ANNUAL REVIEW

Oil & Gas 2015

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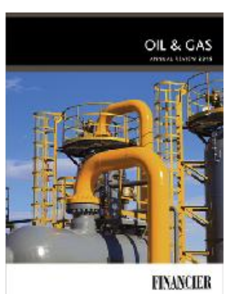

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As has been well documented, the oil & gas market has experienced a tumultuous 12 months. The recent and rapid decline in oil & gas prices has had a significant impact on the sector globally. Indeed, the economic turmoil caused by the tumbling price of oil has created a

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great degree of volatility in the sector as a whole. Since the price drop began in mid-2014, there has been a substantial shift in the oil & gas space; from insolvencies to big ticket M&A transactions, the shape of the sector has been changed irrevocably.

UNITED STATES

Robert A. James

Pillsbury Winthrop Shaw Pittman LLP

"Hydrocarbon prices have fallen before, but notable from the US standpoint are the diverse sources of the current economics. On the supply side, US production has grown so large and efficient that reductions in rig counts to a five-year low have not resulted in production declines until quite recently. On the demand side, the US and other Western economies have shifted toward more efficient uses of cleaner sources, and even Chinese growth is now focused more on consumer spending than on energy-intensive projects. The OPEC members that previously functioned as swing producers have lost some of their clout or have elected not to intervene. The takeaway is that there is no single factor – such as recovery of demand after 2008 – that could be expected to arrest or reverse the impact of the others."

MEXICO

Edmond Frederic Grieger

Von Wobeser & Sierra

"In December 2013, Mexican Congress approved an historic energy bill ending a 75 year state monopoly in the energy sector. The main objective of this bill was to open the doors for the private sector to participate in the oil & gas sector under a freer and transparent legal framework. The reform also sought to regulate the hydrocarbon and electricity industry, providing a new legal regime for Petroleos Mexicanos (PEMEX) and the Federal Electricity Commission (CFE), and give rise to a new chapter in the country's energy sector. In this respect, the sector would transition from a system of nationalism with fierce governmental control over energy resources to a scheme being very close to a free market."

UNITED KINGDOM

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"A lot has happened in the past 18 months. At the end of 2013, the oil price was still at $120 and had been steady for a considerable period of time. The UK Continental Shelf (UKCS) had been 'booming' for a number of years, resulting in a lack of resource – particularly personnel – and severe cost escalation. 2014 was a tumultuous year, seeing the publication of the Wood Review into Maximising Economic Recovery on the UKCS, the Scottish independence referendum, a significant and sustained drop in oil price towards the end of the year and a fiscal review into oil & gas taxation. 2015 has seen further fiscal changes introduced in the recent pre-election budget, oil prices remaining at $50-$60 per barrel, and the establishment of a new regulator – the Oil and Gas Authority – which was officially launched on 1 April. This year has also seen a wave of redundancies affecting both operators and the service sector as they struggle to control costs."

ITALY

Rosella Antonucci

Legance – Avvocati Associati

"Despite the strong growth in renewable energy generation, Italian primary energy consumption is still highly dependent on fossil fuels. Oil products still represent the largest share of energy consumption supplying most of the domestic transport sector's demand. Natural gas provides about 32 percent, supplying industry, power and residential/tertiary sectors' energy demand. The share of coal and solid fuels represents less than 10 percent of domestic consumption. Consumption of oil products continued its long-term declining trend, dropping by about 5 percent, although the first signs of recovery can be detected from increased consumption of diesel, jet fuel and asphalts."

UKRAINE

Oleksiy Feliv

Gide Loyrette Nouel

"The oil & gas sector was heavily affected by the annexation of Crimea, the conflict in the Donbass and as a result, disputes with Russian Gazprom over the gas supply to Ukraine. This pushed the government, for the first time in modern Ukrainian history, to diversify the country's gas supply through reverse flow from the EU countries. The government has also moved to reform not only Naftogaz, but also the country's coal industry. Moves have also been made to significantly increase consumer prices and reshape the entire energy sector."

CHINA & HONG KONG

Vivien Yang

Simmons & Simmons

"With the dramatic fall in oil prices since June 2014, we have seen an overall slowdown in exploration and production activities with an increase in M&A activities. The increased M&A appetite seems to have come mostly from smaller players, such as Chinese private or provincially-owned oil and gas companies. Indian state-owned companies are also playing an important role in maintaining the level of global oil & gas M&A activity, while Chinese national oil companies (NOCs) significantly reduced their investment in new, large-scale oil and gas projects both at home and abroad, mostly due to their desire to reposition themselves to focus on returns on investment."

SINGAPORE

Justin Tan

Clyde & Co Clasis Singapore Pte Ltd

"Many countries in Southeast Asia produce significant amounts of crude oil and natural gas, with Singapore a major player in the downstream energy sector and a regional LNG centre of growing importance. The key distinguishing factor of the Southeast Asian region is the fact that most of these countries are relatively stable politically and have fast-growing economies that have continuous year-on-year growing energy needs. With fast-growing energy demand coupled with heavy government direct and indirect involvement in securing energy supplies, oil and gas exploration, production and distribution as well as downstream energy markets, the story has been that of continued investment and growth, particularly by state-owned or state-linked oil and gas production and distribution players that are in the region for the long haul."

UZBEKISTAN

Umid Aripdjanov

Colibri Law Firm

"The government of Uzbekistan has promoted the construction and financing of petrochemical facilities in an effort to diversify the economy and shift the focus of exports from exporting raw materials. In order to address growing oil consumption, Uzbekistan plans to gradually reduce its oil imports by converting natural gas into other hydrocarbon products such as diesel, kerosene and LPG. Furthermore, the withdrawal of Malaysian Petronas Carigali from all existing petroleum upstream projects in Uzbekistan, including its withdrawal from the Baisun Production Sharing Agreement, Surkhanski Production Sharing Agreement and Urga Production Sharing Agreement, has had a major impact. The company also opted out of the investors' consortium operating under the Aral Sea Production Sharing Agreement."

SOUTH AFRICA

Roy Waligora

KPMG

"In South Africa, developments in the oil & gas sector are presenting local industry with certain challenges. First and foremost is the energy crisis – public interest in energy is at unprecedented levels given the power crisis in South Africa. Eskom, the national power and utility company, and the South African government have acknowledged that due to various factors, the electricity network will be under severe capacity constraints for the foreseeable future. To manage the grid, Eskom has implemented structured power outages or 'loadshedding' that is negatively impacting daily life and crimping the country's economic growth. Loadshedding has shined a spotlight on diesel supply required to run power stations and the price being paid for diesel by Eskom. There has also been a lot of excitement about the potential for shale gas for South Africa with much public debate between the exploration companies and environmental groups over the impact this may have in the environmentally sensitive area of the Karoo."

GHANA

Atsu Agbemabiase

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"The oil & gas sector over the past 12-18 months has seen the beginning of the production of gas locally by the Ghana Gas Company at Atuabo. The production of gas at Atuabo is meant to be used to feed Ghana's thermal plants for electricity or power production. Some of the gas is also meant to be used locally for domestic purposes. There has also been ongoing exploration works by Tullow and its partners on the newly discovered TEN fields. The TEN fields have been and continue to be the subject of an ongoing boundary dispute between Ghana and the Ivory Coast. The case is currently before the International Tribunal of the Law of the Sea (ITLOS)."