



China, Oil and Latin America ...

China's NOCs Strategic Positioning and Beyond

Rafael Valdez Mingramm, J. Gregory Arthur, Sofia Galante & Carrol Li¹

+ 86 (21) 6109-9568 x 8015 / rvaldez@sinolatincapital.com

... on the occasion of Terrapin's Oil & Gas Outlook Latam 2010.

Resulting from three decades of continuous economic growth, urbanization and a massive social transformation, China is one of the world's most important players in the Oil & Gas (O&G) sector today. It is the 5th largest in terms of production and the 2nd largest in terms of consumption. However, with only 1% of the world's proved oil reserves, the country has no option but to strategically secure sustainable supply sources elsewhere. Countries in Latin America such as Argentina, Brazil, Colombia, Ecuador and Venezuela are gradually positioning themselves among China's premier investment destinations for National Oil Companies (NOCs) and will soon be for other Chinese firms along the value chain (i.e. service providers, equipment manufacturers, etc.). Brazil's Pre-Salt Discoveries and Venezuela's Orinoco Belt are some of the areas that are increasingly capturing their attention...

¹ Rafael Valdez Mingramm is SinoLatin Capital's Partner and Head of the Energy Practice (specifically oil & gas). J. Gregory Arthur is a 2nd year Analyst that mainly covers O&G and Mining sectors. Sofia Galante and Carrol Li are full time MBA students at China Europe International Business School (CEIBS) that supported in the research and analysis of the information presented herein.
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China, Oil and Latin America...

China's NOCs Strategic Positioning

China is the largest producer and consumer of coal; however it is only capable of producing 4 out of the 8.3 million barrels per day it requires. It is the world's 2nd largest importer already and an important investor.

One way or another, almost every article or analysis that talks about China in modern economic history – in virtually every context, industry or sector – refers to China's 30 years of continuous economic growth, the emergence of a vibrant middle class and the massive urbanization and industrialization that is taking place as the country positions itself as the next economic super power. In the O&G industry and specifically in relation to Latin America, these three factors are also present given a very simple but noteworthy situation or, we shall say, misallocation of natural resources: *China has 20% of the world's population and less than 1% of the world's proved oil reserves.*

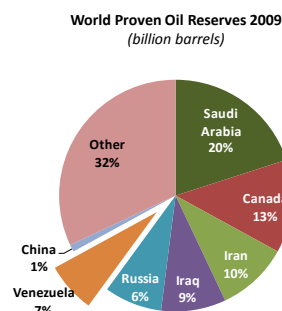
Whereas China's interest in alternative energy is gradually diverting attention away from traditional sources (i.e. coal and oil)²; there's no doubt that the country's energy demand will continue depending largely on these fuels in the foreseeable future, given their thermal value, cost advantages and wide uses in transportation, shipping and aviation, among others. China is the largest producer and consumer of coal (it barely needs to import such commodity) but it is only capable of producing 4 out of the 8.3 million barrels per day it requires. Therefore, it is also the world's 2nd largest importer - relying mainly on the Middle East, Africa and increasingly on Latin America (primarily Venezuela) – and is becoming one the most important investors.

China has 20% of the world's population and less than 1% of the world's proved oil reserves. Venezuela has 7%.

China is a Major Global Oil Player...

Rank	Country	million barrels/day
Production		
1	Russia	9.93
2	Saudi Arabia	9.76
3	United States	9.06
4	Iran	4.17
5	China	4.00
9	Venezuela	2.47
Consumption		
1	United States	18.6
2	China	8.31
3	Japan	4.36
4	India	2.94
5	Russia	2.91

Source: EIA 2009



Source: Oil & Gas Journal

- China **consumed an estimated 8.31 million barrels of oil per day in 2009**, making it the world's second-largest consumer of oil behind the United States
- Recently, China overcame Japan to become the **second-largest net importer** after the US with almost 4 million barrels per day. However **China only represents 1%** of the total world proven oil reserves

² China's oil consumption accounts for 20% of the country's total energy consumption; by 2020, this number is expected to reach 27%.

Throughout this white paper, we briefly highlight some distinctive features of China's energy supply & demand (in relation to Latin America, focusing mainly on O&G), as well as China's 'go-global' policy and investments, and we also map a few selected transactions that have taken place recently in our region of interest. Given large discrepancies among the data gathered from different sources, we use rough estimates; we mainly rely on Chinese official statistics and use data from the China's Investment Tracker compiled by The Heritage Foundation.

The world energy supply and demand

Rebalancing Latin America and China

Continuous exploration of unknown and/or underdeveloped oil deposits and further technological improvements guarantee global supply of O&G in developed and emerging markets. Thus, massive capital expenditures are required.

With the continuous exploration of underdeveloped oil deposits (i.e. the Orinoco Belt in Venezuela, the Pre-Salt Discoveries in Brazil, etc.) and further technological improvements in exploration and exploitation, global supply of O&G is expected to satisfy the growing demand in developed and emerging markets. In 1980, authorities estimated the reserve of global conventional oil resources at 645 billion barrels; today, this number has risen to 1.3 trillion barrels. EIA (US Energy Information Administration, similarly hereinafter) and WEC (World Energy Council) declared that the unconventional reserves represented by oil sand and oil shale respectively hoard a surprising number of 3.7 trillion barrels and 2.8 trillion barrels of crude oil. Once proved to be economically viable, such unconventional reserves will further release the potential to guarantee the world's energy consumption.

A declaration like this might bring some relief to a general audience not immersed in the industry and concerned about global scarcity; however, it does come with serious technical challenges, capital requirements, environmental concerns and fierce competition among multinational firms and National Oil Companies (NOCs) to secure economically viable deposits. Chinese NOCs, are not strangers anymore in this race and are increasingly taking leading positions, not exclusively in Latin America. As previously mentioned, China is nowadays the 2nd largest O&G consumer, surpassing Japan and getting closer to the United States, with a total consumption of 8.32 million barrels per day, twice as much the amount it can produce.

In 2009, oil consumption per capita in China was 1/9 of South Korea's, 1/6 of Japan's and less than half of Brazil. Total consumption is expected to rise from 10% of the world consumption in 2009 to 14.7% by 2030

Nonetheless, on a per capita basis, China's oil consumption is at the bottom of the list. In 2009, oil consumption per capita in China was 1/9 of South Korea's, 1/6 of Japan's and less than half of Brazil. China's total consumption is expected to rise from 10% of world consumption in 2009 to 14.7% by the year 2030 (reaching 15.3 million bopd). As expected, GDP and GDP growth are probably the most obvious indicators or variables to forecast the country's need of hydrocarbons and other commodities to sustain its economic growth, while satisfying multiple and growing demands of its middle income population³.

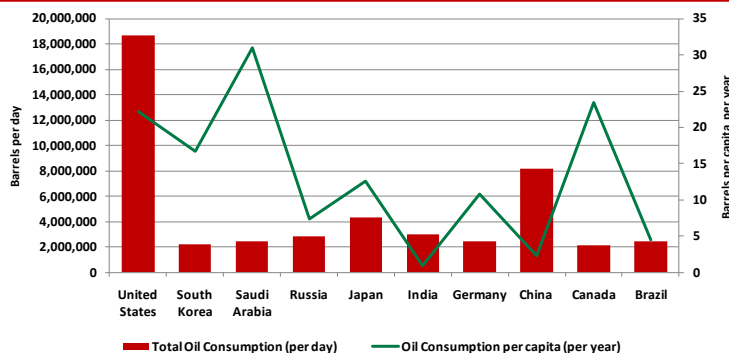
³ In 2000 the demand for new passenger vehicles in China reached 2 million new units per year, in 2009 this figure surpassed 13.6 million, overcoming the United States as the world's largest market; this is one of thousands of products and services that uses oil derivatives and applications.

In 2009, oil consumption per capita in China was 1/9 of South Korea's, 1/6 of Japan's and less than half of Brazil. Total consumption is expected to rise from 10% of the world consumption in 2009 to 14.7% by 2030

... in Absolute but not yet in Relative Terms

- At a per capita level, China's oil consumption is around 20% of US consumption. It is less than half of that of Brazil

Top 10 biggest Consumption Countries and Consumption per capita
(Barrels per day / Barrels per capita per year)



Source: The CIA World Factbook. Oil consumption per country (2009 figures), population data (2010 figures)



On the supply side, China holds the 4th position, producing 3.99 million bopd. To reduce dependency on imports, Chinese NOCs has no option but directly investing in oil companies or acquiring blocks and assets overseas.

On the supply side, however, China holds the 4th position, producing 3.99 million barrels of oil per day. Thus, the only way to increase production - not in China but on Chinese controlled firms - while reducing dependency on imports is to directly invest in oil companies or acquiring blocks overseas, either in OPEC or non-OPEC countries that have significant upside potential⁴. In 2009, the world proven reserves were 1,342.20 billion barrels of oil: the Middle East accounted for 56%, North America for 15% and Latin America for 10% (133.188 billion barrels). Venezuela has the largest potential, with proven reserves of 99.377 billion barrels, followed by Brazil and Mexico with 12.624 and 10.501 billion units respectively⁵. In 2009, production of these three leading countries accounted for 50.40%; in the last 5 years, though, Venezuela and Mexico have been decreasing their production at an annual rate of 3.47% and 4.23% respectively, while Brazil's has increased at 3.74% per year. Colombia has also expanded its production by 4.98% annually, from 27.3Mtn in 2005 to 34.1Mtn in 2009.

To match the gap between demand and supply, though, the country has imported crude oil with a record-breaking amount of 203 million tons in 2009⁶. Just in the first half of 2010, crude oil imports reached 118 million tons, accounting for 51.3% of the whole domestic oil consumption⁷. Roughly 50% of China's oil imports come from Saudi Arabia, Angola and Iran; 4% is coming from Venezuela.

⁴ OPEC countries control 70% of the entire crude oil reserves and 42% of the existing oil production..

⁵ If only looking at effective production, Mexico was still the largest producer in 2009 with 147.5 Mtn of oil, followed by Venezuela with 124.8 Mtn and Brazil with 100.04 Mtn.

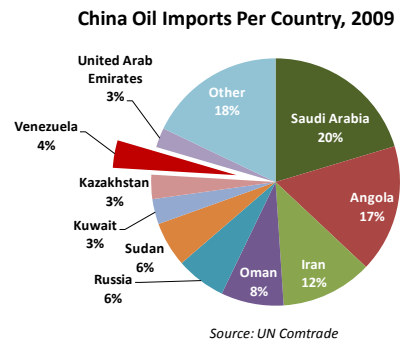
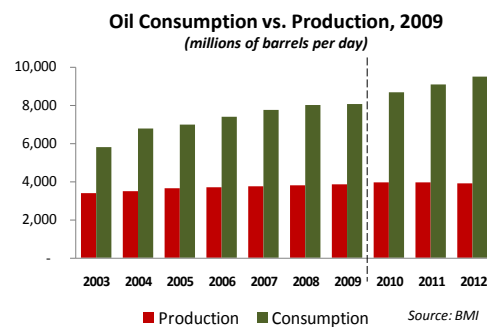
⁶ China National Statistic Bureau

⁷ China National Energy Administration

Roughly 50% of China's oil imports come from Saudi Arabia, Angola and Iran; 4% is coming from Venezuela.

... the 2nd Largest Importer

- Production will remain at **4 million barrels** per day. Consumption will keep a **sustainable growth of 4% per year**
- In 2009, China **imported over half** of its oil consumption. Roughly 50% of China's oil imports come from **Saudi Arabia, Angola and Iran**
- **China is increasingly importing oil from** Latin America, primarily from **Venezuela**



China's 'Go Global' Policy

Recent trends on Outbound FDI & Implications for Latin America

In 2009 when, according to China's Ministry of Commerce (MOFCOM), China emerged as the world's 5th largest outbound direct investor with a total volume of US\$56.5 billion.

"13,000 Chinese firms invested in 177 nations around the world, focusing on developed nations and emerging markets".

To find a long term and sustainable solution to an O&G shortage, China started to seek sizable resources worldwide. With a continuously increasing economy, expanding foreign currency reserves as well as a gradually strengthened international awareness, Chinese outbound FDI has witnessed an unparalleled growth in the last decade, reaching a peak level in 2009 when, according to China's Ministry of Commerce (MOFCOM), China emerged as the world's 5th largest outbound direct investor with a total volume of US\$56.5 billion, up from 12th place in 2008, contributing 5.1% of global ODI volume (US\$1.1 trillion); thus becoming a net exporter of capital.

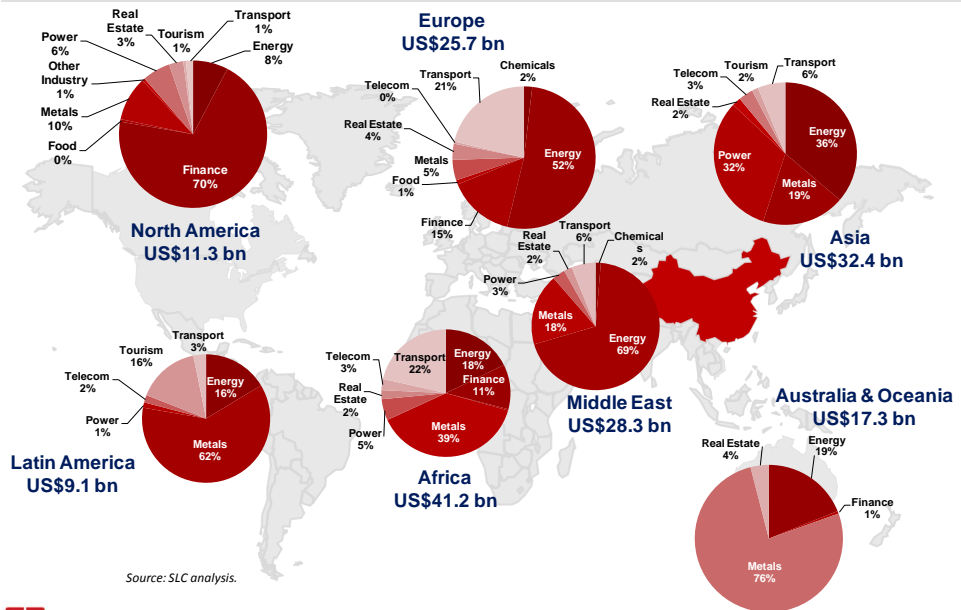
An even more impressive fact is that as China's ODI grew 1.1% year-on-year, other countries' foreign investment confronted an overall 40% decline; investment in non-financial sectors was US\$47.8 billion⁸. Official sources indicated that "13,000 Chinese firms invested in 177 nations around the world, focusing on developed nations and emerging markets". The largest volume went to the nearby Asia-Pacific region, followed by Europe and Africa; Latin America is coming closely behind.

⁸ The US\$47.8 billion would have been much higher had it not been for Chinalco's rejection to Rio Tinto's offer of US\$17 billion.

In a recent press conference, Liu Zuochang, director of MOFCOM's Investment Promotion Agency, predicted that China's non-financial ODI will reach US\$60 billion in 2010. From the total investments made from 2005 to 2009, which surpassed \$260 billion, the largest percentage has been in Energy (cumulative investment of more than \$90 billion); primarily related to O&G. Mining is the 2nd largest, followed by transport and telecommunications⁹.

CNPC, Sinopec and CNOOC are commonly referred as the 'big 3' China's NOC. Sinochem has intensively moving from trading activities and started investing heavily upstream.

China Outbound FDI by Region & Category 2005-2009



From 2005 to 2009, China's FDI in Latin America is estimated in around US\$ 9.13 billion, primarily in mining with 62%, followed by O&G.

In this same period, China's FDI in Latin America is estimated in around US\$ 9.13 billion, primarily in mining with 62%, followed by O&G. By 2006, China had only invested US\$ 1.82 billion in the region, representing 20% of the total investment ever made; there was no notorious acquisition or contract made in the region from 2007 to 2009. By contrast, in 2010 Chinese investment has surpassed US\$ 7 billion already, mainly related to O&G. According to the China Global Investment Tracker from The Heritage Foundation, CNOOC's investment in Bidas in Argentina and Sinochem's investment in Statoil in Brazil's are among the top 10 Chinese O&G investments overseas.

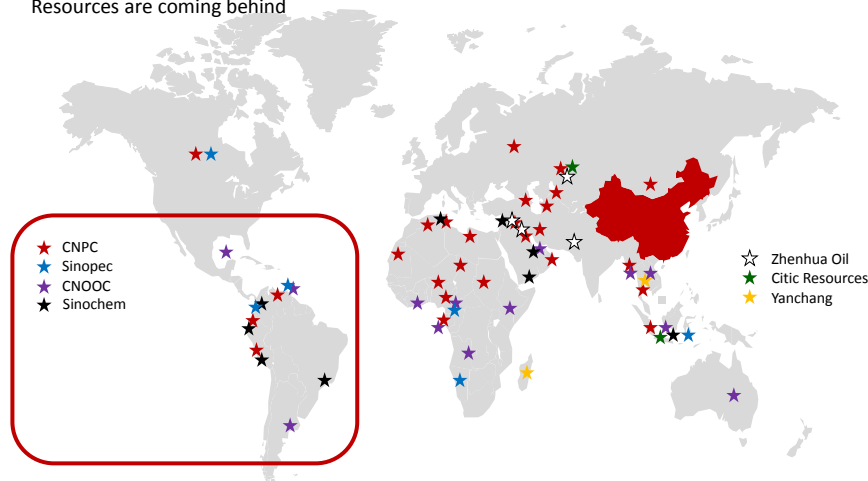
As expected, in Latin America as well as in the Middle East and in other Chinese investment destinations, the majority of investments has been made in upstream projects; in Exploration and Production activities aimed to guarantee China's long term supply of heavy crude oil. Investments in midstream and downstream are expected to follow.

⁹ Investments in agribusiness and manufacturing are not as representative in value terms.

Whereas the ‘big 4’ Chinese NOCs have been recently taking a predominant position in Latin America, we expect other SOEs and private companies to follow the same route.

China’s NOC Expansion in Latin America. The “Big 4”?

- CNPC, Sinopec and CNOOC have historically been China’s largest National Oil Companies. In recent years though, Sinochem has been moving from trading activities into an important player in overseas oil fields. Other Chinese NOC’s such as Zhenhua Oil, Yanchang Petroleum, and CITIC Resources are coming behind



Top 10 largest Chinese O&G Investments in Value: 2005 – May, 2010

In Latin America as well as in the Middle East and other Chinese investment destinations, the majority of the investments have been made in upstream.

Rank	Year	Investor	Investment (\$mm)	Property	Country	Type
1	2009	Sinopec	7200	Company	Switzerland	Investment
2	2008	CNPC	5000	Oil Field	Niger	Contract
3	2009	CNPC	4700	Gas Field	Iran	Contract
4	2010	Sinopec	4650	Oil Sand	Canada	Investment
5	2005	CNPC	4200	Source and Refining	Kazakhstan	Investment
6	2006	Sinopec (with Rosneft)	3490	Oil Field	Russian Federation	Investment
7	2008	CNPC	3290	Pipeline	United Arab Emirates	Contract
8	2010	CNOOC	3100	Company	Argentina, Bolivia, Chile	Investment
9	2010	Sinochem (with Statoil)	3070	Oil Field	Brazil	Contract
10	2008	CNPC	3000	Oil Field	Iraq	Contract

Source: China Global Investment Tracker. The Heritage Foundation.

Key Considerations:

1) *Large-scaled SOEs are backbones in acquisition.* Due to the industrial characteristics of a natural monopoly, the economic advantages of integration and the combination of market-and-regulation as an economic model, large-scaled NOCs are the main players and occupy a predominant position¹⁰. They are capable of providing both adequate merger capital and systematic management in outbound acquisitions. In the last 5 years, we have seen more than 50 deals of outbound investments and contracts. The ‘Big 3’ or ‘Big 4’, which in this paper refer to CNPC, Sinopec, CNOOC and Sinochem, have executed more than 80% of such transactions in number and 90% in value (more than \$70 billion).

¹⁰ In rare occasions we noticed the presence of financial investors (i.e. China’s Sovereign Wealth Fund - CIC), large conglomerates (i.e. CITIC), or companies listed in Hong Kong.

2) *Over 75% of acquisition targets pertain to import-oriented upstream assets.* Aside from refinery capacity and terminal market, crude oil supply is the bottleneck of the entire industry value chain. To offset the weakness and better utilize idle capacity, acquiring overseas assets become an effective mechanism to secure long term supply (either by taking their share of production and/or negotiating off-take agreements). Chinese investors are interested in acquiring an equity stake - not necessarily securing control- in producing assets than simply in exploration fields. In some cases, Chinese NOCs and their subsidiaries, directly or supported by China Development Bank provide financing and/or participate in infrastructure projects.

The Middle East and West Asia have been the main recipients of Chinese investment. Latin America is gradually becoming an area of strategic focus.

3) *Although the Middle East and West Asia have been the main recipients of Chinese investment, Latin America is increasingly becoming an area of strategic focus.* The map of China outbound acquisitions and investment align with resource allocation worldwide. Taking into consideration location, transportation and government relations, it comes as no surprise that China has invested in Syria, Iraq, Iran, Kazakhstan, among other jurisdictions. However, it was not until 2008 that Chinese Government released a policy paper positioning Latin America among the top priority investment destinations.¹¹

Chinese O&G Outbound Investment Allocation: 2005 – May, 2010

Rank	Region	2005-2010.5 Transaction		Resource Added (Minimum)	
		Transaction Number	Transaction Value	Theoretical Reserve Million Barrels	Annual Production Million Barrels
	Total	49	84.67	16,525	957
1	West Asia and Middle East	20	34.3	8,030	147
2	Europe	7	18.77	1,300	
3	Africa	7	10.95	895	
4	South America	6	10.23	2,900	799
5	North America	5	7.83	3,340	11
6	Australia	4	2.59	60	

Source: China Global Investment Tracker. The Heritage Foundation. Rigzone

“Loans for oil” account for the largest portion of Chinese capital flows to Latin America (including a US\$ 10 billion loan to Petrobras in Brazil and US\$ 20 billion to Venezuela).

4) *‘Loans for Oil’ resulting from high level government to government arrangements have increasingly taken place, guaranteed by oil & gas reserves at a fixed price.* In countries such as Venezuela, by means of the China Development Bank, China has agreed to grant billion dollar loans to develop specific oil blocks and build infrastructure. In most cases, loans carry certain specific obligations and are secured by oil reserves in fixed terms. In others, these are advanced payments to specific volumes of hydrocarbons to be shipped to China¹². Recent agreements include:

- *February 18, 2009* – China and Venezuela agreed to double their joint investment fund by injecting an additional US\$4 billion from China; PDVSA committed to sell to CNPC between 80,000-200,000 bopd by 2015.
- *September 2009* – President Chavez announced Chinese companies will invest US\$16 billion in developing the Orinoco Belt’s heavy oil reserves.
- *April, 2010* – A new loan between China and Venezuela for US\$20 billion was announced. CNPC will be PDVSA’s partner in exploiting the Junin 4 oil field.

¹¹ Forming an investment consortium as well as partnering with other interested parties is one of the mechanisms used when acquiring high-value assets (above US\$ 1 billion at a sound purchase price).

¹² Similar arrangements in other oil producing countries in Africa & The Middle East


Sample Chinese O&G Transactions in Latin America

The beginning of a new wave

Except from a few countries in Central America, Chinese NOCs have local operations or service agreements aimed, primarily, to secure long term supply of oil to China.

In order to find a long term and sustainable solution to an O&G shortage, Chinese firms are continuously seeking sizable resources worldwide; more and more so in Latin America. This partially results from growing economic, political and commercial links, bi-lateral trade agreements and China's strategic attention on this emerging region¹³, at a time when China is diversifying and expanding its foreign currency reserve and betting heavily on commodities.

... Sample Investments / Loans by Chinese NOC's

- 
- **Mexico**
 - CNPC and Sinopec Services
 - **Costa Rica**
 - CNPC Refinery
 - **Colombia**
 - Sinopec and Sinochem
 - **Ecuador**
 - CNPC and Sinopec jointly purchased Andes Petroleum
 - Sinopec – US\$1.1B with Petroecuador to jointly develop block 42 in Oglan
 - US\$2B loan to Ecuador
 - SinoChem bought a small independent
 - CNPC and Sinopec Services
 - **Peru – CNPC**
 - Block 6/7: hundreds of wells drilled since 1995
 - Block 1-AB/8: CNPC signed a cooperation agreement with PLUSPETROL for a 45% stake
 - Block 111/113: Seismic data acquisition in 2007
 - **Cuba & Caribbean**
 - CNPC Framework agreement with Cuba Targeting GOM exploration
 - CNPC Mexico took over Saudi Aramco 5 Million bbl terminal at St. Eustatius
 - **Trinidad & Tobago**
 - Sinopec exploration and CNOOC exploration
 - **Venezuela**
 - US\$12B existing & new US\$20 billion financing
 - Total-CNPC plan for US\$7-10B and CNPC, Sinopec and CNOOC-US\$20B Heavy Oil investment
 - Joint refinery and rig manufacturing
 - **Brazil**
 - US\$10 billion loan to Petrobras
 - Long term oil supply
 - Sinopec built Gasene gas pipeline
 - Sinopec gain Para-Maranhao offshore basin-BM-PAMA-3 and BM-PAMA-8 blocks
 - **Argentina, Chile, and Bolivia**
 - CNOOC bought 50% of Bidas for US\$3.1B



■ Countries with Chinese Oil & Gas Presence

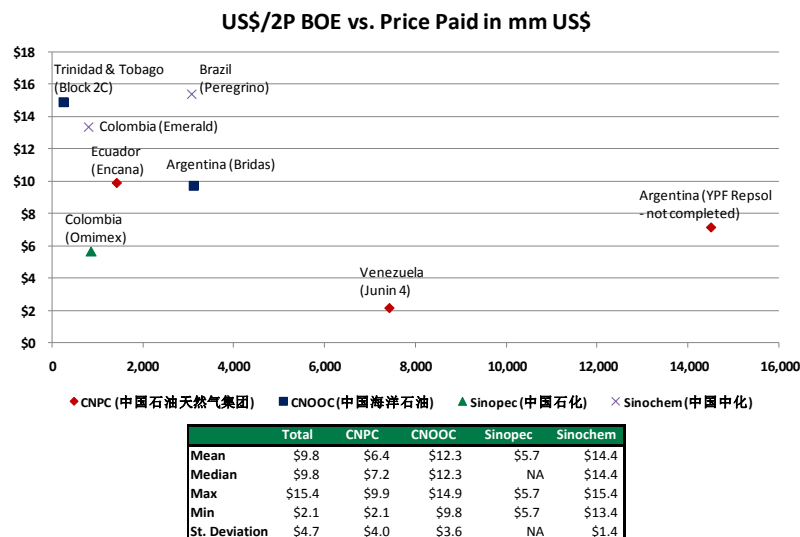
Whereas there are relevant Chinese investments in a number of Latin American countries, we selected the four most representative ones and plotted these with other related transactions in the following page, looking at the size of each transaction and the price paid by 2P reserve barrel.¹⁴ These are not necessarily comparable transactions per se given differences in size, stage of development, as well as other strategic considerations (i.e. country risk, development and production costs, shareholding structure, etc), and are presented for benchmarking purposes.


¹³ In 2008, the Chinese Government released a policy paper pointing out Latin America and The Caribbean within the country's strategic investment destinations.

¹⁴ Whereas in most countries in Latin America (including Venezuela, Brazil, Argentina, Ecuador and Peru) Chinese investment has primarily been upstream, in countries like Mexico, NOCs are only allowed to provide services to the National Oil Company (in this case, PEMEX) and take part in distribution activities. In other countries like Costa Rica, Chinese NOC are jointly investing / developing refinery capacity.

It is impossible to compare transactions at a 2P (proved and probable) reserve per barrel of oil. There are unique circumstances behind each transaction. We conducted this exercise to select recent representative transactions.

Follow Chinese NOCs Investments in the Region



 SINO LATIN CAPITAL Disclaimer: Numbers were obtained from public sources and SLC does not take responsibility for their accuracy

Size: US\$ 3.10 billion
Acquirer: CNOOC Corp.
Target: Bidas Corp. (Bidas)
Seller: Bidas Energy Holdings, Ltd. (BEH)
Struct.: 50% Joint Venture

Argentina | CNOOC Investment in Bidas¹⁵

In March, 2010, CNOOC acquired a 50% stake in Bidas, an Argentina-based wholly-owned subsidiary of BEH. The transaction was funded from the internal resources of CNOOC and represents its first major acquisition in Latin America. Bidas is the 2nd largest oil producer in Argentina, with operations in Bolivia and Chile. Its assets include proven reserves of 636 million and an average daily output of 92,000 BOE. This would allow CNOOC to add 318 million barrels of reserves – a 12% increase in the company’s previous capacity -, and to boost daily production by 46,000 barrels. This will further enable CNOOC to establish a solid foundation for future growth. The target company has upside potential from projects under development and exploration. In 2009, CNOOC produced 227.7 million BOE and it is targeting a production of 275 million to 290 million in 2010.

Size: US\$ 3.07 billion
Acquirer: Sinochem Corp.
Target: Peregrino Field (offshore Brazil)
Seller: Statoil ASA
Struct.: 40%

Brazil | Sinochem Investment in Peregrino¹⁶

In May, 2010, Sinochem, China’s biggest chemicals trading firm, won the bid and acquired 40% of the Brazilian offshore Peregrino field, paying US\$3 billion to Norwegian Statoil ASA. The target company decided to reduce its stake in this asset to reduce risk exposure and develop other projects. The Brazilian operator will keep 60% and remain operating the field. According to Mr. Han Gensheng, President of Sinochem Corp, “the transaction will enhance Sinochem’s strategy in the exploration

¹⁵ “Cnooc’s \$3.1 Billion Bidas Deal to Boost Expansion”, Bloomberg Business Week; March 15th 2010. “Cnooc Acquires Argentina Oil Assets”, Wall Street Journal; March 14th 2010. “CNOOC buys 50%of Bidas Energy subsidiary; China Daily; June 6th 2010.

¹⁶ “Sinochem to Buy 40% of Statoil Peregrino Field of Brazil Coast!, Bloomberg Business, May 22nd 2010

and production business and increase the position as one of the leading global players in the oil and chemicals business". The company made its first O&G investment in 2003 and is now operating 12 projects in the Middle East, Asia and Latin America. Statoil's Peregrino field consists of 85 kilometers off the coast of Rio de Janeiro in Brazil's "Campus Basin". The field has an estimated 460 million barrels of recoverable oil. This stake sale will increase Sinochem production guiding for 2012 by 40,000 barrels of oil equivalent a day. In addition, the acquirer signed and MOU with Statoil to explore other opportunities in Brazil as well as other regions.

Size: US\$ 777.4 million
Acquirer: Sinochem Corp.
Target: Emerald Energy
Seller: Emerald Management
Struct.: 100% Acquisition

Colombia | Sinochem Investment in Emerald Energy¹⁷

In November 2009, taking advantage of the global economic slowdown, Sinochem acquired UK-based Emerald Energy Plc for US\$ 777.8. The target company owned O&G resources mainly located in Colombia and Syria. The deal was mostly supported by Emerald's principal shareholders - Waterford Finance and Investment controlled by Russian investor Michael Kroupeev, and Soyuzneftegaz - who jointly owned 39% of Emerald's shares. This acquisition proved Sinochem's interest to acquire upstream resources in Latin America. "... domestic O&G fields have basically all been pocketed by the three national oil giants, little is left for Sinochem... but good opportunities still exist outside the country. Overseas procurements represent a key link in the company's strategic plan to integrate upstream resources with the downstream market...". In 10 out of the 11 blocks that Emerald had, it held recoverable reserves of 100 million barrels and 1 billion barrels of potential reserves for exploration. At the end of 2009, Emerald's production capacity was 10,000 bopd and it is estimated to increase to 40,000 barrels by 2010.

Size: US\$ 900 million
Acquirer: CNPC
Target: Junin 4 oil block
Seller: PDVSA
Struct.: 10%

Venezuela | CNPC Investment in Junin 4 Block¹⁸

In April 2010, CNPC, China's largest energy company, agreed to pay a US\$ 900 million signing bonus to develop the Junin 4 oil block in Venezuela. The bonus will be paid in several payments and will add the necessary investment capital needed to produce and refine crude oil at the Orinoco Belt. PDVSA and CNPC signed an agreement on April to invest US\$ 16.3 billion in a joint venture that will produce 400,000 barrels a day by 2016, where CNPC will be a minority partner with 10% ownership. China is also issuing a 10-year, US\$20 billion credit line to develop projects in Venezuela, to be repaid with future oil shipments. Since 2007, PDVSA has exported about 460,000 barrels of oil a day to China to repay \$8 billion in loans for Venezuelan infrastructure projects. Venezuela has signed ventures with Chevron Corp., Repsol YPF SA, OAO Gazprom, OAO Lukoil and Eni SpA this year to pump and refine Orinoco heavy crude reserves.

¹⁷ "Sinochem to buy UK-based Emerald Energy", China.org.cn, August 14, 2009

¹⁸ "CNPC to Pay Venezuela \$900 Million to Tap Oil Block", Bloomberg Business Week, April 20th 2010

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Professional Staff

J. Gregory Arthur
Felipe Canales
Sean Chang
Nina Chen
Maria de la Rocha
Angela Ku
Shine Wu
Betty Yang
Tony Yang

SinoLatin Capital

info@sinolatincapital.com
www.sinolatincapital.com

Min Sheng Lu #1518-A
Suite 703A, 200135
Shanghai, China
Tel: +86 (21) 6109-9668
Fax: +86 (21) 6109-9570

100 Park Av.
Suite 1600
New York, NY 10017
Tel: +1 (212) 984 – 1016
Fax: +1 (212) 880 - 6499

Beyond Pre-Salt Discoveries & The Orinoco Belt *Multiple opportunities along the Oil Value Chain*

As insisted herein, China and Latin America have strengthened mutual economic and political cooperation. The complementary economic structures between the regions and the more open attitude of governments and businessmen to cooperate will further encourage cross-investments not only in upstream projects but also all along the value chain. The continuous improvements of the macroeconomic and the investment environments in Latin America, the relaxation of restrictions on foreign investment and the rich O&G resource base, generate unique opportunities for Chinese O&G companies (not exclusively NOCs). Increasingly, we find private and semi-private Chinese entities interested in exploration (we have seen recent investments in Mendoza, Argentina, and identified firms that are currently analyzing opportunities in Colombia), private and medium size equipment manufacturers (rigs and/or drilling equipment) and other service providers that are working in Brazil, Mexico and Central America.

Recent oil discoveries in Latin America such as Brazil's Pre-Salt Discoveries and Venezuela's Orinoco Belt, as well as new regulation and incentives towards attracting foreign direct investment (i.e. Rondas Colombia) will certainly trigger NOCs additional investments in the region. It will also bring the attention of other state owned and private companies focused on midstream and downstream projects. Once again, China has a real need to secure long term supply of oil, political will, trade / regulatory framework and financial means and mechanisms for any player in the O&G space looking at Latin America. It is in us, the Latin American O&G companies as well as specialized investment bankers, to take advantage of this strategic source of capital and to think around Chinese investments and interest in the Pre-Salt Discoveries and The Orinoco Belt and beyond.

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