Joint Venture (JV) operations• Gas project initiatives/gas flare• Niger Delta/Security Issues/Rising cost of operation• Issue of Nigerian Content• Prospects for the future	<ul style="list-style-type: none">• The Federal Government (FG) is pursuing the reform agenda with vigor; this will involve restructuring of the NNPC and its organs• The FG is committed to resolving the issue of funding/cash call deficit with the JV partners. It has given approval for third party funding at appropriate cost• The gas flare out policy of the FG is being discussed with the operators and a final decision would be taken shortly and made public within few weeks• The FG is making concerted efforts at resolving the Niger Delta crisis – certain Committees have been set up to this effect

			<ul style="list-style-type: none"> • The Nigerian Content Bill has been debated extensively by the National Assembly and should be passed into law in few weeks • There are bright future prospects for the industry, given the enormous oil and gas reserves in the Region
	<p>Comments by Mr. Emmanuel Odusina, Minister of State for Energy (Gas)</p>		<ul style="list-style-type: none"> • The FG was preparing a comprehensive gas policy, which would be made public as soon as it is approved by the Federal Executive Council. The policy will address all the issues concerning pricing, cost structure, etc.
2	<p>Nigerian Oil and Sector Reforms – Challenges and Prospects by Engr. Abubakar Yar’adua, GMD, NNPC</p>	<ul style="list-style-type: none"> • Capacity building by the Niger Deltans • OPEC quota restraints • Downstream sector issues – inadequate refining capacity, compounded by the comatose state of the few refineries in existence 	<ul style="list-style-type: none"> • There is need for Niger Deltans to develop their human capital to take advantage of employment opportunities offered by the oil companies • The FG plans to increase daily production to 4 million bbl/d by 2010, and grow reserves to 40 billion bbls, subject to OPEC quota constraints. There is also the intention to grow gas revenues to match earnings from oil by 2010 • The refineries are being revived and should commence production as soon as the turn around maintenance is completed. Foreign and private investors are encouraged to apply for new licences to increase refinery capacity in the country
3	<p>Strategies for Maximizing Local Content Opportunities, the Dorman Long Experience, by Henry Okolo, Managing Director, Dorman Long Nigeria Limited (DML)</p>	<ul style="list-style-type: none"> • Significant proportion of the industry spend is still offshore • The claims by international oil companies that Nigerian Content vehicles do not have sufficient capacity may have been exaggerated • Funding by local banks has not been a stumbling block for DML 	<ul style="list-style-type: none"> • There should be an aggressive implementation of the Nigerian Content Bill when passed into law, to facilitate employment and retention of foreign exchange in the country • NNPC should verify claims made by the IOCs regarding insufficient local capacity. Large pool of manpower exist

			<p>locally and the IOCs should be compelled/encouraged to utilize them rather than “import” expatriates into the country for the job</p> <ul style="list-style-type: none"> • The NNPC and the IOCs should also work towards shortening the contracting cycle to reduce costs and delays in commencement of projects • Local banks should be encouraged to fund Nigerian content vehicles further, to jump-start their development into large corporations
4	<p>Current State Assessment of the business and regulatory environment of the Oil and Gas Sector:</p> <p>(i) in Nigeria, by Austin Avuru, Managing Director, Platform Petroleum;</p> <p>(ii) in Equatorial Guinea (EG), by Ajibola Olomola, Partner, KPMG;</p> <p>(iii) in Angola, by Paul Sousa, Senior Partner, KPMG in Angola</p>	<ul style="list-style-type: none"> • Concerns about oil and gas reserves – Nigeria’s reserves will not last beyond 35 years by the current estimates, should the demand increase expected from major consumers be sustained • The Niger Delta issue has two dimensions: the socio-economic dimension and the criminality dimension. Incidentally, the criminality is the major problem of the region (accounting for about 9 in every 10 cases of abduction/militancy) • There are perceived hostilities against foreigners in EG, which is not investment-friendly • Cost of oil exploration and production now under tough scrutiny in Angola by the regulatory authorities 	<p>Nigeria</p> <ul style="list-style-type: none"> • The FG and major oil producers should begin to develop new fields to ensure that annual reserves addition rate exceed production rate • The FG was already dealing with the socio-economic dimension of the crisis by the adopting the Niger-Delta Development Plan and setting up Committees to address other issues in the sub-region. However, the criminality dimension is difficult to resolve without use of some force. <p>EG</p> <ul style="list-style-type: none"> • Oil and gas exploration has led to extensive growth in the economy of EG • EG is a prime investors’ destination, based on World Bank report, and the Government encourages foreign direct investment (FDI) • Opportunities exist in all areas of the EG’s economy due to the increased investment by the Government in infrastructural development • EG can leverage the experience of the older oil producing states in Africa to avoid making similar mistakes <p>Angola</p> <ul style="list-style-type: none"> • The country’s Infrastructure is



Any Company
Report Title
A/T/A or LOB Sector
Date of issue

			<p>being rebuilt after decades of civil war: oil and gas revenue is being used to develop the economy</p> <ul style="list-style-type: none"> Oil production is expected to hit 2.5 million barrels daily by end of 2008 Angola has a very open investment climate and FDI is being encouraged by the government
5	<p>The Gulf of Guinea (GGC) Commission – A vehicle for regional growth and co-operation, by Mr. Carlos Gomes, Executive Secretary, GGC (delivered by Ambassador Adenike Florentina Ukonga, Deputy Secretary, GGC)</p>	<ul style="list-style-type: none"> Highlight of the history, objectives and functions of the GGC - GGC came into existence in 2006, and became operational in 2007 	<ul style="list-style-type: none"> Overall objective is to ensure that investments move easily within the GoG GGC adopts a policy of non-interference among member countries. However activities may be subject to the NEPAD's peer review mechanism On the Niger Delta crisis, the GGC facilitate a joint security approach to resolving it
6	<p>A review of oil and gas Contracting Systems in the GoG Region by Adeyemi Akisanya, Partner, Adesanya & Akinsanya</p>	<ul style="list-style-type: none"> The various contracting systems in the Region (including JV Agreements, PSC and Service contracts) were analyzed and the challenges in implementing them highlighted 	<ul style="list-style-type: none"> Contracting systems are similar in the Region and it is advisable to harmonize them in the long run MOU system of providing tax incentives during the period of low oil prices should be discarded based on economic realities and the fact that it is yet to be enacted into law Nigerian tax laws should be revised to reflect present economic realities
7	<p>Joint development projects as a vehicle for enhancing investment in the GoG region – The Nigerian/Sao Tome & Principe experience, by Mr. Ado Wanka, Chairman, Nigeria-Sao Tome & Principe, JDZA (delivered by Morrison Fiddi)</p>	<ul style="list-style-type: none"> The failure of the United Nations Convention on Laws Of the Sea (UNCLOS) to set out clear criteria and basis for delimitation of nation/state boundaries gave rise to agreements like the JDA Current joint development projects as a vehicle for enhancing investment in the GOG region – The Nigeria Sao Tome JDZ experience were discussed 	<ul style="list-style-type: none"> JDZs are a tool for development and are increasingly used in overlapping boundary claims to set aside contentious issues and allow resource development The Nigeria / Sao Tome JDZ is currently the most active in the world JDZs are one of the best forms of international cooperation, as state parties work together on common goals and creates synergy JDZs also guarantees a one stop

			<p>for all transactions for investors in the zone, which fast tracks approval processes and promotes dynamic investor operations</p> <ul style="list-style-type: none"> The JDZ presents a huge investment opportunity and potential revenue stream for both countries and investors
8	<p>Critical success factors for developing gas projects in the GoG region/LNG developments in the GoG by:</p> <p>Equatorial Guinea Mr. Aidan Ring, Business Development Manager for Sub-Saharan Africa, Marathon Oil Corporation (delivered by David Davis)</p> <p>Angola Paul De Sousa, Senior Partner in KPMG in Angola</p>	<ul style="list-style-type: none"> Discussed the four critical factors that were pivotal to Marathon Oil Corporation in achieving success with their LNG projects in EG Similar factors were proffered as being pivotal to gas projects in Angola 	<ul style="list-style-type: none"> Speed to the market, proximity to the market, economies of scale and partner alignment were the critical success factors in developing gas projects in EG Strong partner alignment is the most critical success factor for developing gas projects in Angola
9	<p>The role of the regulators in enhancing participation of IOCs and Indigenous Companies in Oil and Gas Policy Directives by National Governments, by Tony Chukwueke, Director, DPR (delivered by Mr. Abiodun Ibikunle)</p>	<ul style="list-style-type: none"> The functions of the Department of Petroleum Resources (DPR) and its role in meeting Nigeria's oil and gas aspirations were highlighted The Marginal field program of the Nigeria government and its objectives were also discussed. Other contemporary issues include the Natural Gas Policy, local content, funding of JV operations and the MOUs 	<ul style="list-style-type: none"> Continuous interaction between DPR and operators needs to be encouraged, as it would give operators a sense of belonging (policies would no longer be seen as handed down for implementation). The IOCs are a veritable vehicle for the overall development of the oil and gas industry in Nigeria and should be encouraged further for increased activities The DPR's role in the enforcement of local content is advisory, although it does have some powers in this regard It may not be practicable to insist that research and development (R&D) work is done in Nigeria as most foreign companies have in-house functions for this purpose, based outside of the country
10	<p>Financing Issue for Oil and Gas Projects in the Gulf Of Guinea Region – Financier's Perspective</p>	<ul style="list-style-type: none"> The paper provided an overview of Actis' involvement in emerging 	<ul style="list-style-type: none"> Financing is the biggest issue in oil and gas operations



Any Company
Report Title
A/T/A or LOB Sector
Date of issue

	<p>by Meb Somani, Global Head of Oil and Gas, Actis, London</p>	<p>markets, and its strategy and involvement in funding oil and gas operations. The paper also discussed the following:</p> <ul style="list-style-type: none"> - Actis' oil and gas portfolio, the various financing options and issues involved under each option. - Financing issues for small companies, the role of private equity and Actis' offerings in the area of funding oil and gas operations. - Specific example of Actis' involvement in the oil and gas industry 	<ul style="list-style-type: none"> • The main focus of Actis is on the upstream and emerging markets • The company also offers capital to companies (long and flexible time horizon) and a range of exit options • Actis favors Board participation as this aids faster decision making • Actis' appetite for financing Oil & Gas remains strong
<p>10</p>	<p>Financing Issues for Oil and Gas Projects in the Gulf Of Guinea Region – Indigenous Operators' Perspective by Tunde Afolabi, Managing Director, Amni Petroleum International</p> <p>Additional comments were provided by Tayo Aderinokun, Managing Director, GT Bank Plc</p>	<ul style="list-style-type: none"> • The paper provided an overview of the oil and gas producing states in the GoG and their oil and gas reserve estimates. The paper considered the breakdown of oil and gas spending in the region and the different funding strategies. • Indigenous Nigerian companies and their technical partners were also listed. 	<ul style="list-style-type: none"> • The cost of oil and gas operations has increased and companies have to find diverse sources of funds • For local companies it is easier to have a hybrid of debt and equity for financing operations (which may be provided by technical partners, banks, capital, market; etc) • Nigerian Association of Indigenous Petroleum Explorers and Producers (NAIPEC) has 15 members, 8 of whom have discovered oil in commercial quantities and 5 of them have commenced production • Nigerian companies have relied too heavily on the IOCs for funding in the past. However, Nigeria is the only country with a policy to encourage local companies and therefore lack of funding may soon be a thing of the past • Banks give credit facilities to local start-up companies, subject to the companies satisfying the credit worthiness criteria. It should be noted that banks do not assume entrepreneurial or business risks; only the owners do • Indigenous companies are



Any Company
Report Title
A/T/A or LOB Sector
Date of issue

			succeeding and coping well with community issues
--	--	--	--------------------------------------------------

3 Conclusion

The Conference was well attended by the target audience from all the GoG countries and beyond (including the US, France, United Kingdom, South Africa, amongst others). As expected the interactions were fruitful and participants demonstrated a clear appreciation of the issues discussed at the Conference. The presentations and discussions were articulate and relevant to the Conference' theme and were of the expected quality.

Overall, the organization of the Conference was impressive and most participants were of the view that the stated objectives were achieved.