

Helping energy companies succeed

PwC's Africa oil and gas capabilities

*Creating a distinctive
experience for our oil & gas
clients.*







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Introduction

Focus on Africa



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Africa is home to a significant portion of the world's untapped energy resources. The question is when and how much to invest in potential—and where.

Companies like yours are facing an increasingly complex environment in Africa, with changing investment drivers. Tightening regulatory requirements aimed at increasing the 'take' of Governments, a shortage of skilled labour, general rising costs and higher stakeholder expectations are common features across the continent. In the face of these risks and challenges there are enormous opportunities and potential which help companies to 'Focus on Africa'.

Opportunities on the horizon

The traditional resource powerhouses of Egypt, Libya and Algeria have recently experienced profound political upheaval with some semblance of calm now returning. Nigeria and Angola are continuing to grow in oil wealth and prominence.

But of more significance is the fact that countries such as Mozambique, Tanzania and Ghana are becoming more influential. Recent global trends such as shale oil may revolutionise the world's energy markets over the next 20 years, resulting in lower oil prices, higher global GDP, a changing geopolitical landscape and shifting business models for oil and gas companies.

For the most part, the oil and gas industry has weathered the global economic crisis well. Reduced access to

liquidity has meant a greater reliance on cash reserves and cost containment, and continued investments from the likes of China, India and Brazil have resulted in increased discoveries and production even though costs are rising.

Oil and gas companies are expecting acreage/license acquisition costs to increase. The race to secure sufficient supply is expected to fuel very competitive bidding for the next round of licenses in African markets.

Mozambique and Gabon have had bidding rounds in 2013 and 2012, respectively, and Namibia issued licences in 2010. Others such as Kenya, Algeria, Equatorial Guinea and Uganda are expected to do so in the coming years.

At the same time, infrastructural development and access to basic services like electricity are more important than ever as African economies develop and grow. The timeframe for realising gains on investments in energy-intensive infrastructure is longer, but there is vast potential nonetheless.

What factors are driving investment in oil and gas?

Oil and gas companies are driven by demand, but the landscape is shifting as growing economies like India and China not only require more resources

Increasingly, Africa is seen as an area of exploration and development

to fuel their economies but are also making significant investments or commitments across Africa to secure access to resources.

This, coupled with a changing energy demand profile among developed nations like the US, is impacting the geopolitical outlook.

New oil and gas finds in countries like Libya, Uganda, Angola and Ghana and gas discoveries or expansion in Mozambique and Tanzania are also changing the investment profile of Africa as a region. Increasingly, Africa is seen as an area of exploration and development.

Global oil and gas prices and growing demand for commodities are fuelling investment. But price alone is not the only investment driver. Regulatory compliance and scarcity also play a role. Companies must weigh the cost of compliance with local regulations as well as international requirements against the scarcity of resources, demand and the challenges in extracting them.

Looking ahead, companies are investing in securing greater exploration or acquiring greater acreage, followed by securing supplies. Some companies are also acquiring speculative licenses and exploration rights with the sole aim of selling the rights on for a substantial profit.

PwC is a leading advisor to the global energy industry and works with every segment of the business in Africa—from upstream to midstream to downstream—to provide business solutions tailored to meet your needs. We look forward to the opportunity to work with you, and I hope you will find the following statement of our capabilities useful.



Our practice in Africa

We know that value goes beyond a single engagement or a single result. Value is defined by a relationship—one that is born of an intelligent, engaged, highly collaborative process.

With our African network, our people and experience, we are ready and able to help you achieve that value, wherever you do business.

In Sub-Saharan Africa, we're the largest provider of professional services with offices in 26 countries and close to 8,000 people. This enables us to provide our clients with seamless and consistent service, wherever they're located on the continent.

Our in-depth knowledge and understanding of African operating environments allows us to put

ourselves in our clients' shoes and offer truly tailored Tax, Assurance and Advisory services to unique business challenges.

Realising the attractiveness of the continent as an investment destination, we have a dedicated Africa Desk that provides assistance to organisations looking to expand their presence here.

PwC Global Energy Centres



An African footprint

Our offices are located in the following countries:



Sub-Saharan Africa

East Market Area

Kenya, Mauritius, Rwanda, Tanzania, Uganda and Zambia

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West Market Area

Angola, Ghana and Nigeria

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South Market Area

Botswana, Malawi, Mozambique, Namibia, South Africa, Swaziland and Zimbabwe

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Francophone Africa and Middle East

Francophone Africa Sub-Saharan

Cameroon, Chad, Cote d'Ivoire, Democratic Republic of Congo, Equatorial Guinea, Gabon, Madagascar, Republic of Congo, Republic of Guinea and Senegal

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Middle East

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Why PwC: Value and relationships





We are committed to providing world-class solutions that deliver value for our oil and gas clients.

We know that your challenges are unique in each of your markets. We have the in-country and industry-specific know-how to help you navigate through Africa's unique oil and gas challenges.

That's why we're a centre of excellence for the industry in Africa.

At a glance

PwC is at the heart of industry change. We have worked and continue to work with companies, regulators and governments on many of the big developments affecting the sector in Africa. Our core competencies include:

- Living and breathing the sector and understanding your issues so we

can respond to your priorities

- Tapping a resource base of over 5,300 industry-dedicated professionals located in strategic energy centres worldwide
- Delivering a single PwC global quality standard, giving you the assurance of local market insight matched with worldwide professionalism and rigour
- Listening to you and continuously building your feedback into our work
- Earning your trust through our best-in-class independence standards



As we work with energy companies in Africa, the enthusiasm surrounding oil and gas opportunities comes through very clearly. Recent significant finds in Mozambique and Ghana continue to fuel a flurry of exploration activity across Africa.

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Our Services

Our Tax services

Our tax professionals solve challenging issues, anticipate changes that can impact your tax situation and financial statements and keep you apprised of tax issues relevant to your company's operations.

We can help you through a variety of solutions:

- International tax services
- Transfer pricing
- Mergers and acquisitions
- Indirect taxes (including VAT, Customs and Excise)
- Human Resources Services (including International Assignees Services)
- Tax Management and Accounting Services (including Corporate Tax Compliance, Accounting, Payroll and related services, as well as Tax Function Effectiveness)

Case study: Halliburton

Halliburton is one of the world's largest providers of products and services to the energy industry. For the company's Angola operations, we provided tax compliance services and advisory services including corporate income tax returns preparation, tax inspections support and tax assistance on liquidation. We also offered experience and knowledge about the Angolan tax environment and timely updates on tax law.

The scope of the engagement was challenging and we managed its complexity by building a productive and friendly relationship with Halliburton staff, putting their needs first, looking at the situation from their perspective and sharing and collaborating with them at every opportunity.

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Tax regulatory issues are top of mind for oil and gas companies operating in Africa. Our tax services focus on helping our clients understand local tax regimes, and develop tax strategies for all of the various taxes that come into play. Energy clients engage us because we combine a strong understanding of their business and economic environments with specialist tax knowledge in Africa's national and local jurisdictions.



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The oil and gas sector is growing rapidly in Africa. For example, our tax team has earned a solid reputation among oil and gas contractors and subcontractors in Ghana and throughout the region for providing sound tax advice. Our team's journey of remarkable growth started with tax advice provided to a large, international oil exploration and production corporation.

The quality of this advice led to an introduction with Tullow Oil plc, a global oil and gas exploration company. Both companies have benefitted from our access to various rulings, experience with tax authorities and superior industry expertise. Our tax team now conducts approximately 80% of all tax work for the oil industry in Ghana.

Our Assurance services

We audit energy companies of all sizes throughout the value chain, including national oil companies, international oil companies, public and private oil companies. We understand that energy companies need audit teams to understand their issues and business challenges when analysing their financial performance. That's why our professionals attend both internal and external industry events and training which provide us with deep knowledge of important issues impacting our clients.

We can help you through a variety of solutions:

- Financial statement audit
- Regulatory compliance and reporting
- Sarbanes-Oxley compliance
- IFRS reporting
- Assistance on capital markets transactions
- Financial accounting
- Independent controls and systems process assurance
- Sustainability reporting
- Joint venture audits
- Internal audit



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PwC audits energy companies of all sizes in Africa and our commitment to delivering high-quality assurance services is at the heart of what we do. We provide comprehensive audit and assurance services designed to deliver real value and underpin investor confidence.

In addition, energy companies are subject to extensive regulations, which vary from country to country, and they may be transitioning to new accounting standards. In my experience, energy companies want audit teams to understand their issues and business challenges when analysing their financial performance.

Case study:

Escom Investimentos e Participações

Escom is a large private foreign investor in Angola with interests in mining, real estate, energy, oil and gas, infrastructure and trading and procurement. Our relationship with Escom allowed us to understand their business, goals and objectives and to provide timely assurance and tax advice.

A large part of our work with Escom involved sharing a fresh perspective on a variety of issues and looking for pragmatic solutions. Our structured and efficient approach to communication meant that important issues were brought to the attention of management and the Board of Directors on a timely basis.

How does the regulatory environment affect your operations?

Some of the biggest concerns facing oil and gas companies are current and planned developments in the regulatory environment in which they operate. The introduction of multiple taxes, higher royalty payments, discretionary license renewals and the removal of incentives could make projects less economical and more risky.

Forward-thinking companies are preparing themselves for the new environment by revising internal policies, introducing and enforcing zero tolerance on bribery, with many appointing compliance officers and establishing compliance functions within their companies.

Regulatory challenges in Africa include:

- Emerging oil and gas economies in Uganda and Ghana formulating new policies
- Environmental policy changes such as proposals on zero gas flaring
- Government commitments to cleaner fuels and reducing emissions
- Local and international anti-corruption legislation like the US Foreign Corrupt Practices Act (FCPSA)
- Safety, Health, Environment and Quality (SHEQ) legislation governing the entire value chain
- Changing local Production Sharing Agreements (PSAs)
- The UK Bribery Act coming into force in April 2011
- Local content and local ownership requirements

Our Services

Our Advisory services

Our consulting services utilise our deep financial, analytical, industry and business process skills to provide energy companies with the advice and assistance to improve stakeholder value, build trust and boost performance. Across Africa, organisations engage us to help them capture opportunities, navigate risk and deliver lasting change across business networks.

Our consultants bring together a full range of functional and industry skills to help you in this environment. We take the time to listen and have the courage to debate different points of view—based on independent and challenging insights, supported by facts and industry benchmarks.

We can help you through a variety of solutions:

- Build effective organisations
- Innovate and grow profitably
- Reduce costs
- Leverage talent
- Manage risks and regulation
- Have efficient, effective IT systems
- Execute better deals
- Restructure troubled businesses

Case study:

African National Oil Company

We were engaged by the energy ministry of an African country to provide strategic advice on the creation of a proposed National Oil Company (NOC). The creation of a NOC formed part of an overall resource management framework to help the country establish and manage efficiently its oil and gas resource potential.

Our team shared global benchmarks and best practices to guide the creation of an NOC. A review of ownership and operational models and an assessment of the local legal framework currently in place contributed to the drafting of a Memorandum and Articles for setting up the NOC.

We engaged with various ministries, departments and stakeholders as well as contractors and provided detailed reports to the Ministry to help guide decision making. We also trained Ministry staff and stakeholders on the legal framework guiding the operation of an NOC in addition to other activities that contributed to capacity building among government staff.





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Our teams across Africa work closely with oil and gas companies to improve operational performance and profitability, build shareholder value and manage change. Our teams bring together a full range of functional and industry skills to help you in Africa. We take the time to listen and we have the courage to debate different points of view—based on independent and challenging insights, supported by facts and industry benchmarks.

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Government policy is more central to deals in Africa. There is often a higher level of political interest and perceived interference in deals. Some countries can change the rules on tax or legal parameters quickly.

Local knowledge is paramount. Investors need to visit government departments and ambassadors to understand anything which could cause the government to intervene.” (*Getting on the right side of the delta: A deal-maker’s guide to growth economies*, January 2012, PwC)

In addition we are seeing more and more emphasis on local participation and policy makers are increasing the focus on ensuring local economic benefits flow from foreign investment.

<http://www.pwc.com/gx/en/deals/doing-deals-in-growth-economies/index.jhtml>

Case study: **Australian Coal Bed Methane company**

Our client is an Australian-based company focused on advanced Coal Bed Methane (CBM) opportunities in Southern Africa. The client asked PwC to perform a market study focusing on the supply and demand for their flagship project, located in one of the most prospective areas for CBM in South Africa.

The identification of commercialisation options required deep consideration of many factors. These included economic activity, potential target markets, available infrastructure, capital intensity, project scalability, speed to market, pricing and other regulatory issues and key enabling factors and any constraints impacting each option. Our approach entailed market research, literature review, data analysis, top-down and bottom-up analysis and assessment and option development, concluding with a detailed market study report providing the client with a ranked summary of available gas utilisation options.

Transactions

We help companies ensure that transactions are a success for themselves and their shareholders. We can help you through a variety of solutions:

- **Structure of the transaction:** consider financial reporting, project finance, taxation and legal aspects
- **The End Game:** a lack of clarity may become a source of conflict
- **Organisational issues:** adequately address the need for sound management structures, IT systems, controls frameworks and a sound dispute resolution process
- **Post-Implementation Management:** appropriate monitoring, internal audit functions, execution of transaction partners’ goals and objectives

Our Services



Finance and accounting advisory

We support CEOs, CFOs, controllers and treasurers to optimise the structure of their finance functions and improve their contribution to the business. Our clients are looking for solutions around compliance and control, efficiency and flexibility.

Our clients are also looking for insight. Control and efficiency are still important, but finance and accounting functions are now being asked to support business decision-making. This is new territory for many, and we can help you to deliver effective support.

We can help through a variety of solutions:

- Finance process improvement
- Strategic planning, value driver analysis and performance management and reporting
- Finance organisation reviews and process improvement
- Performance management and reporting
- Financial management solutions
- Supply chain management
- Operations management
- Enterprise-wide cost management

How are transactions and consolidations changing the competitive landscape?

Ultimately, successful deals are created, not born. The African landscape is increasing in complexity and our transaction advisory practice offers a range of international-calibre skills on your doorstep.

Africa has seen a significant resurgence in investment and deal activity with oil and gas companies enjoying their fair share of activity. Further consolidation in the sector is likely, including acquisitions and investment by emerging economies like China, India and Brazil.

Refining and marketing in Africa is undergoing a period of significant upheaval with major marketers recently announcing their exit from smaller markets in Africa. Some of

these assets have been snapped up by competitors and new entrants in this segment, leading to a change in the traditional competitive landscape. Meanwhile, significant expansion of refinery capacity is being debated all across the continent.

For many years, joint ventures in the oil and gas sector have been well established, with major players frequently combining their capital, expertise and influence to access potentially rich but risky resources.

The global economic crisis has reduced the availability of cheap funding sources and heightened the focus on risk and utilisation of scarce resources, making joint ventures even more attractive.

People and change

Getting the best from people at every level when there is constant change is the key to sustainable competitive advantage. Solid strategies, processes and technology alone do not deliver results.

It takes people to accept, adopt, drive and sustain the change to realise tangible impact. We can help to change behaviours, gain buy-in from staff, manage transfers into and out of organisations and provide training at the right time to achieve desired outcomes.

We can help you through a variety of solutions:

- Executive search and selection (recruitment)
- Salary and benefits consulting
- Institutional development & capacity building
- Organisational reviews including restructuring
- Human resources due diligence
- Change management
- Change readiness
- Engaging and motivating a diverse workforce

Are you facing challenges around building a skilled workforce?

One of the highest priorities ensuring long-term strategic growth is attracting and retaining key talent, but this is not always reflected clearly in oil and gas companies' investment decisions.

There is the perception that talent is critical to long-term growth, but devoting resources to it is not a top priority for many companies in the sector.

Even so, many companies are shifting skilled technical jobs and senior and middle management positions to local citizens, perhaps partly in response to changing local content regulations.

The overall trend towards developing local skills is positive. Perhaps the greatest need exists in the area of geology for oil and gas companies, where developing the requisite skills and experience to interpret complex data remains a challenge.



Our Services

Strategy and operations

We help companies achieve strategic and operational excellence through improvements and efficient processes that optimise value chains, reduce waste, lower costs and increase value using an approach that delivers sustainable benefits.

Our clients need their value chain functions to drive business growth and we work with them to become agile and responsive to constantly changing conditions.

We can help through a variety of solutions:

- Develop an efficient and sustainable business model that is responsive and competitive
- Reduce operating costs and minimise waste to enhance profitability

- Eliminate activities that do not add value to your business
- Develop an effective supply chain that supports the efficient flow of goods
- Reduce costs and improve service through the use of shared service centres, outsourcing (including moving activities offshore) and organisation redesign
- Improve procurement processes

What can be done about rising operating costs?

Strategy and long-range planning are challenging for companies operating in economies that are growing and changing rapidly. In this environment, oil and gas companies must control costs. They will continue to weigh the risks versus benefits of new projects, new products and how much capital to invest.

In seeking a sustainable, competitive cost advantage, companies can implement cost reduction initiatives such as regional sourcing agreements with suppliers and limited or full outsourcing of non-core activities.

The lingering effects of the financial crisis have reduced access to both debt and equity. Cash flow is seen as the primary source of financing business operations in the near term. Therefore, the focus on cash preservation and management as a key competency in the downturn and the need to generate cash flow from operations is likely to continue.

Companies looking at debt, shared risk or equity need a compelling value proposition and a solid reputation in the marketplace to access funding, except where the funding is secured from parent companies. Very few companies in Africa are looking at asset divestments or venture capital as potential sources of funding.



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Sustainability

What does 'sustainability' mean to you?

Oil and gas companies can develop business strategies and practical implementation plans to enhance economic performance, while at the same time demonstrating the highest standards of environmental stewardship and socially responsible performance.

One of the most talked-about issues for oil and gas companies is who should benefit from resources, and how much. Citizens, shareholders and communities all have rights and expectations. The impact on the environment is another important consideration.

To avoid disruption, companies need to:

- Improve collaboration with third parties like NGOs in project regions
- Answer to the collective stakeholder voice
- Be aware that government stakeholders are becoming more active

Our team can work alongside you to align corporate governance and policies, operating systems and processes, performance reports and mechanisms to meet the needs and expectations of stakeholders.

We can help you through a variety of solutions:

- Development of sustainability performance indicators
- Preparation or review of sustainability reports
- Evaluation of environmental risks and liabilities
- Environmental audits and due diligence engagements
- Independent verification of environmental, social or sustainability reports
- Code of Conduct or Code of Ethics development and implementation programmes
- Verification of supplier adherence with Code of Conduct and legal requirements



A priority area for the firm, other than our people, across our all our service offerings is building and sustaining strong, trusted relationships with our clients. Through these trusted relationships you will have a key point of contact, someone you can trust with advice for your business industry challenges. Our Africa business development function links our firm across the continent ensuring that we operate as one seamless team and support our clients with access to the firm's latest thought leadership and specialists across all areas.

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Thought leadership

Shale Oil: The next energy revolution

Shale oil (light tight oil) is rapidly emerging as a significant and relatively low cost new unconventional resource in the US and there is potential for shale oil production to spread globally over the next couple of decades. If it does, it would revolutionise global energy markets, providing greater long term energy security at lower cost for many countries.

Our analysis focuses on the global economic impact of shale oil, implications for the oil and gas industry, strategic implications, long-term benefits and environmental consequences.

<http://www.pwc.co.uk/oil-gas/publications/shale-oil-the-next-energy-revolution.jhtml>

From promise to performance: Africa Oil & Gas review

Our survey focuses on Africa and how companies are dealing with and adapting to the new economic landscape and the improving view of Africa as an area of exploration and development.

We surveyed respondents across the continent to learn about investment drivers, financing, regulatory compliance and capital expenditure, among other factors.

<http://www.pwc.co.za/en/publications/oil-and-gas-survey.jhtml>



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Helping Energy Companies Succeed:

PwC's Global Oil and Gas Capabilities

With over 5,300 industry-dedicated professionals located in strategic energy centres, we can help companies everywhere they operate.

Our global statement of capabilities provides a detailed look at our energy centres of excellence worldwide and the industry-specific solutions we offer

in the fields of audit and assurance, tax, deals and consulting services.

<http://www.pwc.com/gx/en/oil-gas-energy/capability-statement/index.jhtml>



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