



STRATEGICFIT

Finding Petroleum Opportunities and Risks in the Middle East and the Levant

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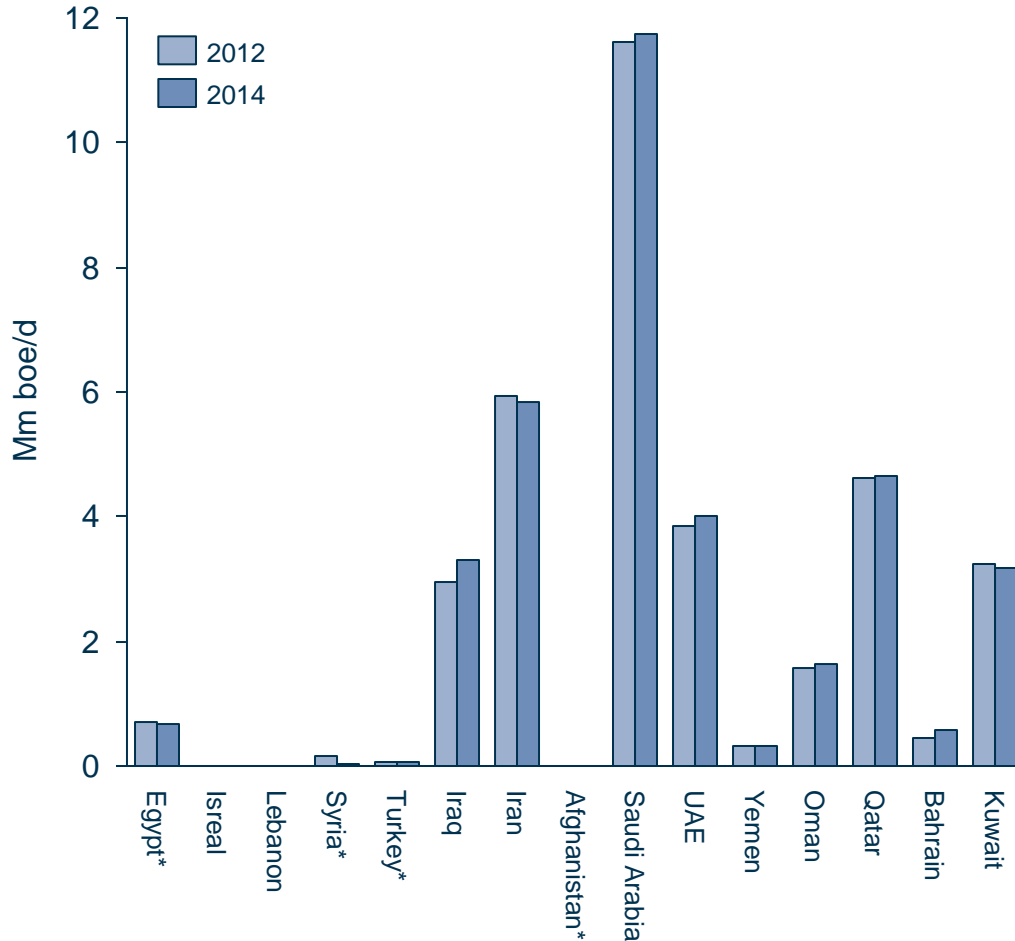
London, 20th October 2015



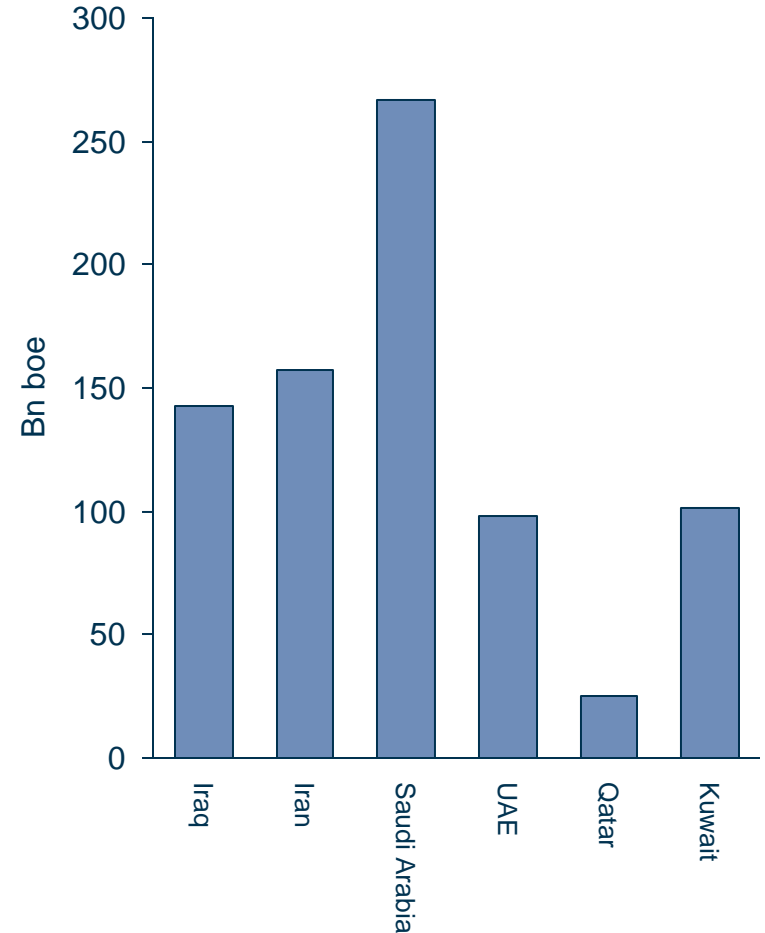
Production and Reserves in the Middle East.

The Middle East contributes ~30% of global oil production

Oil & Gas Production



OPEC Country Reserves



No production, resource or reserves are yet quoted for the unconventional

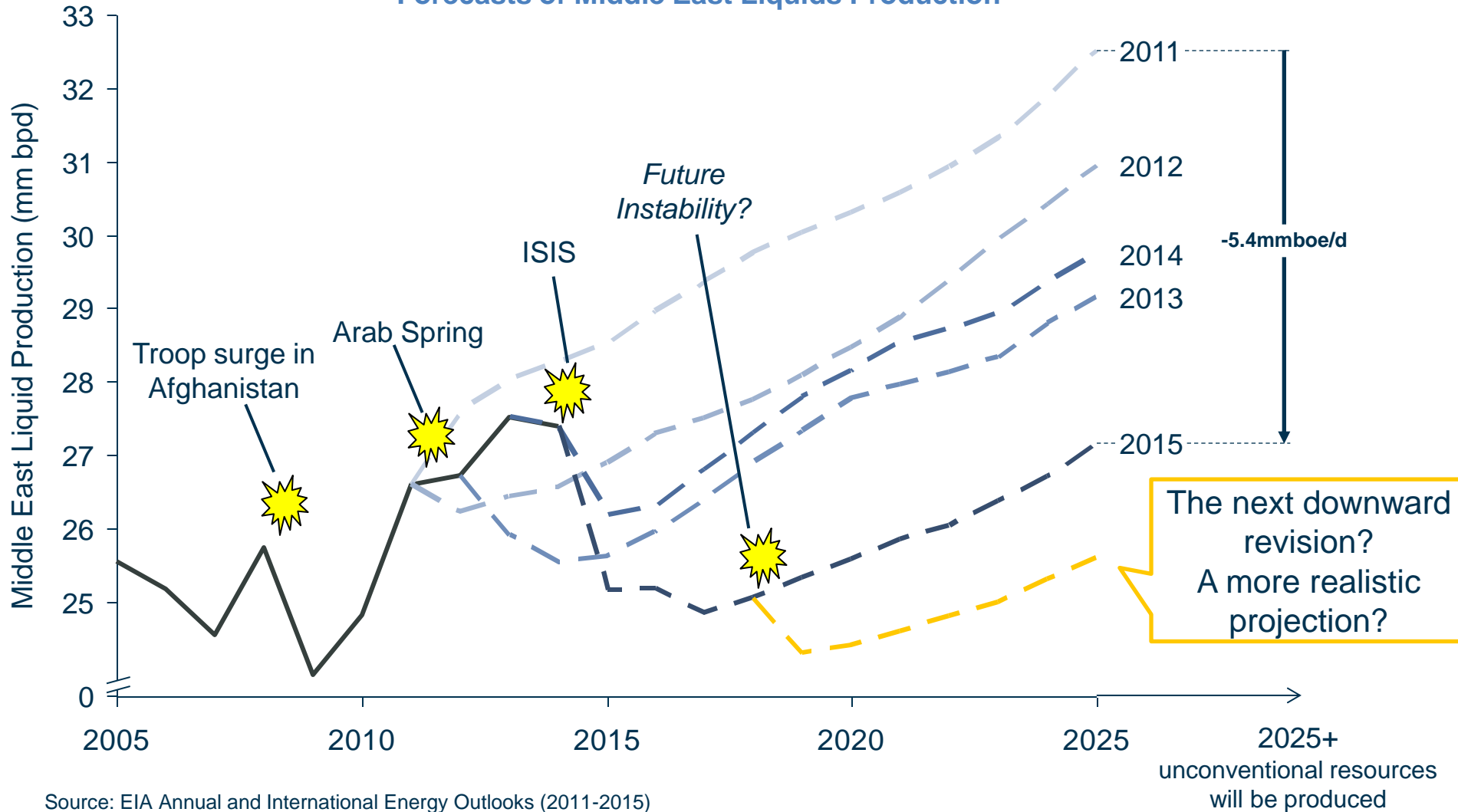
Source: IMF (Regional Economic Outlook May 2015), *EIA (International Energy Outlook 2014)

Source: OPEC



Production projections have been consistently revised down for the Middle East

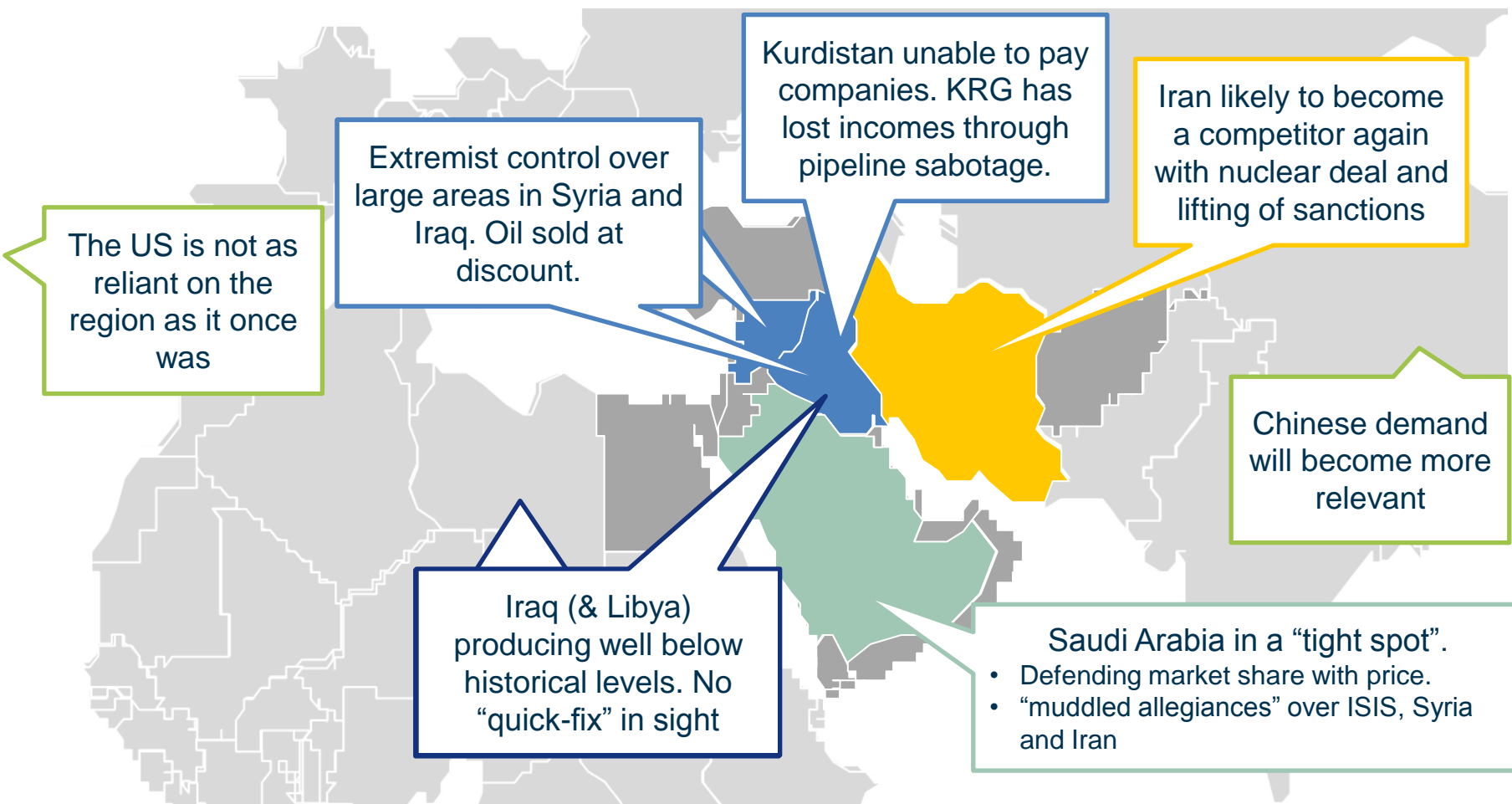
Forecasts of Middle East Liquids Production



Source: EIA Annual and International Energy Outlooks (2011-2015)



Setting the scene - key issues in the region



“energy politics in the region must change from being divisive to being an enabler of sustainable and inclusive economic growth, which is critical to security in the region and beyond”

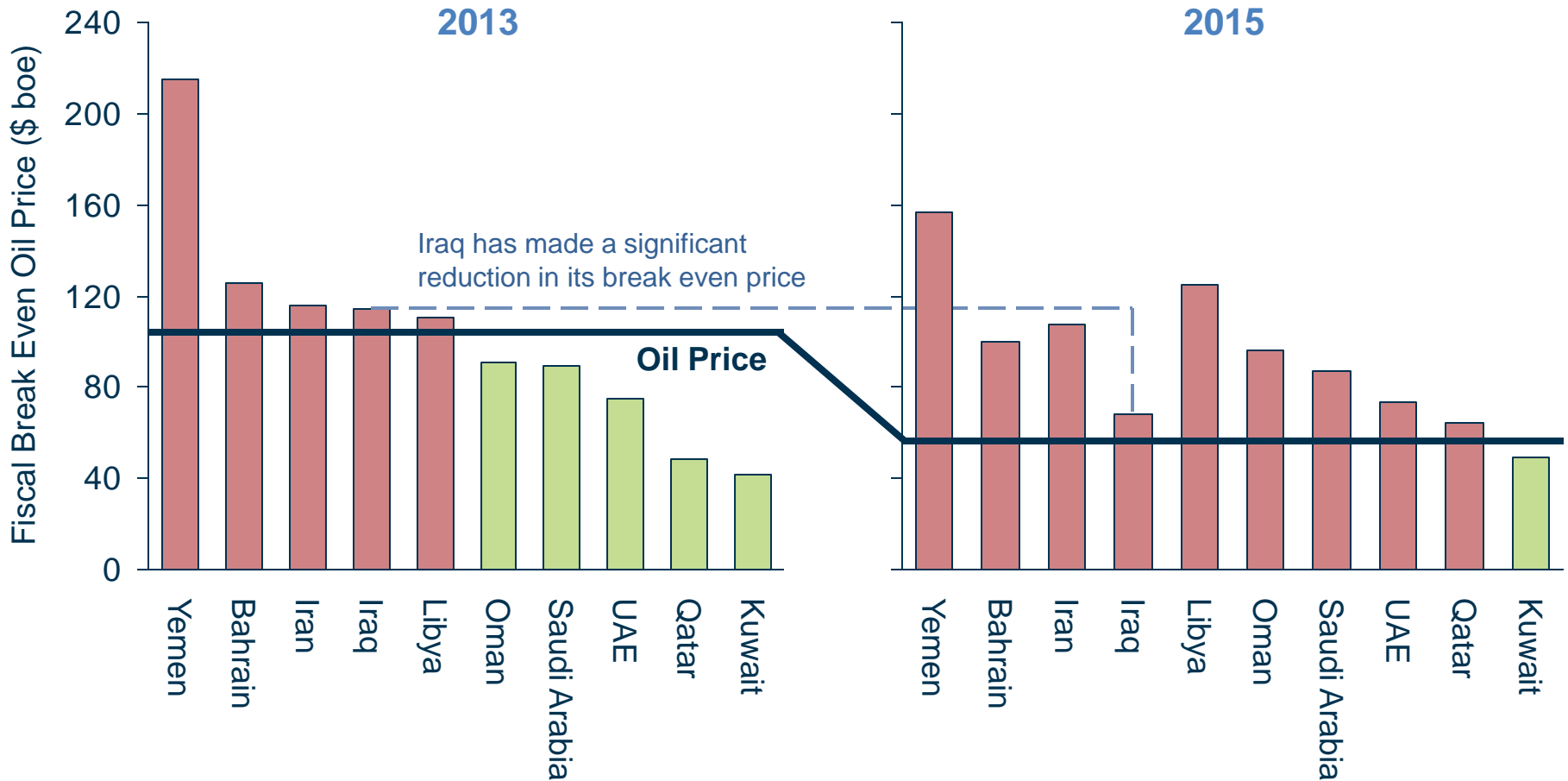
Espen Barth Eide, Head of Centre for Global Strategies, World Economic Forum

Source: World Economic Forum on MENA – Jun 2015



In 2013, half of the countries had a budget surplus from oil. In 2015, only Kuwait manages this.

Fiscal break even oil price by country



How long can countries sustain their budgets? Would cutting budgets lead to unrest?

Source: IMF (Regional Economic Outlook May 2015)



Saudi Arabia is coming under increased pressure to reduce production quotas. Relationships with OPEC members, especially Iran, are becoming strained.



What could happen at the next OPEC meeting?

Change course

Keep going

- *Who takes the brunt of the cuts? Likely to be Saudi Arabia?*
- *How is this enforced? Are individual quotas restored? – There's been a history of countries over supplying...*
- *How does this affect an extra 1million bpd from Iran?*

- *What happens to "rifts" and "tensions" within OPEC – especially between Saudi Arabia and Iran?*
- *Could this lead to further regional instability?*
- *How long can Saudi hold out at a lower price? Would they want an even lower price to hurt US Shale?*



Direct exports from Kurdistan may provide much needed funds. What could this mean for future investment and relations with Baghdad?

KRG is reported to be exporting Oil through Turkey to Israel & Europe .

- This income is vital for Kurdistan to fight ISIS and PKK
- There have been suggestions Israel is receiving oil at a discount, or using this as a channel of funds to help Kurdistan

Militants sabotage of export pipeline has cost KRG over \$0.5bn in July and August

Companies are owed \$1.4bn from KRG.

- KRG has said regular payments will begin from September.
- DNO has threatened to cease investing in the region if it doesn't receive payments

Crude-for-Cash deal between KRG and Baghdad has virtually collapsed

- Baghdad is cash strapped and hasn't made agreed payments to KRG
- Baghdad accuses KRG of not sending enough oil

- Will incomes from direct exports prove pivotal for KRG both in fighting ISIS and maintaining western investment?
- What could collapsing ties between Erbil and Baghdad signify for the independence of Kurdistan?
 - Will Baghdad respond to KRG's direct exports?
- Could routine payments by the KRG attract more western companies to cheap to produce oil in Kurdistan?

Iran has reached a framework deal on its Nuclear Program. This will see economic sanctions lifted, and allow western companies back in.

European majors are keen to get in...

A new chapter will open in cooperation with France's Total for development of Iran's oilfields

Bijan Zangeneh, Iran Minister of Petroleum

as soon as sanctions [are] lifted, we are hoping [to] enter

Vagit Alekperov, President, Lukoil

We like Iran

Patrick Pouyanne, CEO, Total

Iran clearly has huge resources. Its production has been curtailed in recent years.... It clearly has a lot of potential

BP Statement

Iran is a wonderful country with a fantastic resource base,... As soon as there is legitimate opportunity, we will be looking at Iran

Ben van Beurden, CEO, Shell

...with American companies being held behind

U.S. oil giants **Chevron Corp** and **ConocoPhillips** both stressed that they act in full compliance with U.S. law, and **ConocoPhillips** stated it is not engaged in business discussions with Iran

Reuters, 14/07/15

We are not lobbying on Iran sanctions... We are monitoring activities related to Iran in the U.S. government.

Alan Jeffers, Spokesman, ExxonMobil

“One question is how quickly can they bring oil to the market, the other is how quickly can they market it with the current price wars?”

WSJ (14/07/15)



Lebanon is only just opening itself up to Oil & Gas exploration, but is struggling to find its feet.

Lebanons YTF numbers look promising...

25-96	TCF of gas	46	qualified companies incl. Statoil, Chevron, XoM, Shell, ENI, ...
440-865	mmboe of oil		
2018	original plan for first oil		

High estimates: Lebanese Ministry For Energy '13. Lower estimates: Gas: Spectrum '12, Oil: Beicip-Franlab '13



2013 billboards: "Our country has oil"

But licencing progress has been held up.

Two key pieces of legislation need to be agreed:

1. Division of Exclusive Economic Zone (EEZ) in to blocks. Troublesome as boundaries are disputed with Israel.
2. Exploration Petroleum Agreement (EPA) – this sets out the revenue split with companies

Going forward there are...

Challenges

- "Dutch Disease" (the resource curse)
- No rush from government
- Track record of opportunity mismanagement
- Companies losing enthusiasm?

Opportunities

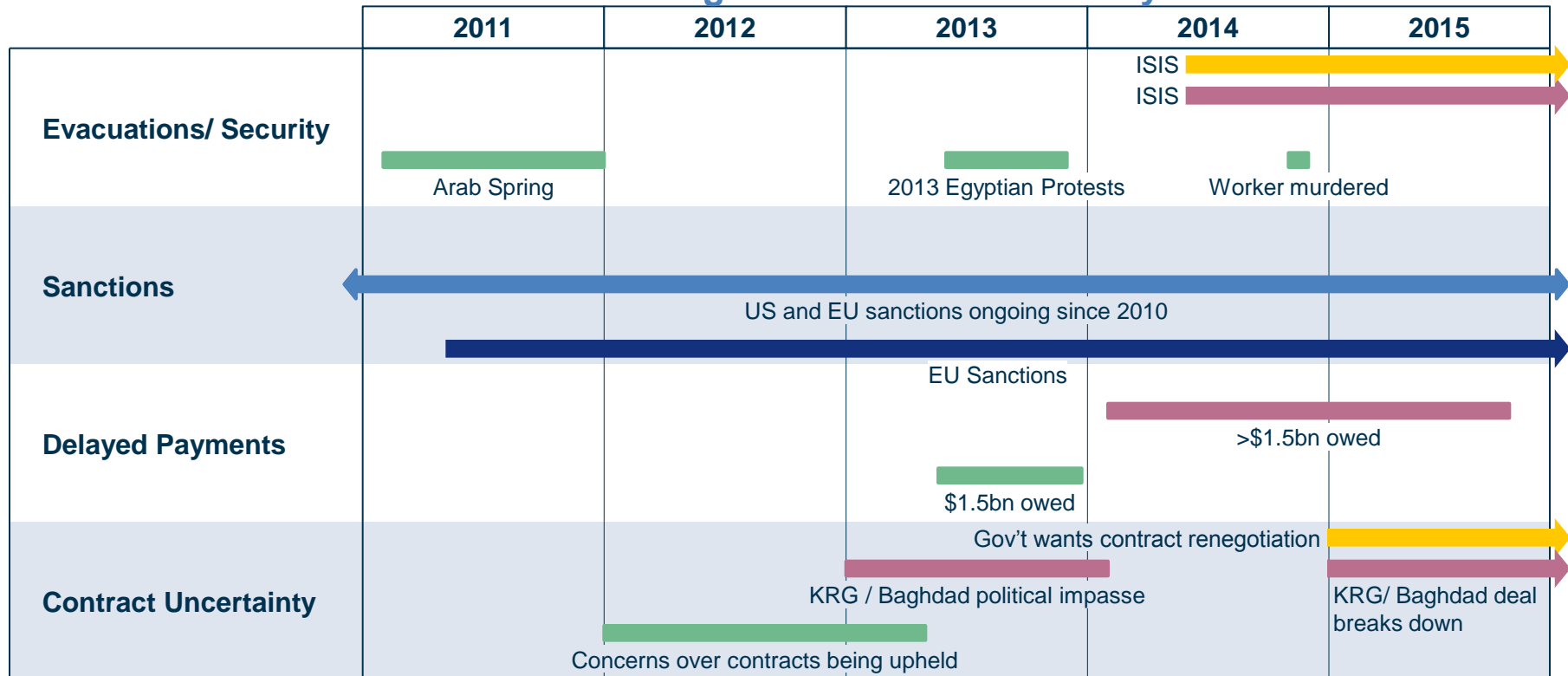
- Norway has agreed to help set up O&G sector
- US has offered to help in border dispute
- Competitive advantage with access to Arab Gas Pipeline

“ what remains lacking is the discovery of a formula that will ensure that the Lebanese do not waste yet another chance to save their country from economic and political collapse. Perhaps a little time wasting will therefore prove to be a blessing in disguise ” Middle East Eye (March 2015)


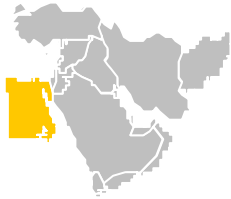






Regional instability over the last 5 years has made the area a hugely challenging place to operate.

Key	Production over the period
Iraq	Increased to pre war levels (slower than expected)
Iraq KRG	Increased by 100 mbpd. Expected to decrease with recent troubles
Iran	Fallen from 2.5mm bpd to 1.5mm bpd
Egypt	Remained steady
Syria	All but ceased

Regional Issues over last 5 years



However a wide range of companies have been successful, each in their own way.

	Where	Critical Success Factors	
		Commitment	Continued investment throughout trying times
		Location	Remote location has helped during unrest
		Low Cost	Lean, low cost, operator helps in price environment
		Longevity	30yr + presence in many middle east countries
		Relationships	Strong r'ships with ministry & partners in Oman
		Growth Focus	Invested heavily after building a solid base position
		Nimbleness	Small, specialist player can work where others can't
		Resource Driven	Quality resource base with low break even \$/boe
		Confidence	Continued investment despite delayed payments
		Entry Timing	Brought investment when it was most needed
		Diplomacy	Unique negotiation position of Chinses govt.
		Partnering	Strong strategic partnerships with regions NOCs



In Summary

	Point of View	Reasons
Levant		
Egypt	Not in this price environment?	<ul style="list-style-type: none"> • Difficult to be leaner than Apache <ul style="list-style-type: none"> • Niche options for smaller onshore players will exist • Off shore linked to LNG <ul style="list-style-type: none"> • What will giant Zohr discovery mean for region?
Lebanon	Not as promising as it may seem?	<ul style="list-style-type: none"> • Recent drilling offshore Cyprus has downgraded the potential • Will the offshore license ever eventuate?
Zagross		
Iraq/KRG	May be the right option for a long-term resource play?	<ul style="list-style-type: none"> • The resource prize is big. • Requires appetite to work with high degrees of political uncertainty and security risk
Iran	the regions main opportunity?	<ul style="list-style-type: none"> • Low cost, technology, market access, political backing/leverage • Options dependent on the quality and value potential from the contract

If you want to be in the oil industry post 2030 the Middle East offers clear options but low costs must be balanced against political uncertainty and value assurance.

