Perspectives on UK Oil & Gas investment

6 June 2017

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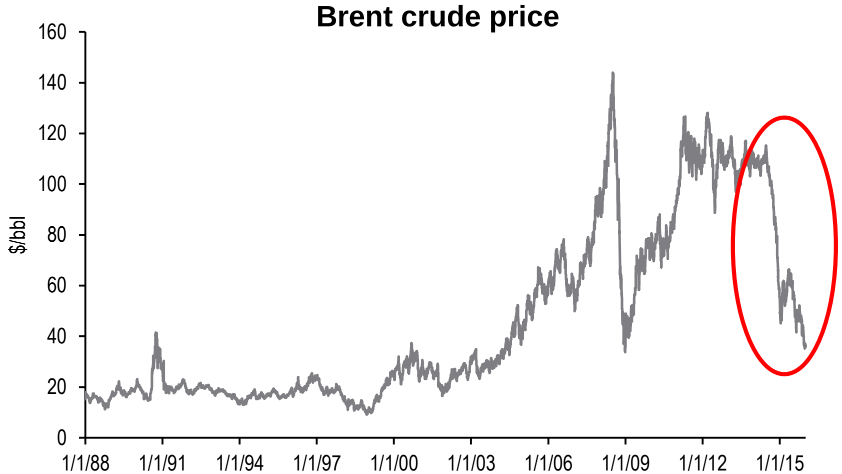
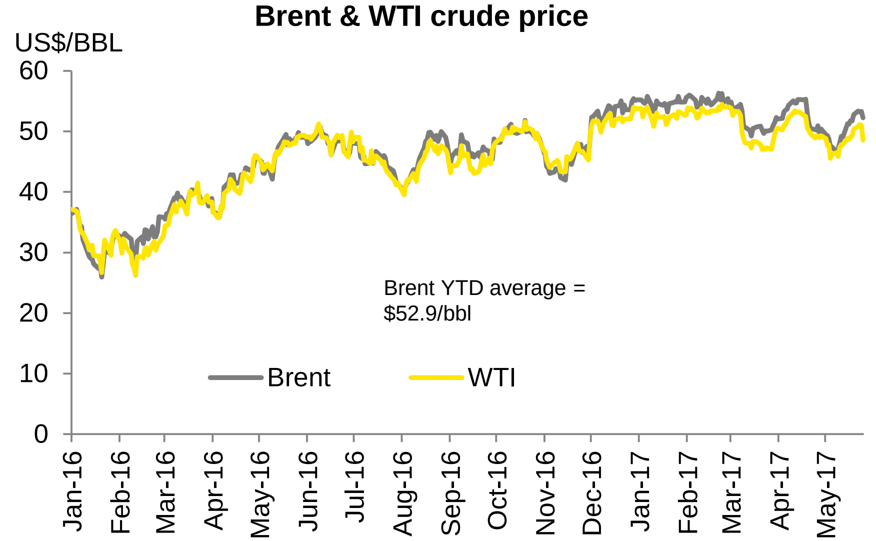
Things have changed a lot in the last year

Then



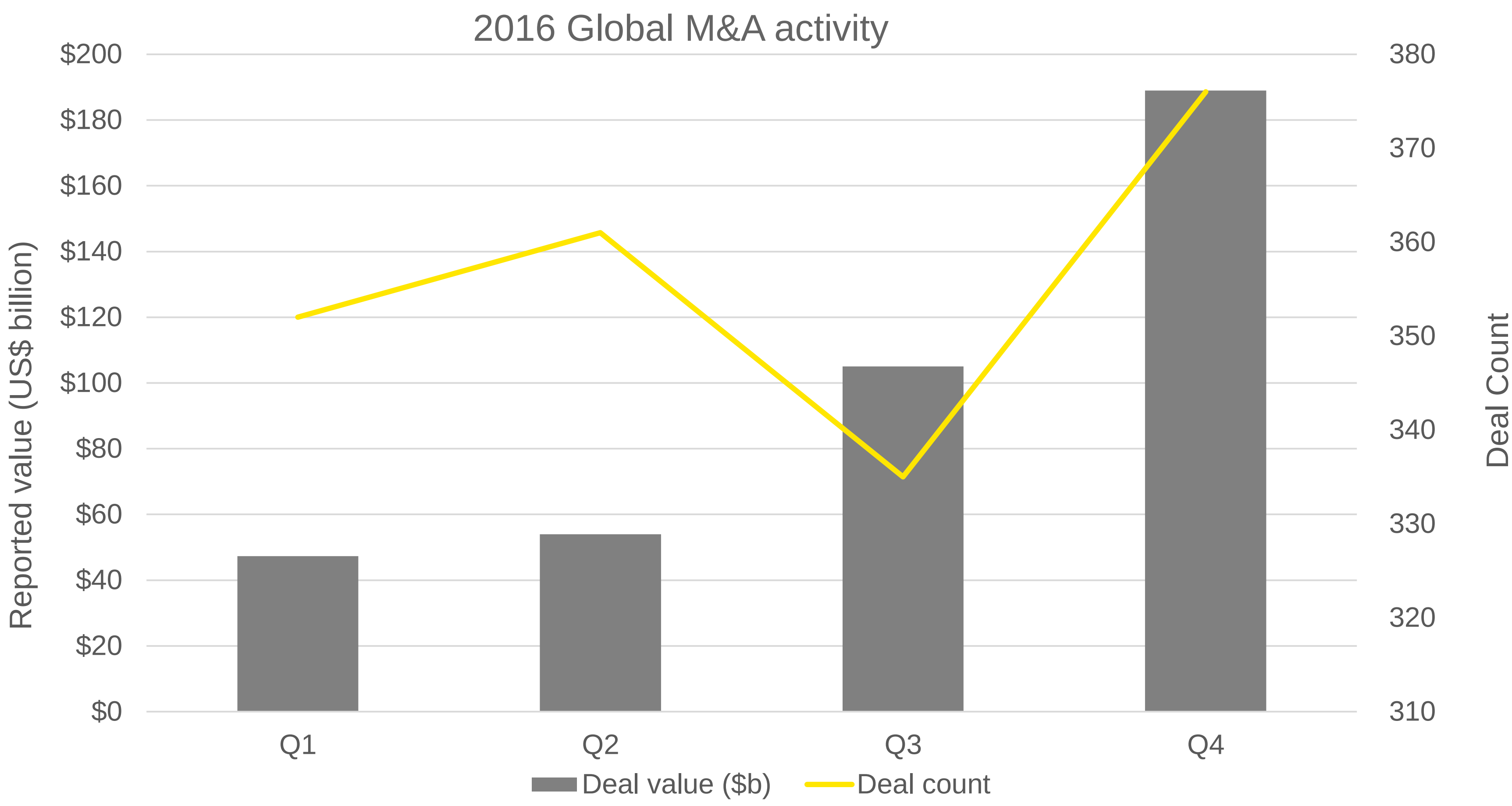
Sources: EY analysis, Thomson Reuters Datastream

Now

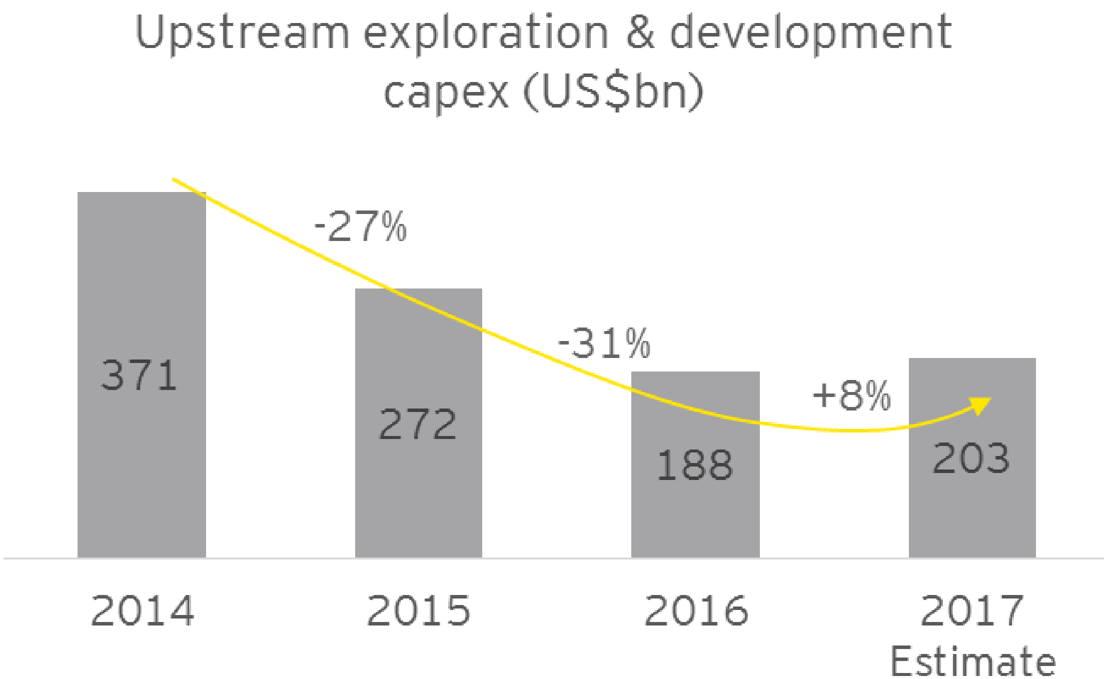


- Greater stability in crude price and greater consensus on outlook = more confidence in the future

Global M&A activity has responded positively



However, capital rationing continues…

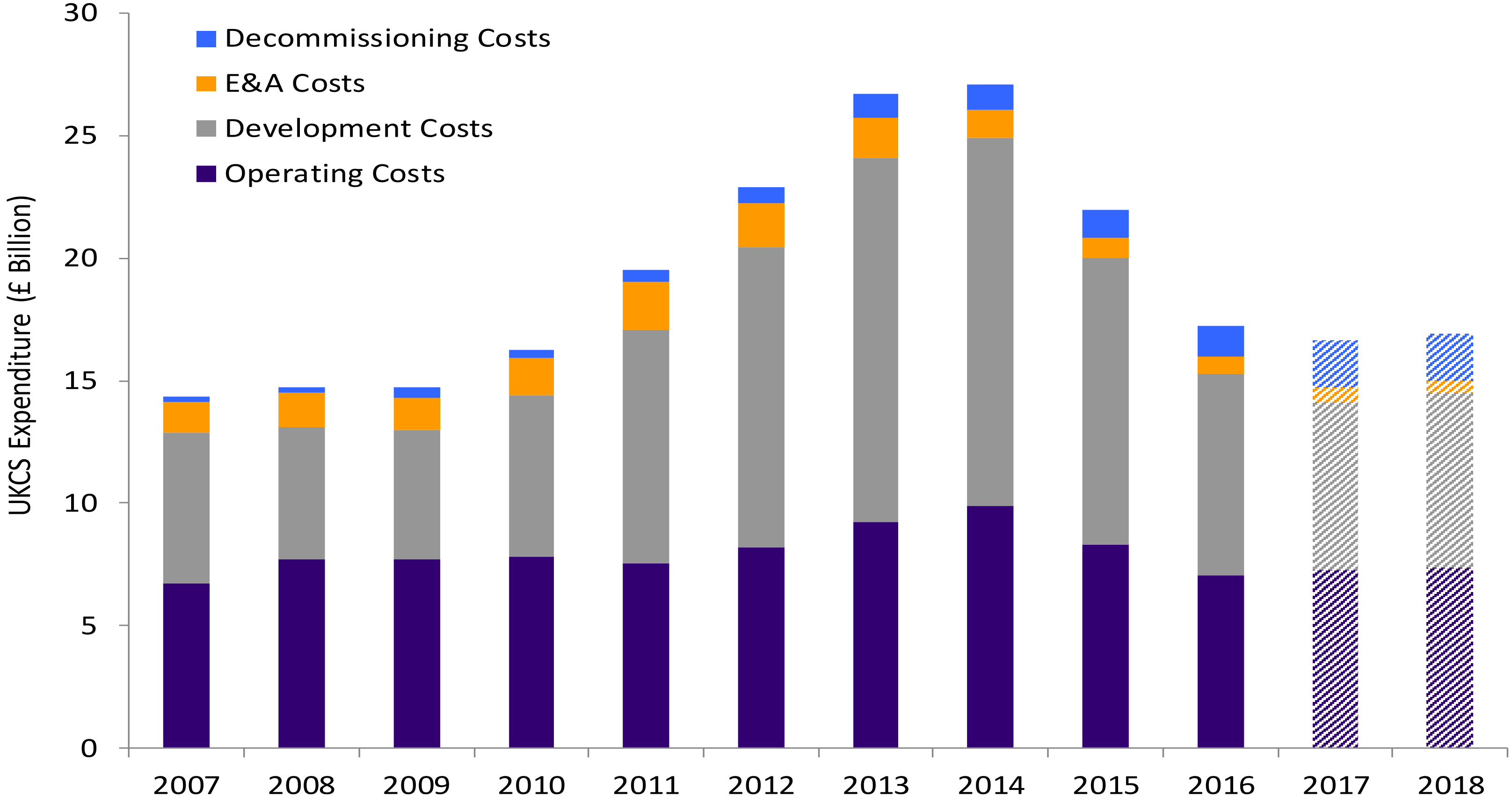


- Global capex is expected to increase 8% in 2017, driven largely by US onshore activity
- Capex budgets will still be 26% lower than in 2015 and 45% down on 2014
- IEA predicts that low levels of investment will create a capacity crunch before the end of the decade

Sources: RBN Energy, Morgan Stanley

The UKCS "investment" story is comparable

- $8bn+ of announced UK oil & gas M&A transactions in 2017 YTD exceeds the total for 2013-2016. However…..
- Capital expenditure outlook (excluding decommissioning) is not positive



Source: OGA, Oil & Gas UK

Achieving ownership change has required more risk sharing in deal structures

Contingent payments	▪ "Future payments....contingent upon future exploration results and commodity prices" (1) ▪ "A contingent payment related to the Rosebank FID" (2) ▪ "A contingent payment related to the Federica stabilisation plant .... and a contingent payment subject to development of Rosebank" (3)
Deferred consideration	▪ "....will be funded by deferred consideration payable from the cash flow of the Transaction Assets" (4)
Options	▪ "EnQuest has an option to acquire the remaining 75%“ (4)
Liability sharing/management	▪ "Shell has undertaken to contribute a fixed $1.0 billion towards the eventual decommissioning costs“ (1) ▪ "EnQuest has the option to receive $50m from BP in exchange for undertaking the management of the physical decommissioning....“ (3)

(1) Chrysaor – Shell
(2) OMV – Siccar Point
(3) DONG Energy – INEOS
(4) EnQuest – BP

“No surprises” above ground will encourage new owners to deploy capital

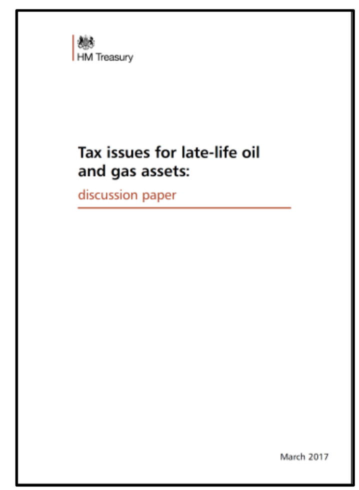
- Commodity price outlook
- Joint venture alignment
- Infrastructure access / reliability
- Regulatory stability
- Fiscal stability / predictability
- Decommissioning confidence

MERUK is a simple objective to articulate – but defining “E” is incredibly complex

UKCS fiscal regime – an improving picture?

2014		Today
Ring fence CT: 30% Supplementary charge: 32%	SC reduced to 10% →	Ring fence CT: 30% Supplementary charge: 10% [Investment allowance of 62.5% of capex available for offset against SC]
	Investment allowance introduced →	
Petroleum revenue tax: 50%	PRT reduced to 0% →	Petroleum revenue tax: 0%
Highest marginal tax rate: 81%		*Highest marginal tax rate: 40%*

- Given maturity of the basin, decommissioning (including associated tax relief) remains a key transactional issue
- At Budget 2016, HMRC gave a level of assurance that sellers can obtain decommissioning relief when they retain decommissioning liabilities after a disposal
- HM Treasury is currently consulting on tax issues for late-life oil and gas assets, and an “expert panel” has been formed to inform Government thinking in this area
- Consultation closes 30 June, with conclusions anticipated at Autumn Budget 2017

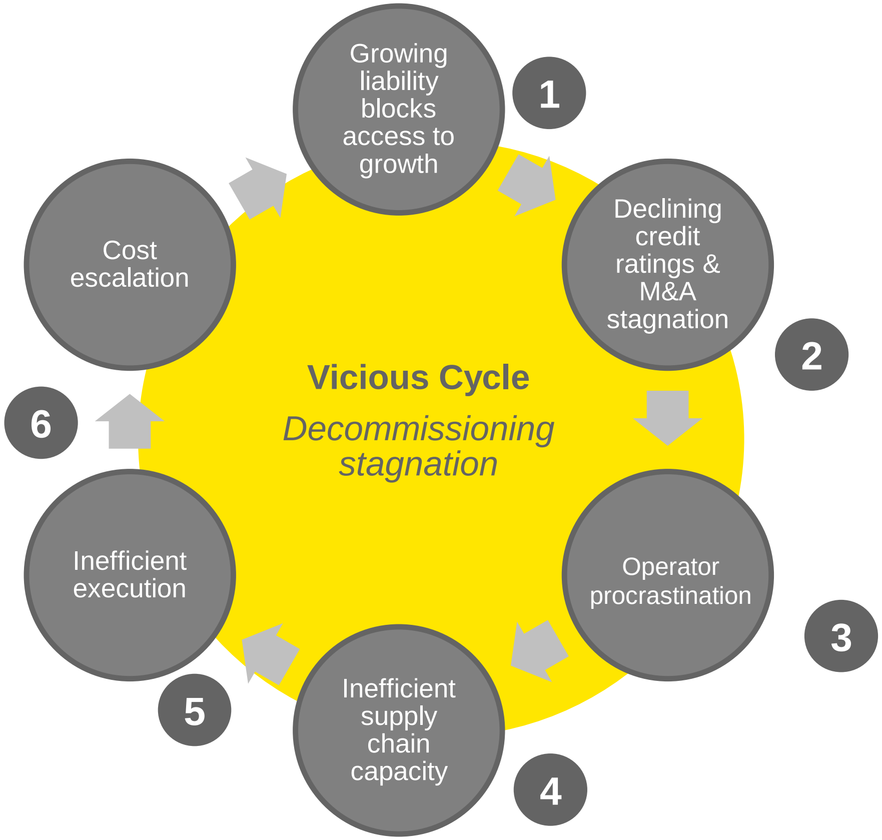

HM Treasury

Tax issues for late-life oil and gas assets:
discussion paper

March 2017

Investors hope to escape the "vicious cycle" of decommissioning stagnation

With an estimated £50bn+ spend over the next 30 years, decommissioning is a major opportunity and challenge.



Outlook for the next year

- Positive M&A prospects given stable oil price outlook, improving valuation consensus and capital availability
- Continuing refinancing activity and creative deal structures
- Sustained focus on portfolio optimisation for both NOCs and IOCs with capital most likely to be allocated to upstream regions with lower costs and/or greater capex flexibility
- UK is delicately poised between these two potentially opposing dynamics
  - Diversity of capital is essential
  - Imperative to “get it right” on controllable above-the-ground factors

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