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Conference Papers/Presentations

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Midstream to Downstream: Making Gas Available

Basheer Koko
Deputy Managing Director/CEO
Nigeria LNG Limited

2nd Nov 2011

Outline

- Nigeria LNG: The Company
- The Nigerian Domestic Gas Market
- Overview of the LPG Market
- The Nigeria LNG Intervention: Making Gas Available
- Challenges
- Conclusion

The Company: Nigeria LNG

Shareholders

- Nigeria National Petroleum Corp.
- SHELL Gas BV
- TOTAL LNG Nigeria Ltd
- ENI International

11 Long Term LNG Buyers with 16 SPAs
24 Dedicated LNG Ships
4 LNG Tanks: 340,000 m^3

5 MTPA of NGLs
4 LPG Tanks: 260,000 m^3
3 Condensate Tanks: 120,000 m^3

Nigeria LNG was incorporated on May 17, 1989 to harness Nigeria's vast natural gas resources and produce Liquefied Natural Gas (LNG) and Natural Gas Liquids (NGLs)

Nigeria LNG Limited

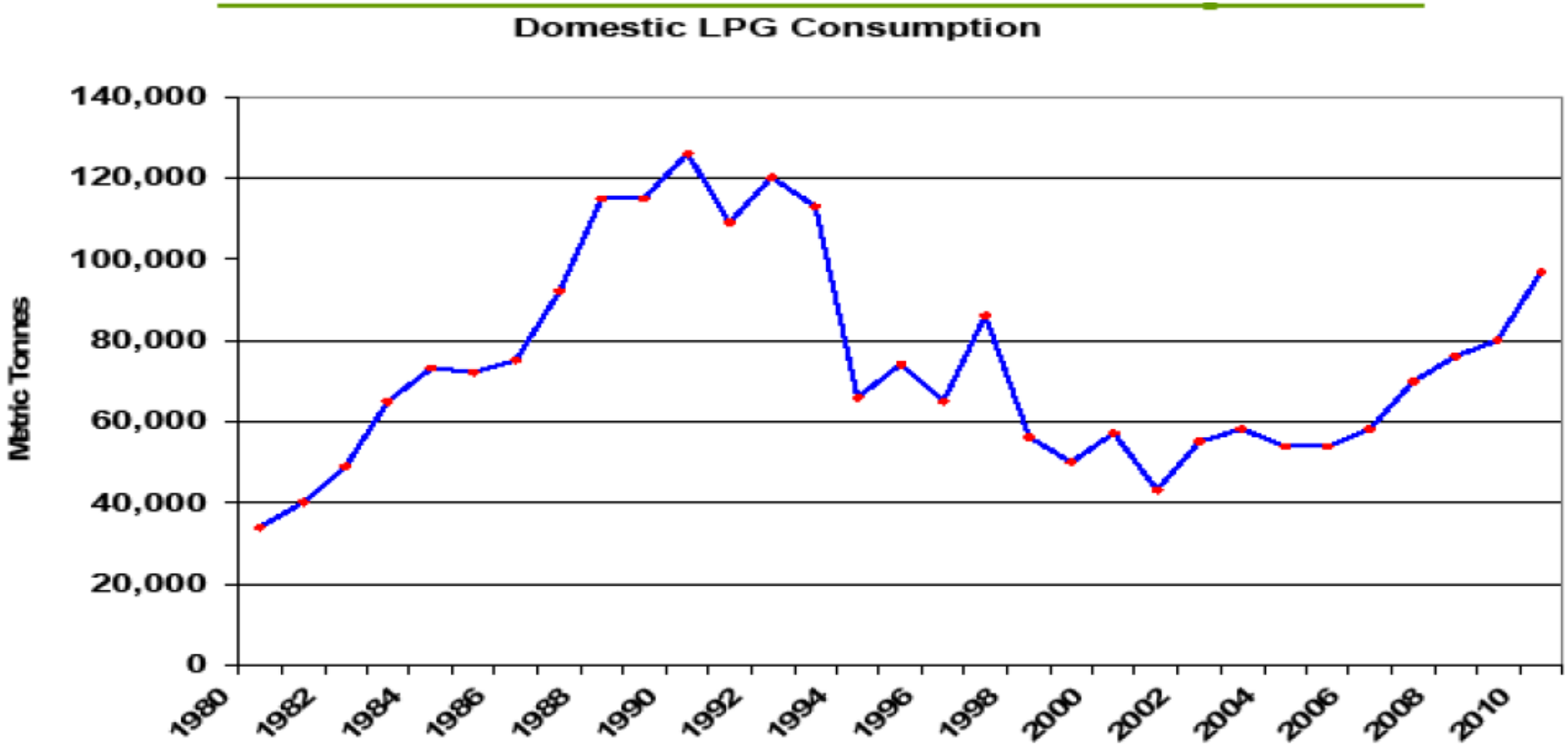
The Domestic Gas Market

- The domestic Gas market is mainly driven by the power sector with limited industrial demand.
- The sector is currently plagued with inadequate infrastructure.
- Most of the gas currently being produced is exported.
- However, Government is now pushing towards domestic gas consumption.

The Domestic LPG Market

- Current annual LPG Consumption is approximately 100,000 mt.
- LPG is mainly used for cooking and competes with other sources such as DPK (Kerosene) being subsidized and firewood.
- LPG was mainly sourced from imports due to the epileptic nature of the refineries before Nigeria LNG intervened in 2007.
- Inadequate downstream infrastructure is inhibiting consumption and market penetration.

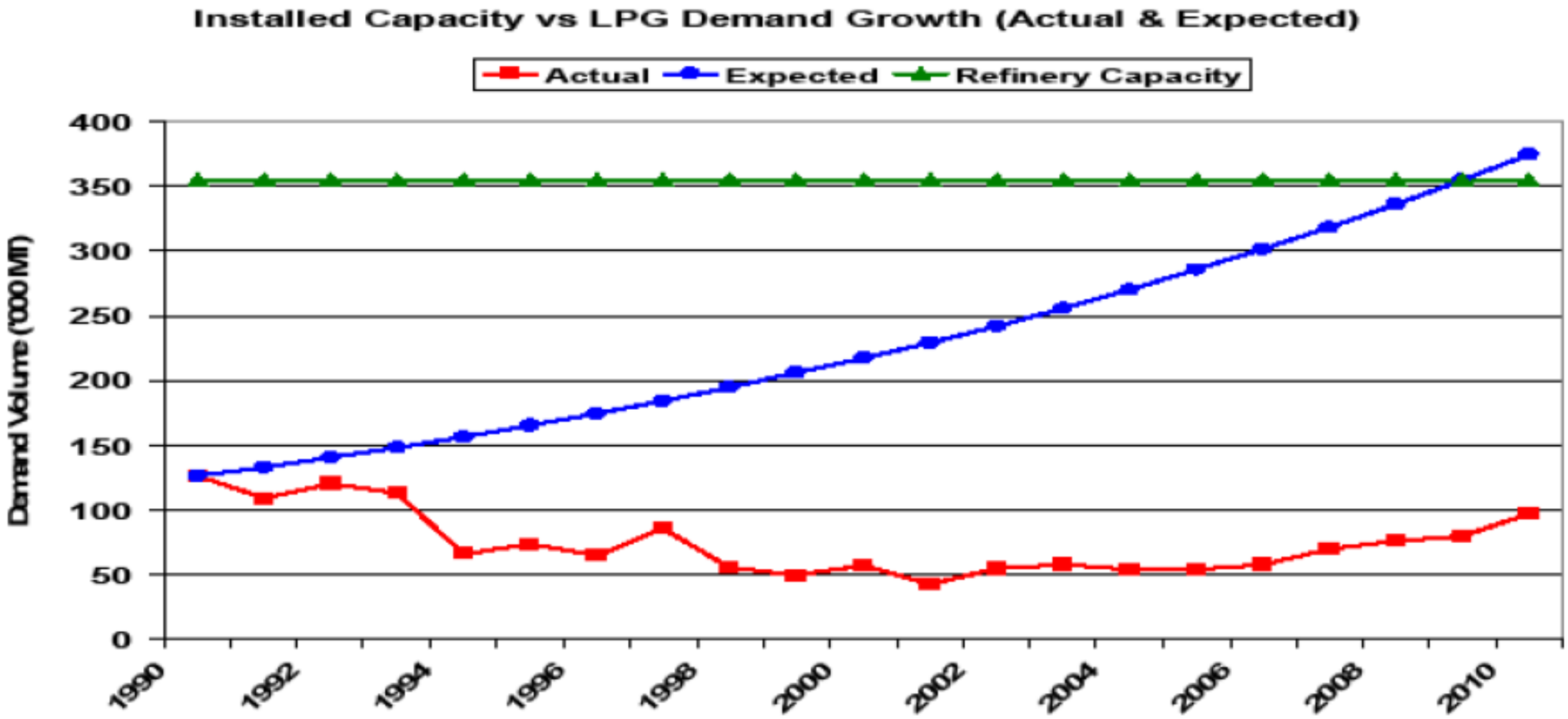
LPG Consumption in Nigeria



Decline in domestic consumption from 1992 to an all-time low of 43,000 mt in 2001 due mainly to non availability of the product. Growth boosted mainly by imports and NLNG domestic supply.

Sources: Matrix Petro-Chem Ltd, Nexant Study

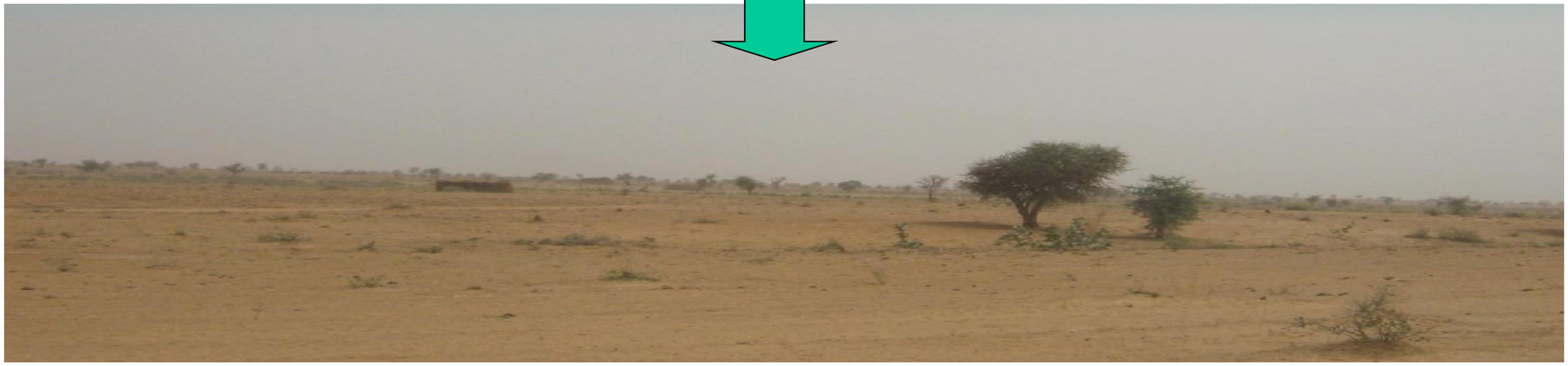
Domestic Refining Capacity vs Demand Forecast



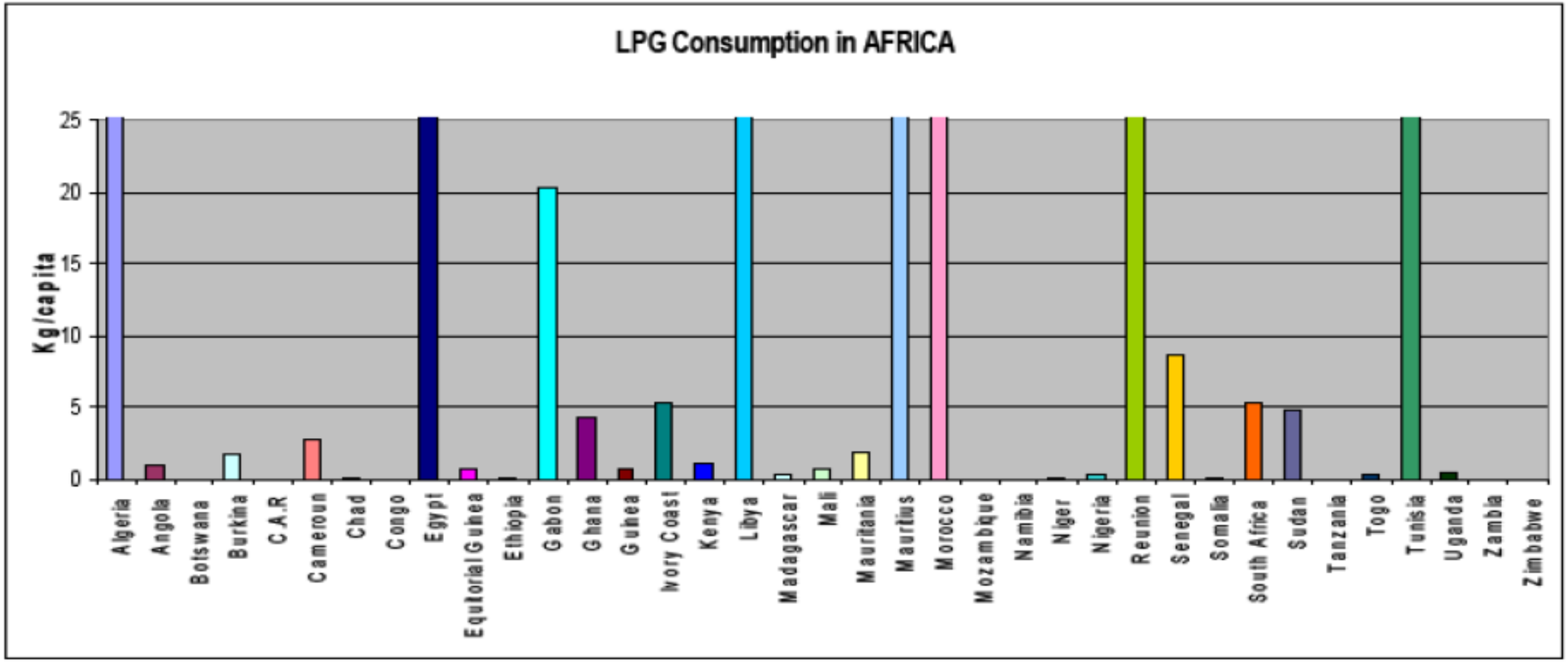
NLNG & other exporters did not contemplate domestic supply at the onset, as the projected demand was below the local refining capacity

Sources: Matrix Petro-Chem Ltd, Nexant Study

Over-dependence on Firewood leads to Desertification !



LPG Consumption in Africa



Nigeria's per capita consumption per annum is less than 1kg/Capita compared to Algeria, Egypt, Tunisia, Libya, and Morocco of over 45Kg/Capita.

Source: Total

Current Storage Facilities in Nigeria

- Until 2009, only the PPMC facility with a 4,000mt capacity and which shares jetty with other products was operating.
- The new NIPCO facility commenced operations in 2009 with 4,000mt capacity, sharing jetty facilities with PPMC.
- Another new facility (Navgas) commenced operations in 2010 with 8,000mt capacity, and an independent jetty.
- Sahara facility with 1,000mt capacity at Calabar and draft restriction was dormant until Q3, 2011.

Little or no storage infrastructure on the East Coast thus higher trucking cost to the SS/SE

NLNG Intervention: Making Gas Available

- The Domestic LPG Market had faced severe shortages in the past due mainly to epileptic nature of the supply from refineries which were expected to be the major source.

- Nigeria LNG intervened to:

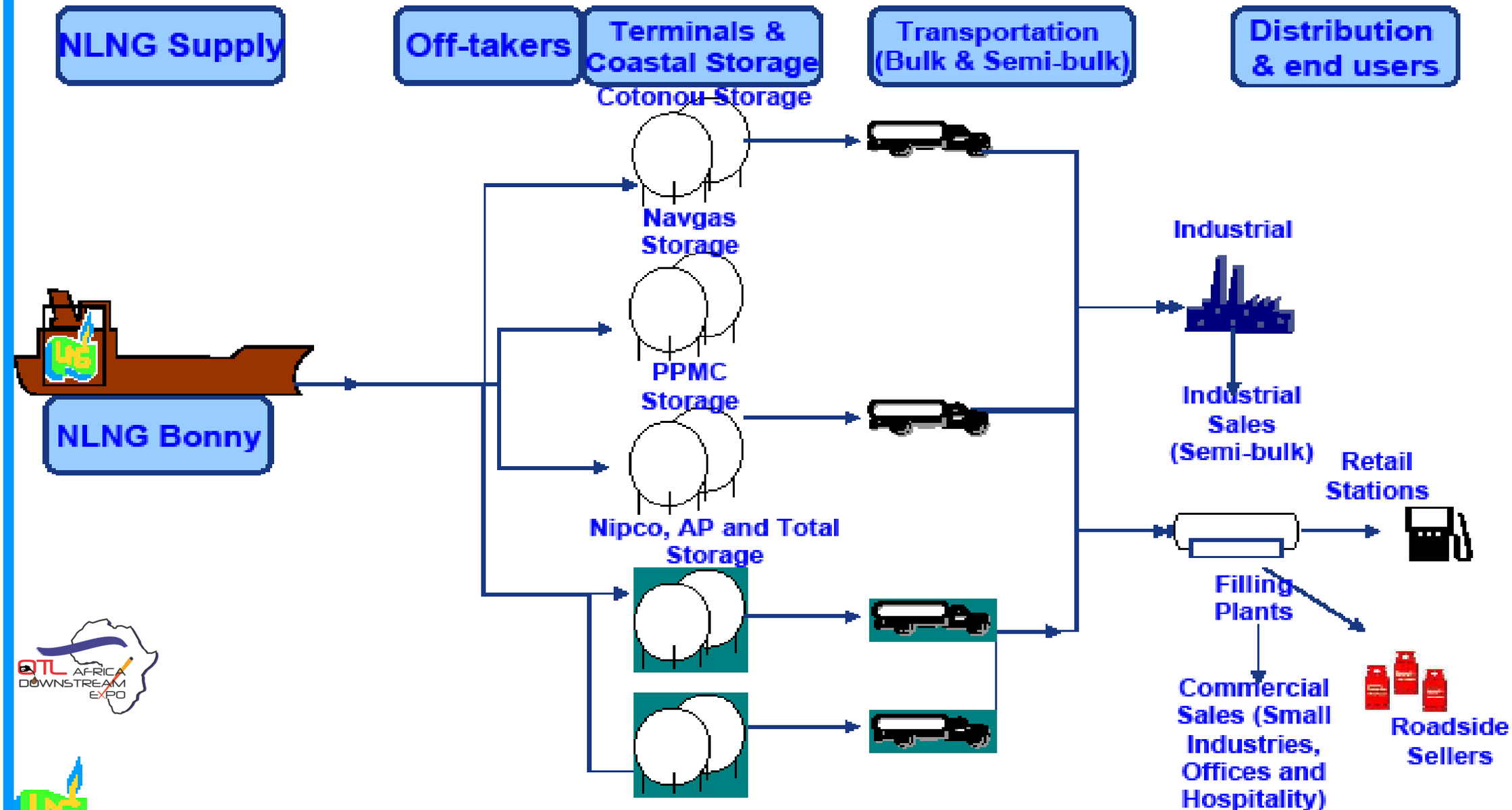
  - Ensure LPG available in the local market.

  - Stimulate growth of the industry including reasonable incentives.

NLNG Intervention: Making Gas Available - Cont

- A yearly allocation of 150,000mt to the domestic market to guarantee supply.
- A DES model was later introduced to minimize freight cost and thus improve pricing to end-users.
- 50% of the logistics cost is being borne by Company to stimulate consumption and market growth.
- More off-takers have been pre-qualified to participate and thus encouraging competition – there are currently 11 with room for more.

NLNG Intervention: DES Model



Merits of LPG Utilization

- Improves the health of the citizenry in terms of being smoke free when compared to Kerosine or firewood
- Helps to reduce the CO2 emission levels and thus reducing global warming
- Protects the environment from deforestation and saves sums being budgeted by Government for tree planting
- Serves as an alternative to Kerosine given the right Government intervention (Indonesia, India and Brazil are clear examples)

Challenges

- Inadequate infrastructure and limited investment in new projects.
- LPG Price is expensive relative to alternatives such as kerosene which is subsidized and firewood.
- Lack of safety awareness is creating a psychological barrier (fear of explosion) which discourages the use of LPG.
- Extortion by Unions at depots and poor road network, all adding to increase price for the end-user.
- The absence of well structured retail outlets except for a few (Forte, Oando & Total) resulting in in-efficient retail pricing.

What needs to be done – Short term

Downstream Players/Marketers

- Engage interested power producers who might want to use LPG for power generation.
- Use common and compatible vessel to lift products from all producers and share cost to reduce freight cost and improve retail pricing.
- Buy new trucks to move product downstream.
- Import/Manufacture of new Cylinders/LPG Stoves for sell at flexible payment terms.
- Increase number of retail outlets for ease of product accessibility.
- Safety Campaign through adverts in the media and educating the Retailers on same.

What needs to be done – Short term cont'd

Governments

- Waive V.A.T. on domestic LPG sales, as V.A.T. is already waived by Government on imported LPG.
- Establish a Revolving Cylinder Scheme using part of the Ecological Funds to provide gas stoves/cylinders to the low income public at affordable price.
- DPR/SON to fast tract licensing/permitting processes for downstream players.
- Public Safety Awareness campaign by FME in conjunction with NTA or other media outlets.

What needs to be done – Long term

Downstream Players/Marketers

- Establish more Private Jetties/Storage Facilities & Gas Plants across the Country.
- Invest and take over from Government, the Cylinder Revolving Scheme
- Establish Cylinder and other accessories Manufacturing Plants locally.

Governments

- Govt to fund the construction of an alternative Jetty/Storage Facility in Port-Harcourt or Warri to cover the S/South and S/Eastern markets.
- Improve Transport Infrastructure (Roads and Railways) nationwide for easy flow of products.
- Need for clear guidelines on regulatory functions & compliance to guide the LPG industry on enforcement of common standards.
- Financing Scheme for Retailers under the NAPEP programme.
- Commercialize the inland LPG storage facilities.

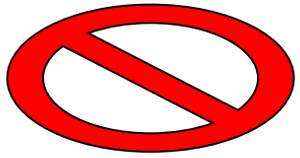
Conclusion

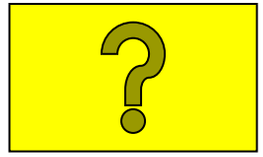
- The intervention by Nigeria LNG has made LPG available in the domestic market, however a number of investment opportunities remain available :

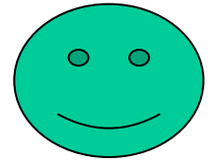
  - Storage facilities: inland and secondary.
  - Dedicated LPG jetty/coastal terminals.
  - Cylinder and accessories manufacture.
  - Piping to houses particularly to housing estates.
  - Bottling plants and retail distribution.
  - Transportation (Trucks, Marine and Rail).
  - Power Generation especially for industry.

Interested Investors can take advantage of these opportunities now !!!

!!! Thank You !!!







Midstream to Downstream: Making Gas Available

LPG

Good for the Economy
Good for Business
Good for the Environment

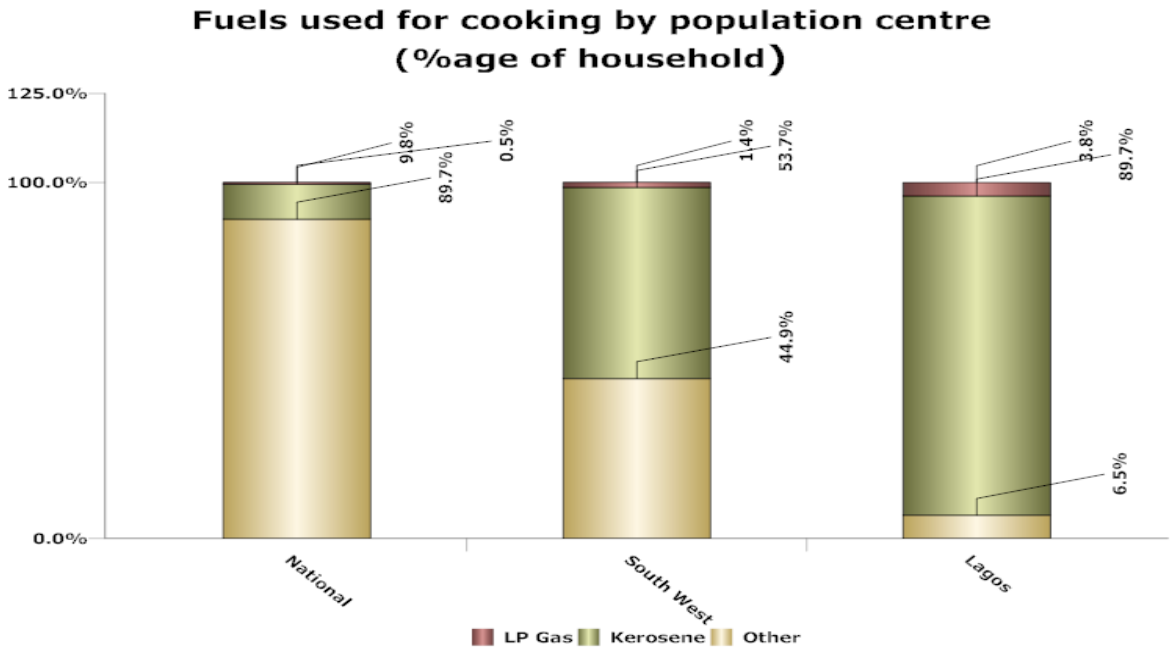
By Ian Brown

Navgas

Navgas Limited is a world class LPG terminal located in Apapa Lagos which started operations in March 2010.

- ✓ *A joint venture between Nidogas; Nigeria's premier liquefied petroleum gas (LPG) company and VTTI, a Terminal and Infrastructure asset multinational.*
- ✓ *it is the largest LPG facility in West Africa and has the capacity to throughput four times Nigeria's current LPG consumption.*
- ✓ *incorporates all the latest design features to best standard international safety standards*
- ✓ *strategically positioned to contribute to the expansion of LPG usage in Nigeria and the achievement of the Government's Gas Master Plan*

Market

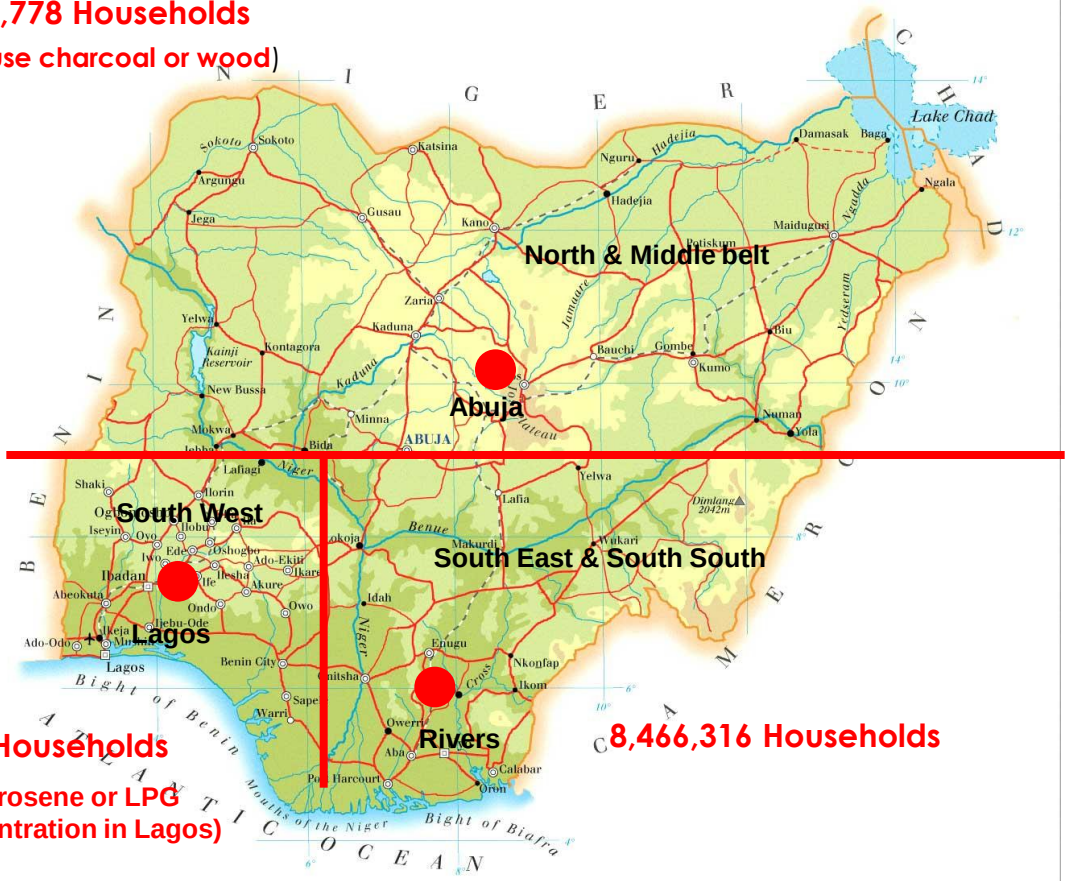


- *90% of the 28,000,000 households in Nigeria do not use either Kerosene or LPG for cooking (The alternatives are wood, charcoal, coal and electricity)*
- *50% of the usage is in the South West, with a concentration in Lagos as over 90% of households in Lagos use Kerosene which is an inverse of the national pattern*

Market

16,864,778 Households

(90% use charcoal or wood)



2,972,123 Households

(50% use kerosene or LPG with a concentration in Lagos)

8,466,316 Households

- *2,000,000MT of Kerosene is imported into the country annually; out of which 1,000,000MT is consumed in the South East and 700,000MT in Lagos alone*
- *These users are the primary target for conversion to LPG, as LPG is a cleaner fuel in terms of health and impact to the environment.*
- *The street price of Kerosene is virtually on a par with free market prices and costlier than the current price of LPG*
- *If just 25% of the Lagos population were to convert to LPG from Kerosene, the LPG market in Nigeria would increase to approx 300,000 MT's per annum of which 200,000 MT's would be in Lagos alone.*

LPG

Good for the Economy

locally available

promotes sustainable development

Good for Business

excellent margins

marked and assured growth trajectory

Good for the Environment

Reduces gas flaring

cleaner fuel

LPG

Where we are

- *60,000MT-120,000MT per annum of LPG*
- *Low Growth rate*
- *Less than 3% of the population use LPG for cooking*
- *Big Margins(for retailers) and small volumes*

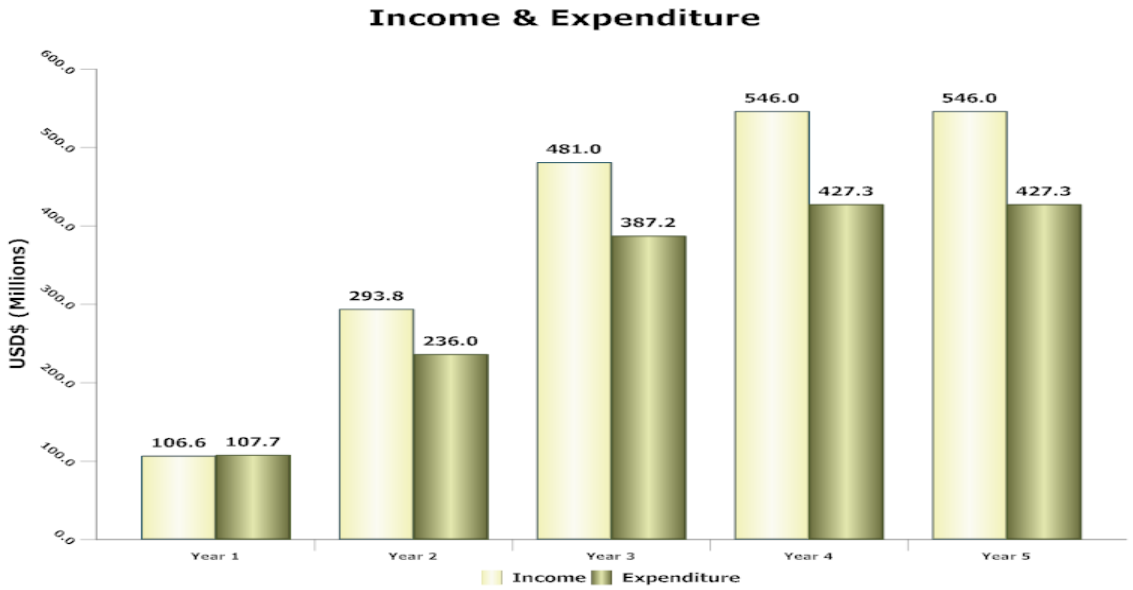
Where we need to be

- *300,000MT-500,000MT per annum*
- *Exponentially progressive growth rate*
- *10% of the population using LPG*
- *Smaller margins and bigger volumes*

Requirements for Growth

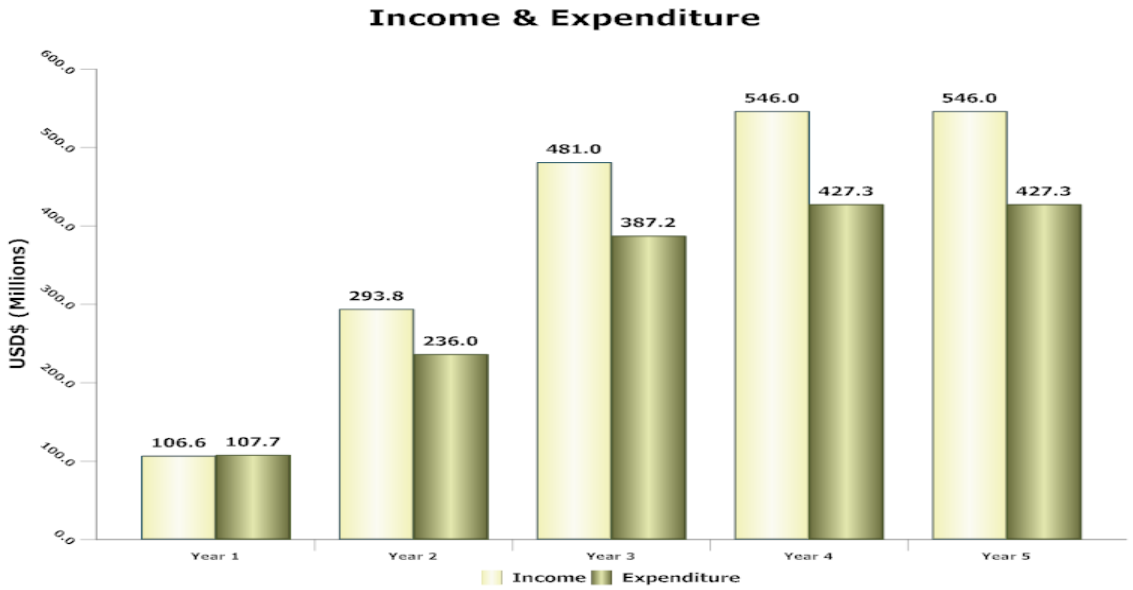
- *Supply (NLNG, OSO), storage (Navgas + other LPG terminals) and trucks in place*
- *Cylinders (2,340,000), filling plants (20plants x 10,000 daily refill capacity) required*
- *Marketing (Tangible) and Awareness (Intangible) required*
- *last mile distribution network needs time to be built from scratch, or an established operation can be utilized (which will lead to immediate growth)*

Financials



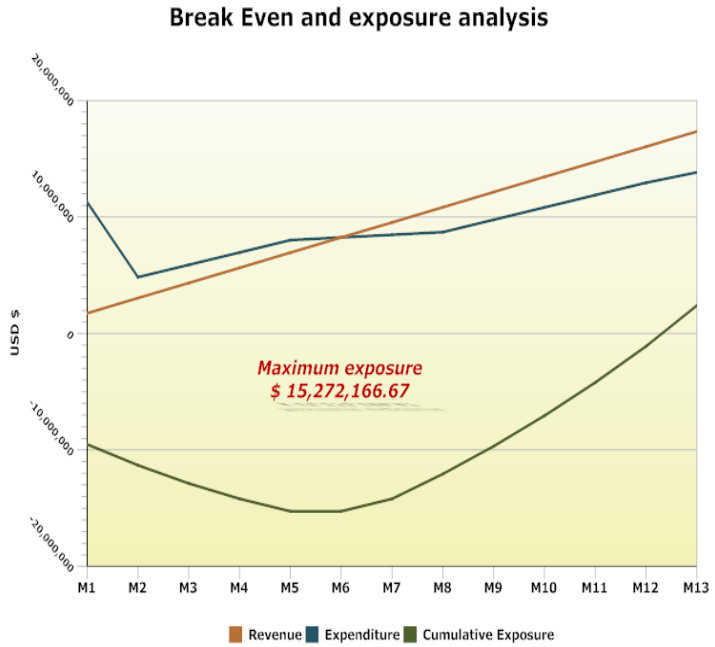
- *Market growth of 65,000 new customers a month for 3 years.*
- *Upfront cost of each entrant N5,000 ($33). Units sold to customers for N 1,000. Net cost of each customer N4,000 ($27)*
- *Each customer purchases 2 refill per month at current pricing, which is comparable with, and remains at par with Kerosene*
- *20 filling plants at $500,000 each added over 3 years*

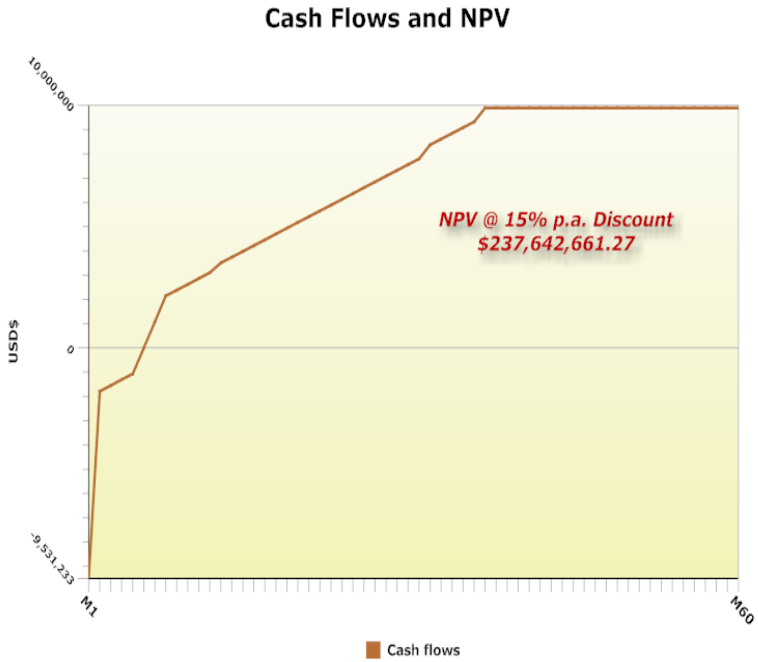
Financials



- ***Potential Breakeven in year 1,Revenues of over $500,000,000 in year 4 with 20% margin***
- ***If growth does not materialize as envisaged, addition of cylinders and filling plants ratably reduces maximum exposure. If strategy were to abandoned; Lead time on cylinders assumed at 3 months. These would be sold at cost price, rather than subsidized price. Maybe some sunk costs in respect of the filling plants***

Financials





- *Initial cash availability of $12,000,000,Maximum exposure $15-16 million, Cash flow positive month 6,Breakeven in month 12*
- *Cash flow increase at a constant rate, as majority of costs are variable and volume dependent*
- *Discounted NPV of $ 237 million allows for considerable margin of error in assumptions and still remain viable*
- *300,000 MT's per annum translates to $120,000,000 positive P&L or $10,000,000 per month*

A PAPER TITLED

FUTURE FUELS: THE NEXT LEVEL IN ENERGY SECURITY

DELIVERED AT

OTL AFRICA 2011 CONFERENCE

BY

TONYE P. COLE

ON

2ND – 4TH NOVEMBER 2010

- In trying to grapple with energy security and its future implications, it must by necessity mean that there is an understanding of the historical implications of past energy policies, their implementation, and the current security issues around the energy sector before you can even begin to articulate the future demands and measures required.

THE PAST

- Drilling for oil in Nigeria dates back to 1908 when the Nigerian Bitumen Co. & British Colonial Petroleum commenced operations around Okitipupa.

- In 1956, the first commercial oil discovery was made by Shell.

- In 1958, the 1st barrel of crude was exported under pomp and pageantry by the vessel STS Hemifusus with Alhaji the Hon. Abubakar Tafawa Balewa, the Prime Minister of the Federal Republic in attendance.

WHAT WAS THE VALUE AND IMPLICATION OF THIS FIND TO THE VARIOUS PARTIES INVOLVED?

TO SHELL

- The seriousness with which Shell takes their operations was revealed in the loading of crude on a Shell owned tanker, named after a marine shell, the Hemifusus.

- The event opened up Nigeria to them and they took control of the upstream E&P industry growing to become the largest producer in Nigeria till date.

TO THE COLONIAL POWER

- Tied in perfectly to their policy of getting resources in the colonies to service their needs at home so the oil was shipped for processing and this has been the case ever since.

TO THE NIGERIAN GOVERNMENT

- The event was a simple cash event and has remained primarily so till date.

PREPARING FOR THE FUTURE

- Fundamental to the appreciation of the efforts required to prepare for the future today, is an understanding of the value of preservation of history.

- Without this, a nation can hardly be expected to adequately prepare for the future.

A TRIP TO OLOIBIRI

- This site technically represents the beginning of any and everything that oil and its revenue has generated and created for Nigeria.

- It is a place characterized by abject poverty and neglect all around coupled with environmental degradation.

- There is absolutely nothing present in Oloibiri to give you a sense of national pride for how important a resource Oil has been to Nigeria.

- You see or feel no weight of historical heritage that gives you a glimpse of what it must have taken to achieve that feat at the time and what lessons to take from that era for future generations.

WHO DO WE HOLD RESPONSIBLE?

- The Foreign Oil companies for exploitation of our resources and pollution of our land?

- OR

- A nation that has neglected to teach our citizens through our actions the value of taking care of the things that are supposedly important to us?

CONSIDER THIS……

- 50 years after our independence we still don't have any public depository of records that charts the critical and important milestones of our heritage!

- It is a shame.

- In trying to prepare for the paper, it occurred to me that there certainly must have been cars on our streets prior to 1956 and they must have been fuelled in some way so I tried searching for some information to when and where the 1st public filling station was opened and how they received the fuel they sold.

- Was fuel imported in drums or did we have storage tanks? Who owned them and ran the operations?

- As hard as one tried, there was nothing one could find from any government website to help with the information and only Total had information indicating it opened its' 1st filling station on Herbert Macauley Street, Yaba, Lagos in 1956.

- Researching for historical data is a nightmare and this tells a great deal about just how important we take our Downstream Business.

MOVING ON WITH OUR TOPIC……

- A constant source of aggravation is in the area of flaring, oil spills, environmental damage, pipeline sabotage and crude and product theft.

QTL AFRICA DOWNSTREAM EXPO

- When looking at the reaction we have to these critical issues, it begs the question; are we really serious about the impact of these things on our economy, environment and our people? I am not convinced that we are.

- Nigeria must rank as the most oil related polluted country in the world. It is the world's largest flarer of gas with 2.5billion cubic feet of associated gas flared annually.

- That this translates to about $2bn annually in lost revenue seems to completely elude us.

- Certainly we are adept at passing blame around on who is responsible for the failure but the apathy that we portray to the unprecedented pollution of our environment is appalling.

AS RECORD KEEPING IS THE LEAST OF OUR PRIORITIES, THE TRUE IMPACT OF OIL SPILLS IS UNACCOUNTED FOR.

- DPR official numbers - approximately 2million barrels
- Baird report in 2010 - estimated between 9 & 13 million barrels spilled since 1958
- Other Reports - 100 million barrels between 1960 and 1997

- Whatever the number, it is our reaction to spills and the measures taken to prevent them, enforce quality and safety compliance, clean them and put in remediation procedures that is more damning.

- With a history of not caring deeply about the loss, it's impact to the people, their livelihood, wildlife and the environment, it is skeptical that there will be much concern for securing the assets for our future.

THE PRESENT

- Fast forward to what we have today to give us an inkling of what we require to ensure security tomorrow.

- WHAT DO WE SEE?

- A Downstream Industry that shows a plethora of independent stations that have no hope of surviving.

- - It doesn't take rocket science or tons of data to see that there is something seriously wrong with being an independent retail station owner in Nigeria.

- About 15 years ago, the Independent Station ownership skyrocketed.

- This seemed at that time to be a viable avenue for ensuring that there was security in supply of products to the general public, with stations opened up in nooks and crannies that are beyond imagination.

THE IMPACT OF FUEL SUBSIDY

- What the Independent Stations probably never took into consideration is the disastrous impact subsidy has when you don't have access to the source of the subsidized product.

- That this spelt the death of most of them wasn't the genesis of their problem but a combination of factors, the best of which can be squarely summed up as follows:

- The massive diversion of products that resulted as the price disparity between the product sold in Nigeria and those of neighboring countries increased exponentially.

- As diversion ran rampant, corruption increased at depots nationwide, allocations became golden nuggets, pipeline product theft escalated and products getting to the stations dried up.

WAS THERE A SOLUTION AND WAS IT ADEQUATE?

- Like with most things in Nigeria, when the decision to tackle the problem is taken, it is usually with a massive stick that punishes the innocent and guilty in equal measure .

- As embarrassing scarcity queues appeared, solutions taken meant that majors got the advantage of access to products, NNPC set up their own retail outlets.

- And the problems of the Independents was further compounded.

THE ERA OF PRIVATE DEPOTS

- As the fortunes of the Independents nose-dived, the number of Private Depot Operators increased substantially over the last 10 ears.

- The impetus for driving this sector came from both a positive and a negative driver;

1. The positive being the deregulation of the diesel market
2. The negative being the seemingly irresolvable PHCN power crisis in the country.

AS A RESULT……

- Generators became the primary power source.
- Demand for diesel became almost insatiable and this was a dream come true for entrepreneurs looking for a steady, in demand business to invest in.
- The question is - what happens when the power supply improves and generators are no longer needed?

THE GOVERNMENT STEPPED IN BUT AT WHAT COST?

- Flooding the market with imported products, incurring vast amounts of demurrage with vessels sitting off the coast of Nigeria sometimes for two months waiting to discharge.

- Taking decisions that had long term damage - for example many years ago, a major feeder line from the Port Harcourt Refinery was ruptured by thieves and this would have led to scarcity in the Northern axis if pumping of products stopped. To avoid a situation that will cause the government problems, the decision was made to keep pumping despite the spill and vast environmental damage.

IS THE STORY DIFFERENT IN THE UPSTREAM?

- Unfortunately not.

- Yes it is true that we are back up to producing 2million barrels of oil post amnesty but this is not as a result of increased expenditure in bringing new producing assets on stream.

- The delay in passing the PIB has put the entire Oil and Gas industry in limbo with no clear strategy to whether we are interested in discovering new reserves through exploration or increasing production through development of existing assets.

- There is a clearly an existing policy to encourage indigenization and local content in the industry as an aim to move assets and capital from expatriate firms to national ones but a lot needs to be done to instill confidence in the local players that the implementation of the various policies is serious.

- The red tape and difficulties that indigenous companies encounter while trying to act out the terms applicable to them is immense and discouraging.

- The attitude to investment and investors, local and foreign, tells a lot about how important a part of the future the nation places on what they bring so it is very unfortunate that the excellent policies that exist are not translated to a positive attitude by officials at various levels.

And Finally……Maritime Security

- One last area of concern that impacts our present fuel security and will give you a clear perspective of our future needs is in the area of maritime security, vessel hi-jacks and crew kidnapping.

- It is important to give credit to the Nigerian Navy and the Government on a series of investment initiatives that has been taken to address the issue of piracy in Nigerian waters.

- A pact with the Republic of Benin has begun to rear dividends as well as some increased training of Navy personnel by US Navy but it is far from adequate to completely eradicate the problem.

- Pirate vessels are sometimes faster than the attack boats the navy deploys and can therefore evade capture.

THE FUTURE

SO WHAT DOES THE FUTURE HOLD FOR US?

- As we have analyzed in our past and present, we seem a bit adrift in comprehending what is important to us and how to put a monetary value to the losses we inadvertently permit across all segments of the Oil and Gas industry.

- Planning for tomorrow is a very conscious present act and one that involves looking back at past mistakes and gains, learning from them and improving for tomorrow.

- Nations all over the world are constantly thinking of how their future security is assured whether it is in the continued use of conventional fuels or alternate energy.

- Billions of dollars have been spent developing bio-fuels and other forms of energy by nations who have found themselves at the wrong end of the demand and supply chain, feeling railroaded and blackmailed by producing nations, especially by OPEC member nations.

- Countries like America have vast reserves of hydrocarbons, which they have kept as strategic reserves to produce in the future if they ever get to a situation where crude production runs dangerously low globally. Yet, they are amongst the worlds largest importers of crude from nations who pump and export their crude without a full understanding that it is a finite resource and its future impact.

How prepared are we in the use of our natural resources in developing technology that is geared towards optimizing its potential for our benefit?

- Brazil developed Alcool Technology, making fuel from sugar cane, and has continued to improve on this technology despite the fact that they have steadily increased discovery and production of conventional hydrocarbons.

- With an understanding of the need to secure their future, the Brazilian Government through Petrobras invested heavily in R&D to develop deep offshore technology, beating hitherto world records in drilling wells in water depths never tried before thereby unlocking record reserves that has ensured years of energy security for the nation.

- Is our future security guaranteed in developing gas technology, bio-diesel, solar or wind?

- Is it in some yet unidentified form of energy we will pioneer?

- What is our attitude to R&D? It is an extremely high cost intensive activity but one without which you will always remain at the mercy of others to drive how far you can progress.

- That we are a net importer of petroleum products, a net exporter of crude, LNG and LPG with aged, heavily corroded and poorly maintained network of pipelines, near zero gas infrastructure and heavily underperforming refineries cannot be anything other than deeply worrisome for us as a nation.

- When this is cross referenced with the effects of corruption, illegal bunkering, maritime insecurity, environmental pollution, community insensitivities, exploitation, sabotage, greed and apathy, the picture changes to one of utter hopelessness.

- Certainly an attempt to address all the ails at once is both incredibly expensive, obviously daunting and practically unworkable.

- However the one thing that is absolutely certain is that there is a need to totally change our mentality and approach to how we view ourselves, our environment and our natural resources.

- We have a duty of care to protect our people and secure the future for our children. To do this we must learn to be less selfish and more selfless.

- There is a need to articulate clearly what it is we really want to achieve in the future because I honestly don't know nor am I sure that we have an idea collectively as a nation what it is we want.

- We live for the present, here and now, with no interest in the past and no clue of the future. This is the unfortunate truth and is a call to arms for every patriotic Nigerian to take a cold, long, hard look into the future and appreciate the fact that we must change NOW!

- Our future security lies in the hands of those of us who lead today. It isn't somebody else's problem. It is our problem, our headache and our solution to provide.

- Take up the challenge, play your part, no matter how small. We are!

Thank you and God bless.

“QUALITY AND SPECIFICATION MANAGEMENT IN PETROLEUM PRODUCTS SUPPLY: BEHIND THE VEIL OF LEGAL BLENDING.”

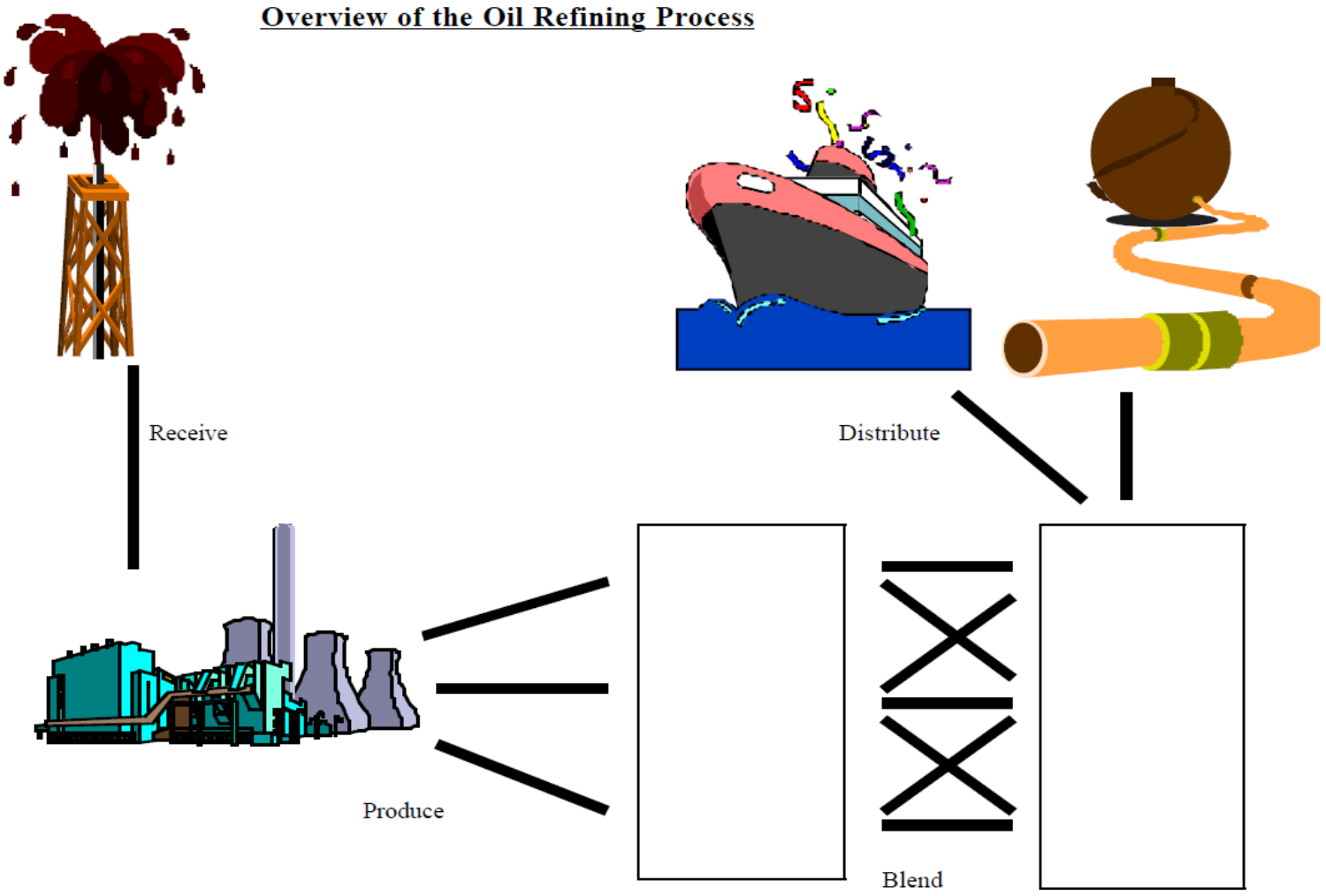


Figure 1

EXAMPLE OF FRACTIONS/ COMPONENTS

REFINED FRACTIONS / COMPONENTS	BOILING RANGE, ^{o}C.
Butanes and lighter	<32
Light straight run gasoline (LSR) or light naphtha (LN)	32-87
Naphtha or heavy naphtha (HN)	87-193
Kerosene	183-271
Distillate or atmospheric gas oil (AGO)	271-360
Residua are considered	343 +
Vacuum gas oil (VGO)	343-537
Vacuum Residua	537 +>

- “Refiner’s BLENDING initiative”.

- - Having resounded the word “BLENDING”, let us define this terminology.

What is blending:

- The Webster dictionary defines blending as
  - – a Mix (of a substance) with another substance so that they combine together as a mass
  - – a Mix (of different types of the same substance, such as tea, coffee, liquor, cocktails etc.) together so as to make a product of the desired quality.

- Blending is the mixing of two or more components in desirable proportion to achieve a desired and harmonious end result or specification.

- Petroleum Product ***blending*** is where the different petroleum fractions or components are combined together to make the final product.

The fractions are mixed so they meet the required specifications requirements.

- It is time we take Africa to the next level of the global oil and gas environment by embracing refined petroleum product blending, and align ourselves to the worlds of possibilities, of cost effective, profitable, marginal oil and gas trading through **BLENDING**.

International Petroleum Products Financing and Risk Management

PRESENTED BY
UCHECHUKWU OGAH
PRESIDENT, MASTERS ENERGY OIL AND GAS LIMITED
03 NOVEMBER 2011

OTL AFRICA
02-04 NOVEMBER 2011

Outline

- What About Financing?
- Downstream Petroleum Sub-sector
- Overview of International Petroleum Market
- Past sources of funding in downstream subsector
- Financing Options
- Financing Challenges
- Risk and Associated Risks
- Managing the Risks
- Conclusion

What about Financing ?

- **What Does *Financing* Mean?**
  The act of providing funds for business activities, making purchases or investing. Financial institutions and banks are in the business of financing as they provide capital to businesses, consumers and investors to help them achieve their goals.
- ***Financing***
  There is a large variety of financing techniques that businesses and consumers can use to receive financing; these techniques range from IPOs to Bank loans. The use of financing is vital in any economic system as it allows consumers to purchase products out of their immediate reach, like houses, and businesses to finance large investment projects.

Downstream Petroleum Sub-sector

- Downstream generally covers all activities undertaken to process oil and gas after the exploration and production Stage.
- Petroleum Refining i.e Gasoline, Gasoil, Aviation Fuel, Lube Oils and several other derivatives
- Production of Petrochemicals i.e Plastics, Carbon black, solvents etc
- Gas Development and conversion i.e LNG
- Distribution of the various petroleum products
- Marketing of Petroleum products
- Provision of Services to the companies engaged in the above activities

Downstream Activities

Refinery

Storage

Haulage

Aviation

Retail Outlets

Logistics/
Maritime

Gasoil

Gasoline

Jet A1

Overview of International Petroleum Market.

- International Petroleum Market is the forum where various stakeholders in the petroleum industry meet to buy or sell refined petroleum products and services (e.g. haulage, financial services, etc) across international boundaries aided by technology.
- As with most markets, forces of supply and demand are at play and these influence prices, negotiations and agreements.

Overview cont'd..The Operators

- The IOCs: Shell, Chevron, Mobil, etc
- The NOCs: NNPC, Petrobas, Petronas, etc
- The Energy Traders: Mercuria ,Delaney, Petrowest, Glencore, Vitol, etc
- The Local Independents: Masters Energy Group, Oando Group, Sahara Group, MRS Group, Capital Oil
- The Bankers
- The Hedge Managers
- The Government/Agencies

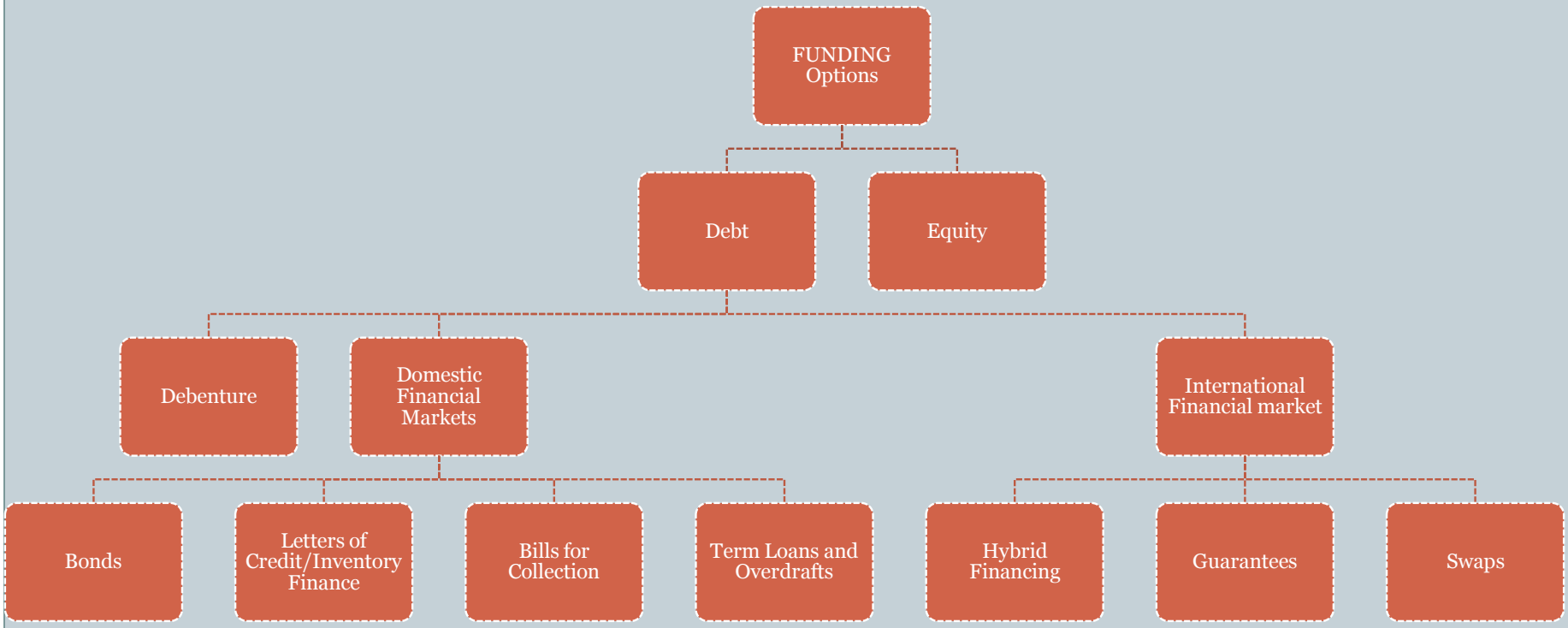
Past sources of financing

S/N	Project	Source of Finance
1	Old PH Refinery	Shell
2	Warri Refinery and Petro-Chemical Plant	Credito-Italiano, EXIM, FGN
3	Kaduna Refinery and Petrochemical Plant	Jexim, World Bank, FGN, Murubeni
4	New PH Refinery	BFCE Credit Lyonnaise, FGN
5	Nigeria Liquefied Natural Gas Plant	NNPC, Shell , Elf, Agip
6	Nigerian Gas Pipeline	World Bank, FGN
7	Marketing Companies	Marketer's Parent Coys, Fed Govt and Capital Market
8	Retail Outlets	Nigeria Capital Market, Oil Producing Companies

Financing Options

- Foreign Loans through foreign development banks and credit institutions e.g. Warri, PH, Kaduna, Eleme Petrochemicals Refineries(JEXIM, EXIM(Contractor countries) EPC, NNPC(Borrower), FGN (Guarantor)
- Project Financing Arrangements (Equity + Cash flow = Repayment)
- Core investors equity and loan contribution (NLNG project. NNPC 49%, Shell 25.6%, Elf 15% and AGIP 10.4% + Loan contributions in similar proportions
- Stock exchange capital market operations: Retail Outlets Expansion
- Domestic long term bank loan: SME, Loan syndication, CBN (insecticides, plastics, acids, jellies, greases)
- Supplier's credit management
- Working capital bank loans/overdraft/Trade Finance/IFF
- Other non conventional financing options: JVs, PSC

Financing Options.....Cont'd



Being largely a market-driven sector, all cost implications of these options affect the prices of products.

Financing challenges

- **Global**

  - Global financial crisis is precipitating economic recession

  - Political crisis slowed-down growth in oil rich countries creating demand and supply gap for oil

  - Massive withdrawal of direct portfolio investment from emerging markets

  - Prime lending rate at record lows

    - US Fed funds @ 0.25%
    - UK base Rate @ 0.5%
    - Although our CBN MPR was recently raised to 12%

Challenges cont'd

- **Country**
  - Credit ratings / Issuer Default ratings (IDR) Nigeria BB+
  - Socio-political environment
  - Economic policies / ever-changing government policies
  - Regulation vs Free market
  - Balance of Trade
  - Multiple layers of taxation:
    - *Between countries*
    - *Among levels of government*

Challenges cont'd

- **Sector Driven**
  - Inadequate funding capacity of local financial institutions
  - Inadequate securities/collateral for loans
  - Low Credit ratings of Oil companies
  - Low credibility ratings i.e. High default rate
  - Poor Credit Management Record
  - Decline in Financing and Accounting Knowledge

Risk

- Risk is simply *the effect of uncertainty on objectives.* (ISO 31000:2009 *Risk Management Principles and Guidelines*)

Associated Risks in Petroleum product financing

- **Price Risk** – changes in market prices. Ripple effect from crude prices
- **Foreign Exchange Risk** – Adverse currency movements
- **Performance Risk / Credit Risk –** e.g., non-performance by counter party
- **Operational Risk** – delays, demurrage, off-spec cargo, rogue trading, keypunch errors, etc
- **Market Risk** – competition among rival companies which could change local market projections
- **Monetary Policy Risk** (interest rate) – incessant increase in interest rate and other monetary policy
- **Country Risk** as mentioned earlier – political unrest, changing government policies, etc

Managing the Risks

- Risk management is the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events.[1]

1. Hubbard, Douglas (2009). The Failure of Risk Management: Why It's Broken and How to Fix It. John Wiley & Sons. p. 46.

Managing the Risks cont'd

We can typically respond to risks in 4 broad ways:

- RISK TRANSFER: Transfer of risk to a third party via contractual agreements. Risk management should be involved in Contract negotiations particularly by indemnity exclusion and limitation clauses.
- Risk Retention: To retain as much risk as the organization can afford. The practice in the industry varies with companies; while some decide to retain as little as 10% others may go as far 25% of their portfolio leaving the rest for insurance. Though usually not in favor of insurance companies.
- Price Fluctuation : We can try to protect ourselves against the risk by hedging. Hedging may be through mechanisms such as Options, Swaps, insurance, etc.
- Weighted Risk: We can intentionally increase our exposure to some risks because we envisage it may create a significant advantage over competitors e.g. expanding the business into high-risk ventures that will increase our market share.

In summary.....

- Downstream - generally covers all activities undertaken to process oil and gas after the exploration and production Stage.
- Past Sources of funding and Financing Options
- Issues surrounding accessing financing which include: Global, Sector driven and Country challenges and way out
- Risks and Managing these risks

End of presentation

- Thank you

- Q & A

THE Nigerian STOCK EXCHANGE

RC: 2321

QUOTED TRADING AND IPO PROSPECTS FOR OIL MARKETING

Presented by

Taba Peterside

GM/ Head, Listings Sales & Retention, The Nigerian Stock Exchange

To the

OTL Africa Downstream Expo 2011

International Conference Centre, Abuja, Nigeria

November 3, 2011

Outline

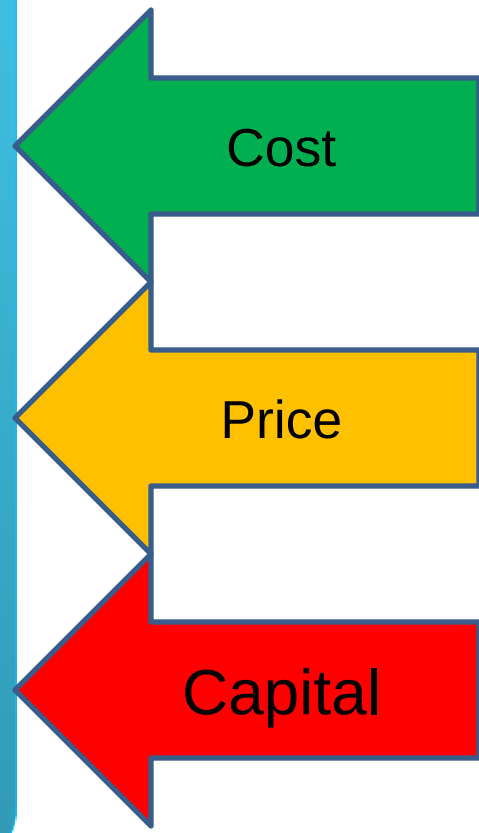
THE Nigerian STOCK EXCHANGE
RC: 2321

- Introduction: Oil Marketing in Nigeria - Highlights
- NSE: Vision, Advantage, Initiatives
- Benefits of Listing
- Sector Performance of Listed Oil Marketers
- Steps to Actualization: Pre IPO Activities

Introduction

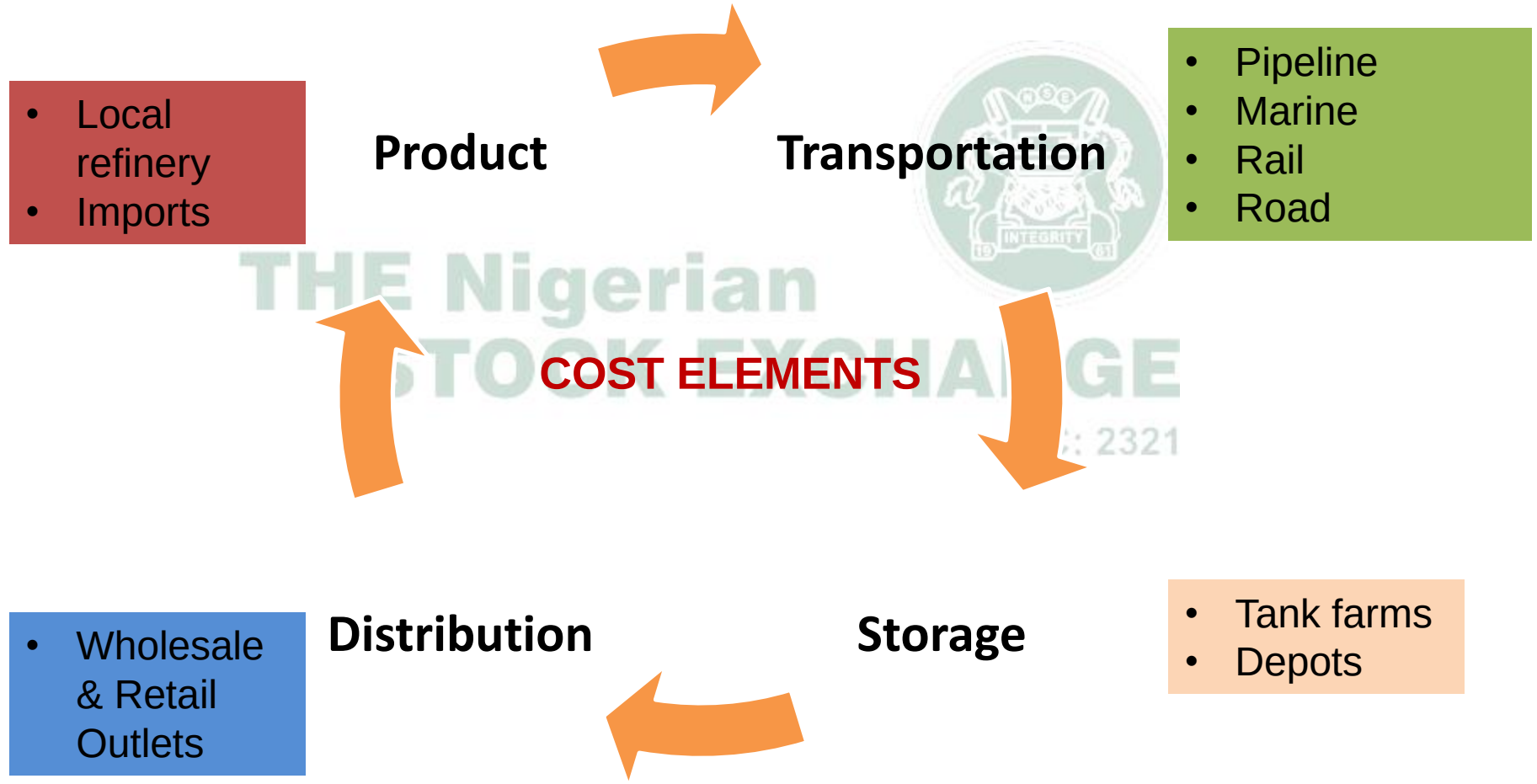
Facts

- All sectors of the economy can benefit from an efficiently managed downstream oil sector that delivers petroleum products in the quantity and at the quality required at the least cost
- Effective competition is deterred if a relatively small number of firms account for a relatively large share of the market
- Ensuring sufficient fuel stocks is vital in protecting against supply disruptions and sufficient storage capacity is a critical factor which is very expensive

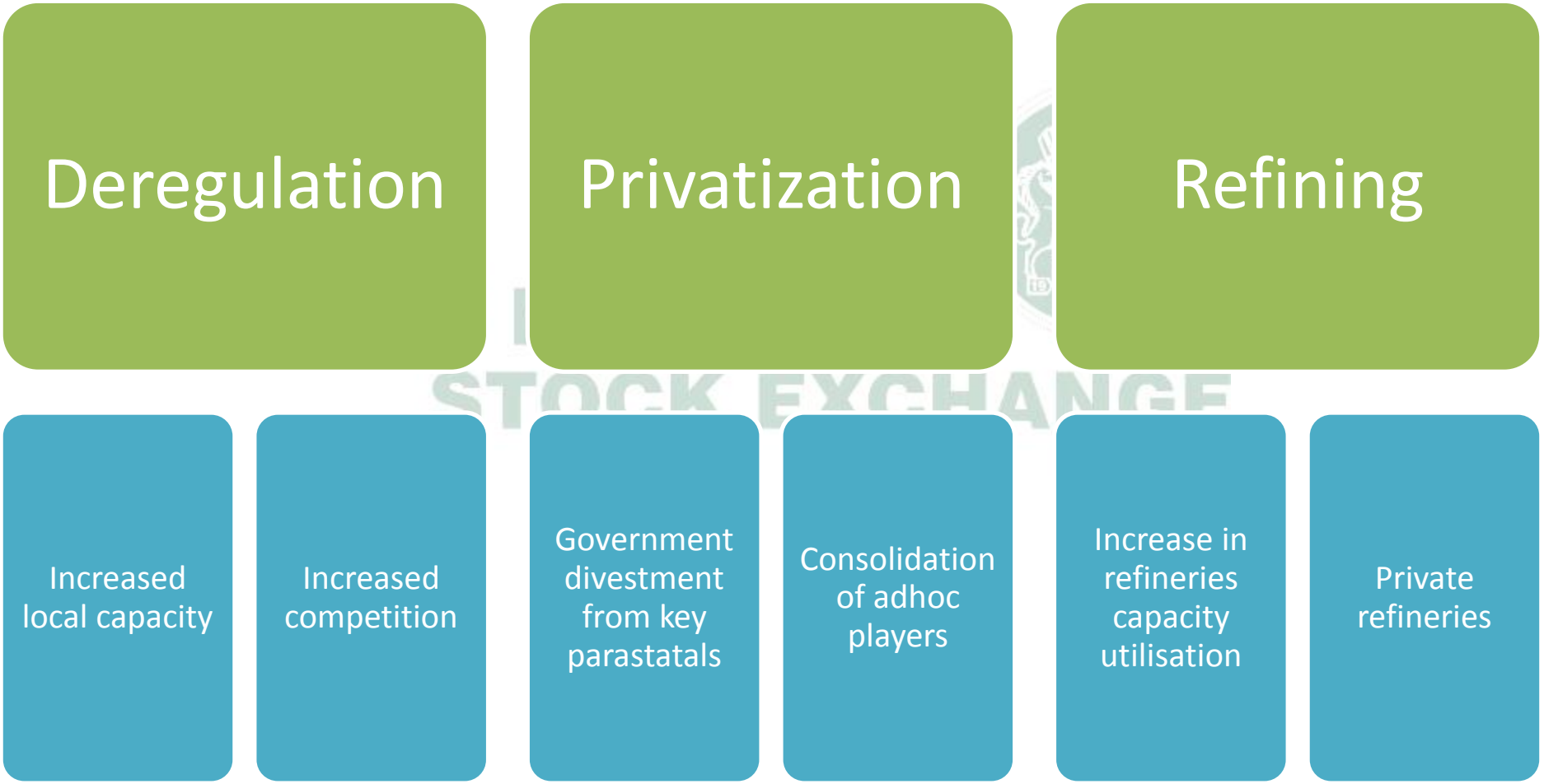


Introduction: Oil Marketing in Nigeria

Energy downstream companies need to deploy huge capital in their operations to contain costs, remain flexible and improve margins

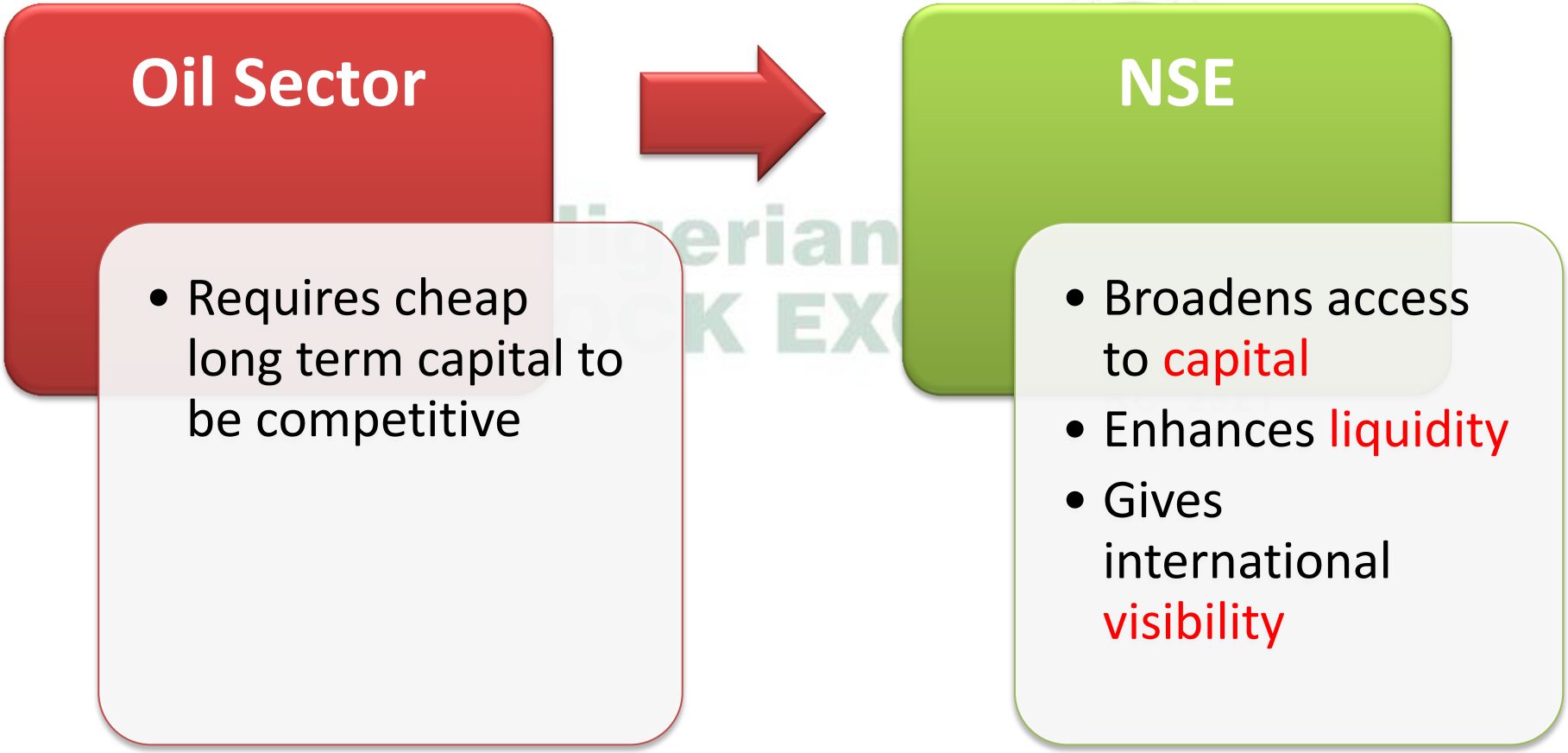


Future Sector Outlook



Mitigating Capital Challenges - Role of NSE

The NSE plays a complimentary role in helping the oil marketing sector meet their desired results



The NSE's Vision

"To be the leading Stock Exchange in the African region for capital formation, driven by transparency, innovation, efficiency and liquidity."

To become the gateway to African Markets.

The NSE Advantage

Quantitative

- Over 200 listed companies numbering several global brands in diverse sectors
- Highly competitive tax regime for investors- zero capital gains tax; 10% withholding tax on dividends
- Nearly 5 million registered shareholders
- Widely tracked all share and sectoral indices

Qualitative

- Compliance standards that ensure listed companies conform to global best practices
- Fully electronic trading, clearing and settlement systems
- Current product bouquet of fixed income and equities is being expanded to include Exchange Traded Funds, Options, and Futures
- Best-in-class services and the expertise to assist companies to raise capital speedily and efficiently

Broad Based Initiatives

Broad Based Initiatives contd.

Regulation

- Tailored Best -in-Class Service for Issuers and Broker-Dealers
- Attention to Rules and Interpretations for Market Participants
- Surveillance Automation (Conduct, Controls, Systems, etc.) , e.g., SMARTS

Regulatory Program

- Better Coordination with Other Regulators
- Compliance via Enforcement (Disclosures, Financial Reporting, Forecasts)
- Eradication of Insider Trading, Market Manipulation and Issuing of False Statements

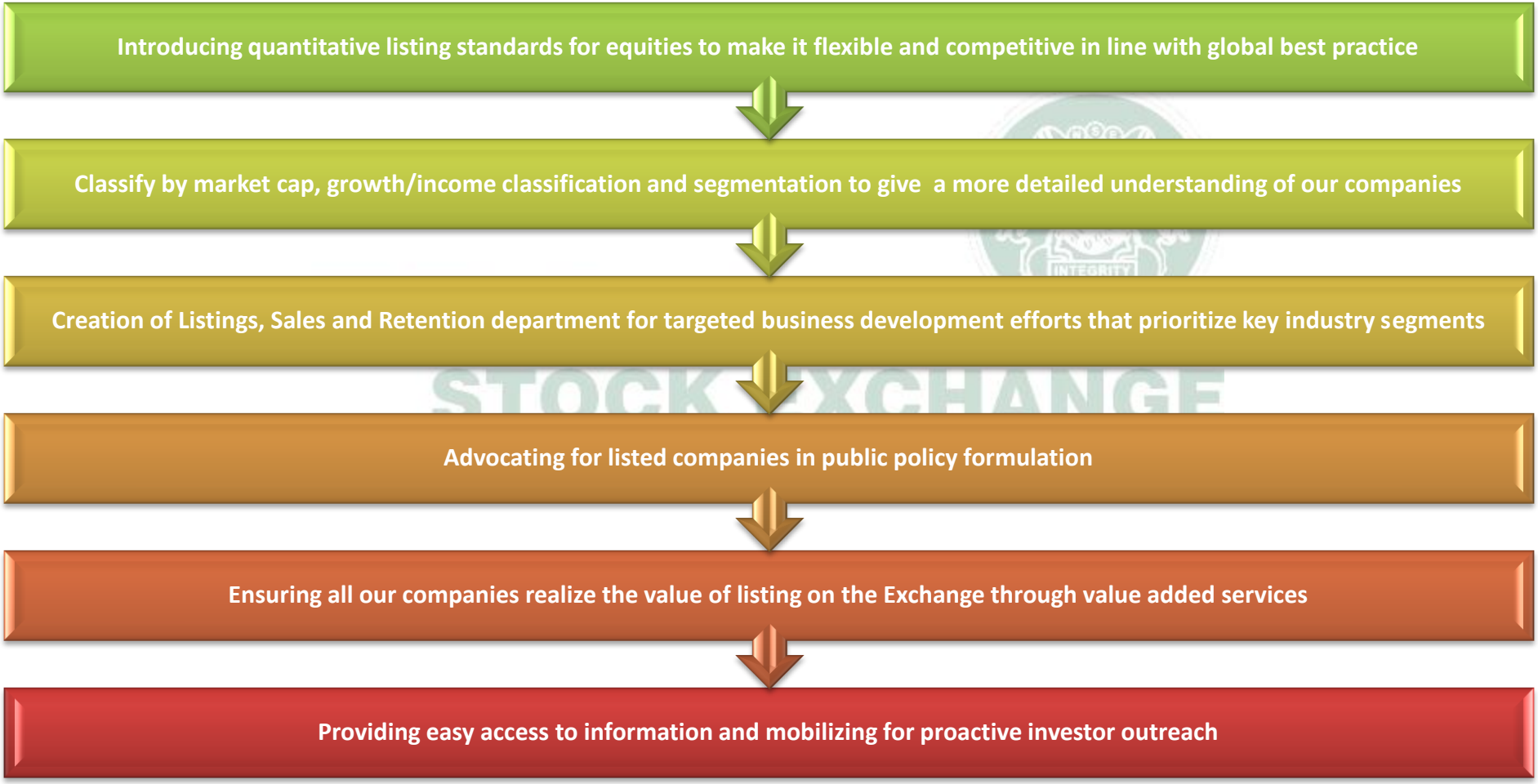
Investor Protection

- Reconstitution of Board of Trustees of Investor Protection Fund (N597m)
- Trade Guarantee Fund
- Additional Support by the SEC's Establishment of a Similar Fund

Market Structure

- Market Making and Securities Lending, and Development of a Short Selling Program
- Consideration of an Increase in the 5% Band to 10% with an Intraday Auction at the 5% Mark
- Sponsored Access, Opening/Closing Auctions, etc.

Positioning for the Future

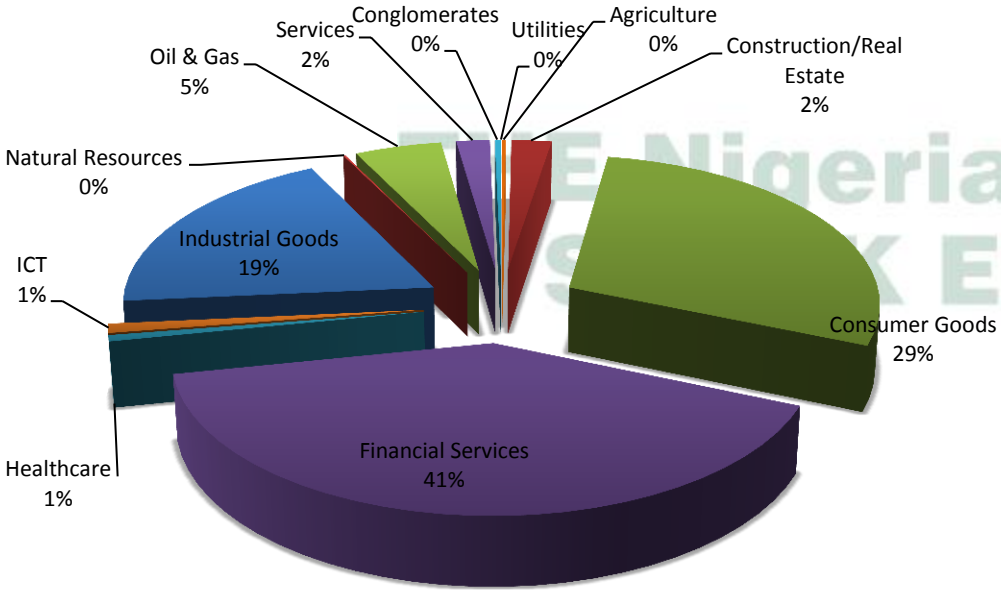


Transforming for Excellence

Our Markets Cover Blue Chip & Growth Companies

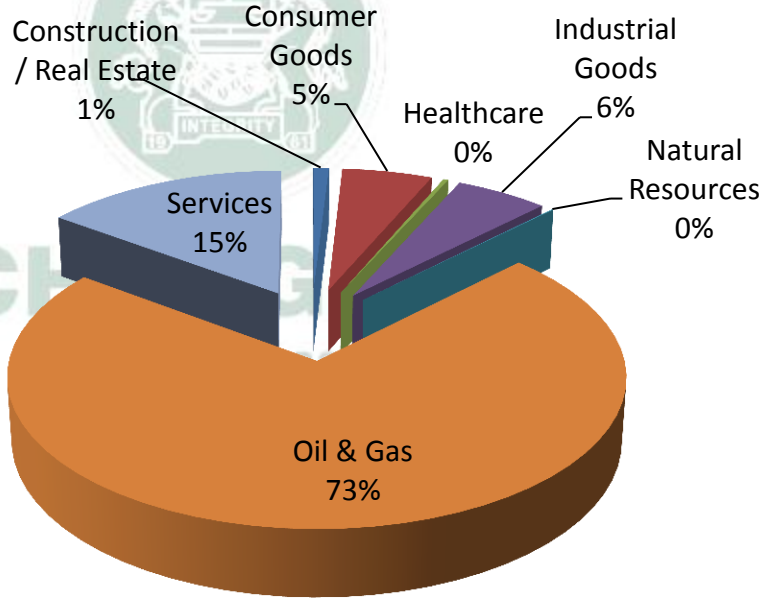
Main Board

- **The Gateway to African markets for Blue Chip issuers in search of capital in Africa**
- **193 Quoted Companies spanning multiple sectors of the economy**
- **$42.75bn market capitalisation as at 22/09/11**



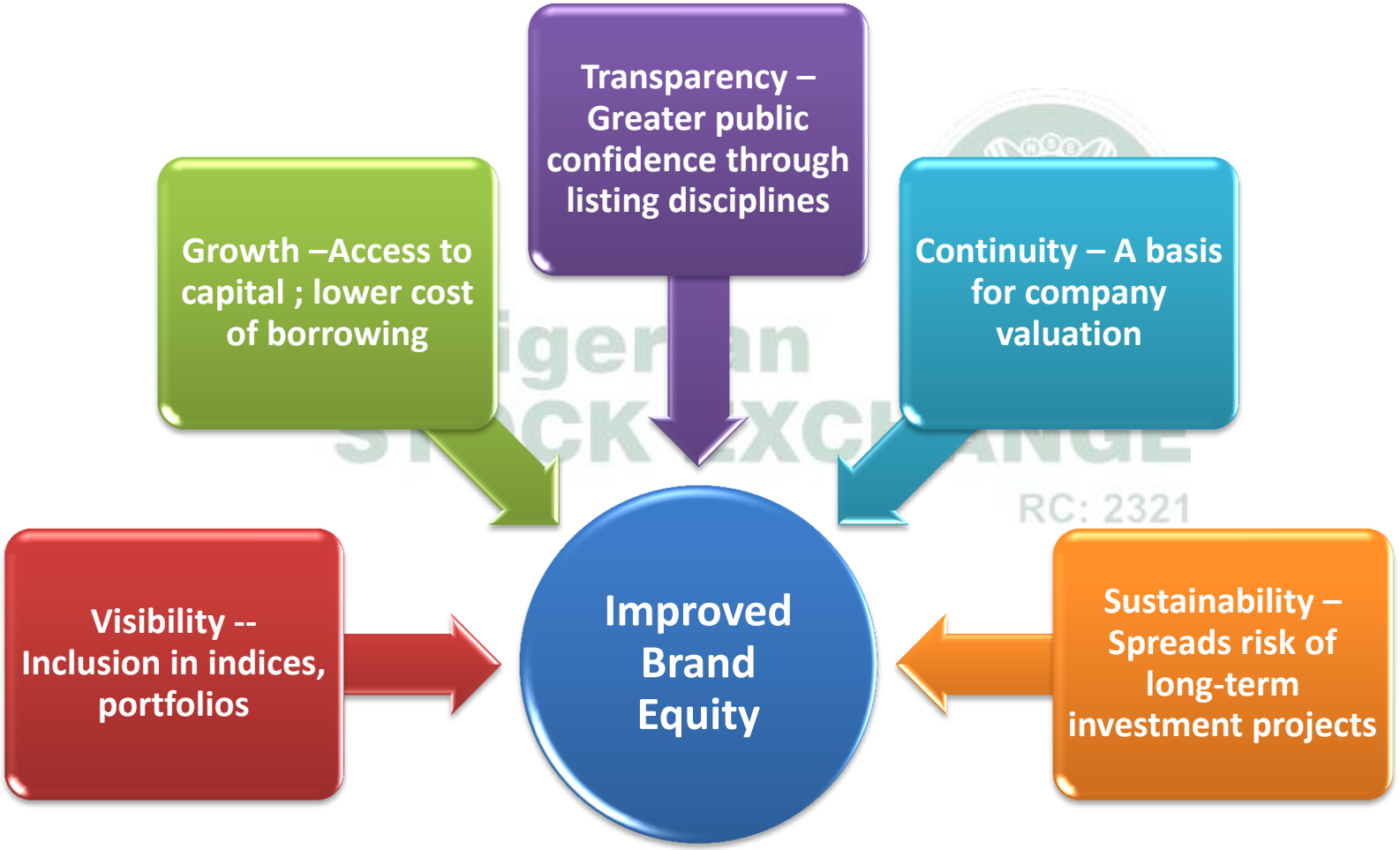
ASeM

- **Platform to drive growth and development of SMEs through long term capital injection and sound corporate governance.**
- **12 Quoted Companies spanning multiple sectors of the economy**
- **$26.55mn market capitalisation as at 22/09/11**



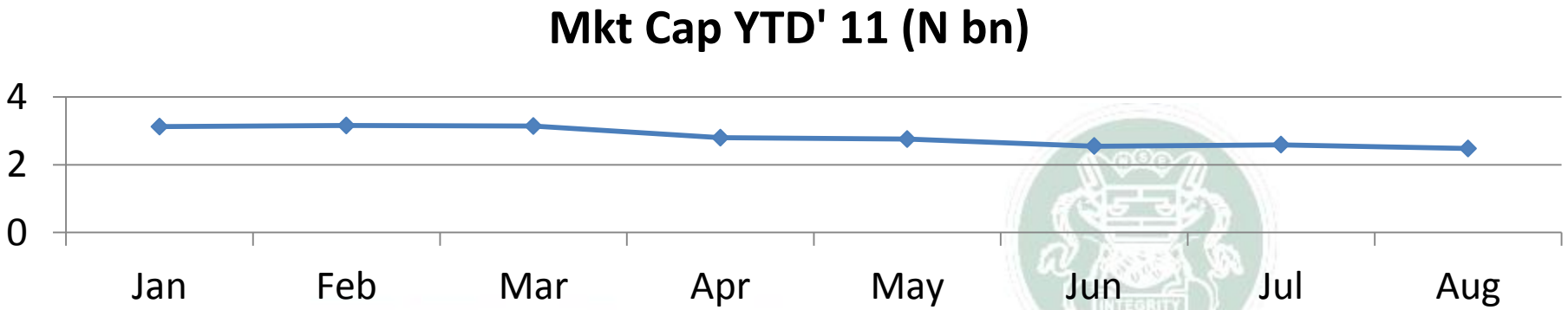
Aligned with the Nigerian economy which is growing at over 7% per year

Benefits of Listing



Oil Marketing Sector Performance

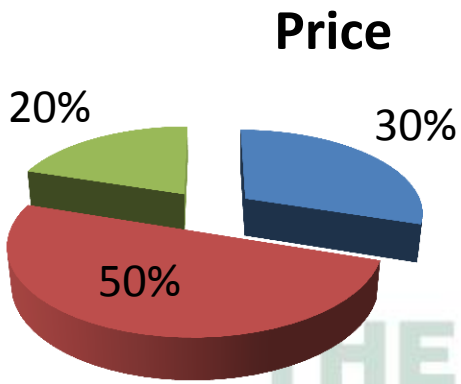
History of strong and stable positive index for sector



Criteria

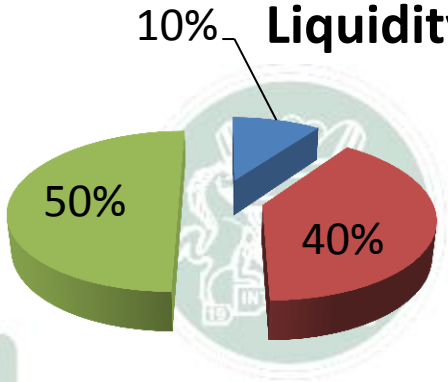
	CLASSIFICATION - MARKET CAPITALISATION
Large	Above $1 Billion
Medium	Between $150m and $1.00 Billion
Small	Below $150m
	CLASSIFICATION - LIQUIDITY
Liquid	Above 70% of tradable days, Volume Traded/No of shares in Issue > 5% and Average Value Traded per day > N5M
Less Liquid	Between 30% and 70% of tradable days, Volume Traded/No of shares in Issue between 4.99% and 1% and Average Value per day between N4.99M and N1.0M
Illiquid	Below 30% of tradable days, Volume Traded/No of shares in Issue < 1% and Average Value Traded per day < N1M
	CLASSIFICATION - PRICE
High	Above N100.00
Medium	Between N5.00 and N99.99
Low	Below N5.00

Sector Trading Classification



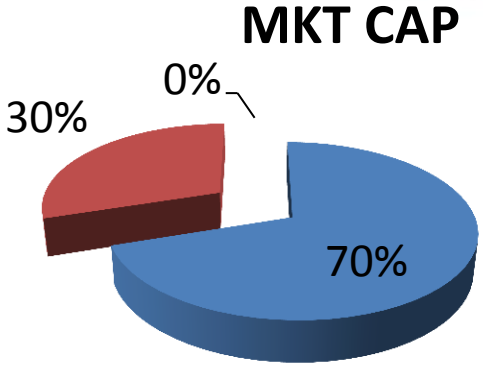
70% of companies in medium/ high priced segment

Low
Medium
High



90% of companies in sector liquid

Illiquid
Less Liquid
Liquid



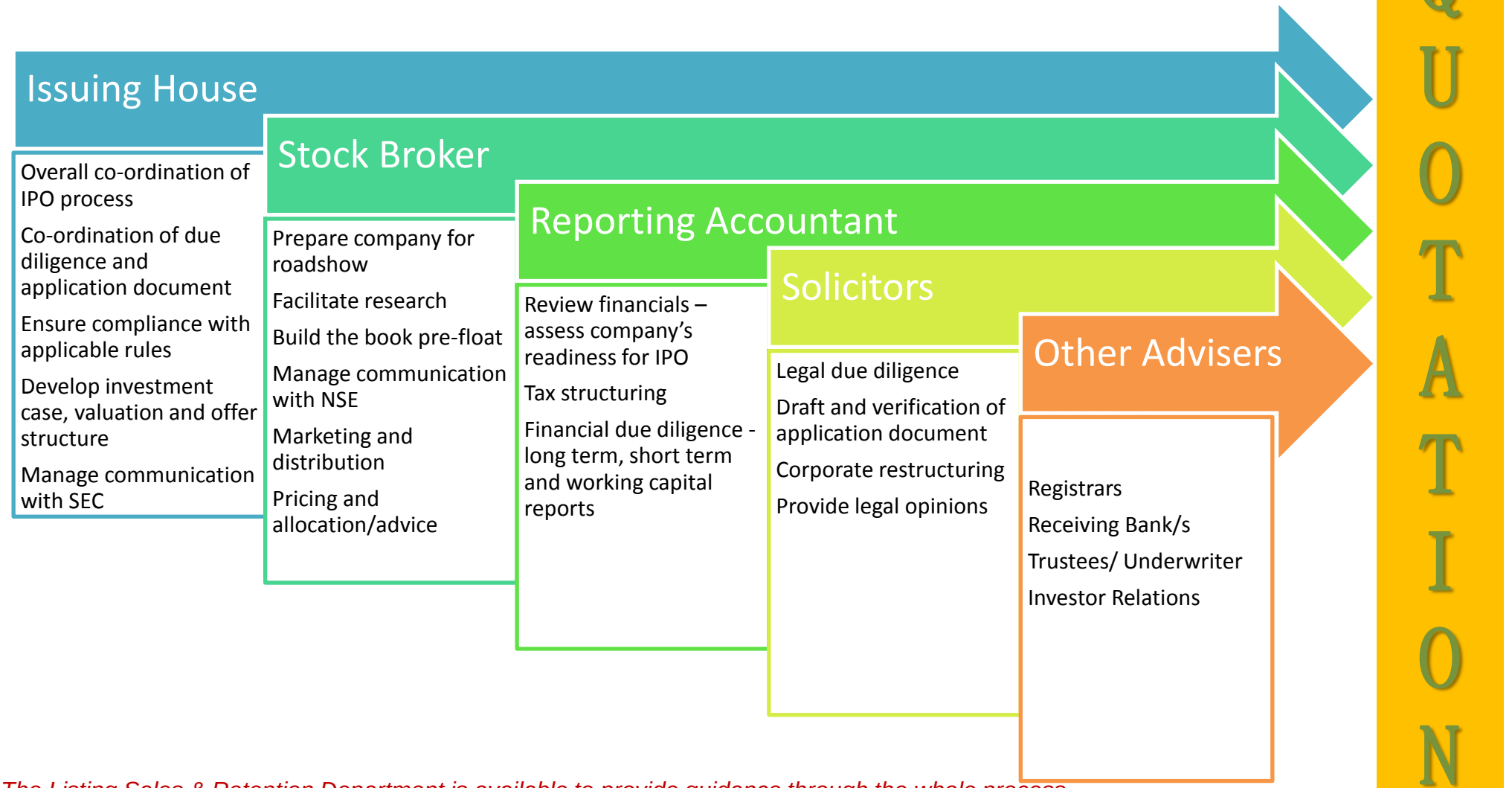
Companies in sector are predominantly small to mid cap

Small
Mid
Large

Period	Deals	Quantity	Value
QTR 1	18,298	256.59m	12.4b
QTR 2	30,445	453.48m	19.7b
QTR 3	57,696	720.56m	38.6b

Sector easily understood by the investing populace thus its relatively still buoyant in spite of market down turn

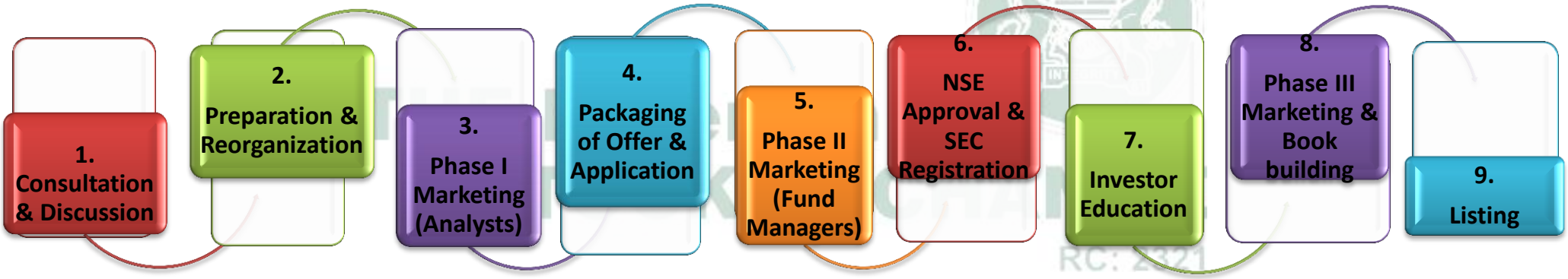
Pre IPO Guide – Parties & Responsibilities



The Listing Sales & Retention Department is available to provide guidance through the whole process

Steps to Actualization – Summary

The listing process requires adequate preparation and consultation by the issuer. Below is a snapshot of the activities within the issuing company that makes up the process.



The Listing Sales & Retention Department is available to provide guidance through the whole process

Conclusion

- The Oil Marketing Sector is on the brink of major transformation that will require long term capital injection.
- The NSE is poised to support this sector actively in line with our priority focus on under-represented sectors which are drivers of the economy.

- Agriculture: 40% of GDP, 0.3% of market cap*
- Oil & Gas: 15.9% of GDP, 4% of market cap*
- Power: 7.9%of GDP, 0% of market cap*
- Telecoms: 4.5% of GDP, 0.7% of market cap*

*Average market capitalization June 2010 to May 2011

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Thank You

OTL AFRICAN DOWNSTREAM 2011

Topic:

Petroleum Retail and the Customer King

Presented by

Alhaji Aminu Abdulkadir,

IPMAN National President

- **History of Retailing:**
  - Retailing before 1979 was mainly done by the major marketers. BP etc.
  - Independent Marketer came on Board in 1979 complementing Major marketers.
- **Petroleum Products Retailing:**
  - Direct distribution of petroleum products to consumer.
  - Selling at government regulated prices. PMS ₦65, DPK "₦50". AGO (fully deregulated)
- **Product Supply to Marketers:**
  - Supply of premium motor spirit, PMS to marketers for retailing it adequate.
  - NNPC/Government got supply succor due to PMS importation by marketers under PSF scheme.
  - Selling prices by private importers to marketers for retailing in some cases are cheaper for petrol.
  - Government/NNPC has the monopoly of DPK (Kero) supply for retailing.
  - DPK Supply to independent Marketer is not adequate
  - Marketer should be permitted to import DPK for the subsidy to reach the masses (supply/demand factor)

IPMAN

QTL AFRICA DOWNSTREAM EXPO

PROFITABILITY/CHALLENGES IN RETAILING:

- ¬ Profit is thin
- ¬ High Cost of operations
- ¬ Epileptic power supply
- ¬ High cost of Diesel
- ¬ Multiple taxation by state, local government etc.
- ¬ More entrants/proliferation of filling stations. (Some share fence)
- ¬ Competition
- ¬ Insurance.

CUSTOMER IS KING:

- ¬ More entrants into retailing have made marketers to sit tight in serving customers.
- ¬ Attendants Comportment/Customers relations.
- ¬ Filling stations outlook attract customers.
- ¬ Free services e.g. free air service for customer vehicle.
- ¬ Accuracy of dispensing pumps attracts customers.

- **Conclusion:**

  Petroleum product retailing is characterized with adequate products supply for PMS which is being sold at regulated price of N65 per litre while AGO price is between N130 – N145 per litre across the country. DPK subsidized price of N50 may continue to be elusive to consumers unless it is open up for importation by private Importers/marketers under petroleum support fund (PSF).

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