SUSTAINABLE FINANCING FOR AFRICAN DOWNSTREAM

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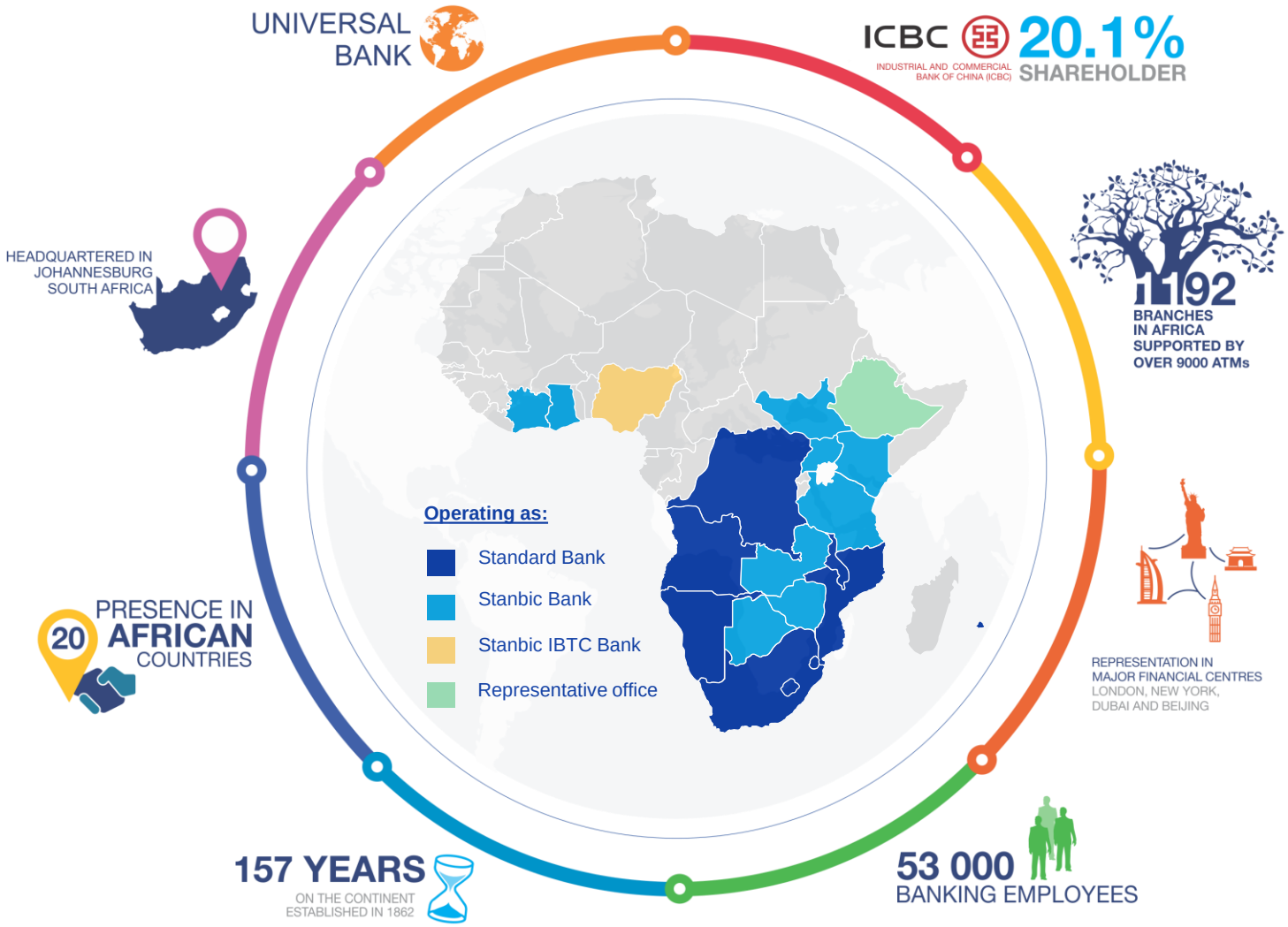
INTRODUCTION

INTRODUCTION TO STANDARD BANK



GHANA OIL & GAS SECTOR OVERVIEW

Upstream

- Regulated by the Petroleum Commission
- NOC is GNPC
- 3 Offshore producing Oil & Gas fields:
  - c.180kbpd of oil; and
  - c. 250mmscf of gas
- Fields offered via auctions and direct negotiations
- Presence of International Oil Service Companies (OSCs)

Midstream

- Regulated by National Petroleum Authority
- 1 National Refinery – TOR, 43,000bpd
- 1 National Storage and Transport Entity - BOST
- 10 Private Storage Facilities
- Pipeline for Natural Gas – WAPCO
- Bulk Road Vehicles for petroleum transport
- 95% of refined petroleum products are imported and stored in these tanks

Downstream

- Regulated by National Petroleum Authority
- 39 Bulk Distribution Companies
- 185 Oil Marketing Companies
  - including LPGMCs
- Circa 3.4m MT of consumption in RPP worth $3.5bn traded between Jan - Oct 2020

COMMERCIAL CONSIDERATIONS

FUEL SWITCHING

Fuel switching is considered an essential, simple step towards a decarbonised future

- Fuel switching replaces less efficient fuels with cleaner and economical alternatives, which can be complemented by equipment upgrades (e.g. OCGT to CCGT)

- Fuel switching is a simple approach to curbing carbon emissions, as well as reducing energy consumption, and largely end-user costs. It is growing fast in Asia.

- The application for fuel switching in SSA are vast, including, but not limited to, the adjacent buckets, citing:
  - Power;
  - Transport;
  - Cooking; and
  - Maritime

- These buckets are relevant across all markets, including Commercial, Industrial and Residential applications

- Fuel switching often requires a policy instrument and/or incentives for initial switching to occur. Once there is sufficient momentum, and wide new fuel availability, the benefits for fuel switching become more profound for end-users

Power	Transport	Maritime	Cooking
• Coal to Gas • HFO / Diesel to Gas • HFO / Diesel to LPG	• Biofuels blending • LNG Trucking • Diesel to LPG/ CNG	• HFO / Diesel to Gas / LNG	• Kerosene to LPG • Paraffin to LPG • Wood to LPG

CLEANER FUELS

- Aligned with fuel switching, the transition to cleaner burning fuels results in lower carbon, and other emissions.

- A developing example is found in the Maritime sector, via MARPOL, where from 2020 lower sulphur content fuel is a sector-wide requirement.

  - The better the grade of fuel the lower the sulphur content will be (removed through the refining process).
  - Both NOx and SOx are combustion products that are emitted in the form of fumes. Reducing these emissions will result in significant CO_2 abatement,
    - e.g. NOx = 293 x CO_2 equivalent
  - LNG is the optimal choice in this regard, due to its clean-burning characteristics.
  - It is comprised of only carbon and hydrogen (CH4).
  - Not only are nearly all NOx and SOx emissions eliminated, but LNG will also reduce CO_2 emissions by c 60% (assuming CCGT)

- Whilst the benefit of burning cleaner fuels via fuel switching is clear, it would not automatically qualify the user for sustainable financing benefits
  - We cover our sustainable financing product offering later in the presentation

- In **Ghana**, Tema LNG recently received its FSRU from China. Tema LNG is expected to become operational within 2Q21. The Project's feedstock will be cheaper than HFO, with lower emissions and is expected to offer high reliability (through maritime delivery)

HYDROGEN AND CARBON CAPTURE

Hydrogen is a targeted option for of the physical transportation of power and an **environmentally-friendly fuel to power transport**.

GREY

- Currently, most hydrogen currently comes from natural gas production
- The majority of chemicals in natural gas contain large amounts of hydrocarbons - hydrogen chemically bonded with carbon.
- Catalysts break these bonds, but the excess carbon then creates CO_2, making grey hydrogen more costly as carbon costs need to be accounted for

BLUE

- Blue hydrogen relies on the same process as grey hydrogen, along with Carbon Capture and Storage (**CCS)**. This eliminates the emissions of grey hydrogen, lessening the environmental impact.
- Growth of blue hydrogen has remained slow, as it awaits more large-scale CCS plants. Blue hydrogen **avoids the potential future cost of carbon tariffs** in exchange for the fixed cost of using CCS.
- CCS projects can form around mature oil & gas fields. The existing infrastructure and compatibility of blue hydrogen make it more attractive in theory to producers

GREEN

- **Green hydrogen cuts out polluting chemicals entirely**.
- It requires water and electricity, which create hydrogen using electrolysis.
- Using electricity originally generated by renewable sources (solar, wind etc) makes this hydrogen carbon-free and consequently "**green**" in colour.
- The IEA predicts worldwide green hydrogen generation will grow 22x by 2030, following increasing use of hydrogen-fuelled vehicles and energy storage systems.
- Hydrogen infrastructure and transportation remains underdeveloped in most areas, also noted renewable energy is generally not yet base load power.

CHANGING RULES & REGULATIONS

UPDATE TO THE EQUATOR PRINCIPLES

- The Equator Principles have been one of the principal frameworks for managing sustainability and ESG risk in projects by financial institutions since 2003.
- EP4 is the latest update of the Equator Principles framework used by signatory financial institutions (known as Equator Principles Financial Institutions, or EPFIs) to assess and manage environmental and social risk in international project finance.
- Key differences from the June 2013 version (EP3) relate to the scope of transactions covered by the Equator Principles, and new requirements in relation to:
  - Projects in high-income Organization for Economic Cooperation and Development (OECD) nations,
  - Human rights,
  - Impacts on indigenous peoples and
  - Climate change.
- While EP4 was scheduled to take effect on October 1, 2020, after an initial July date was postponed due to COVID19 some lenders have been implementing EP4 since it was released in 2019.
- EP4 will now apply to a wider range of transactions and projects, including refinancing and acquisition finance. It will also apply to project-related corporate loans of US $50 million or more that are of two years or more in duration.
- EPFIs will also be required to support the objectives of the Paris Agreement. ESIA must include a climate change risk assessment identifying physical risks, e.g:
  - Direct damage to infrastructure,
  - Indirect impacts to supply chains) and
  - Transition risks., e.g. Policy and legal risks from national policy changes, reputational risk) in alignment with the recommendations of the Task Force on Climate-related Financial Disclosures.

SUSTAINABLE DOWNSTREAM FINANCING

DOWNSTREAM OIL & GAS FINANCING

FUNDING OPTIONS

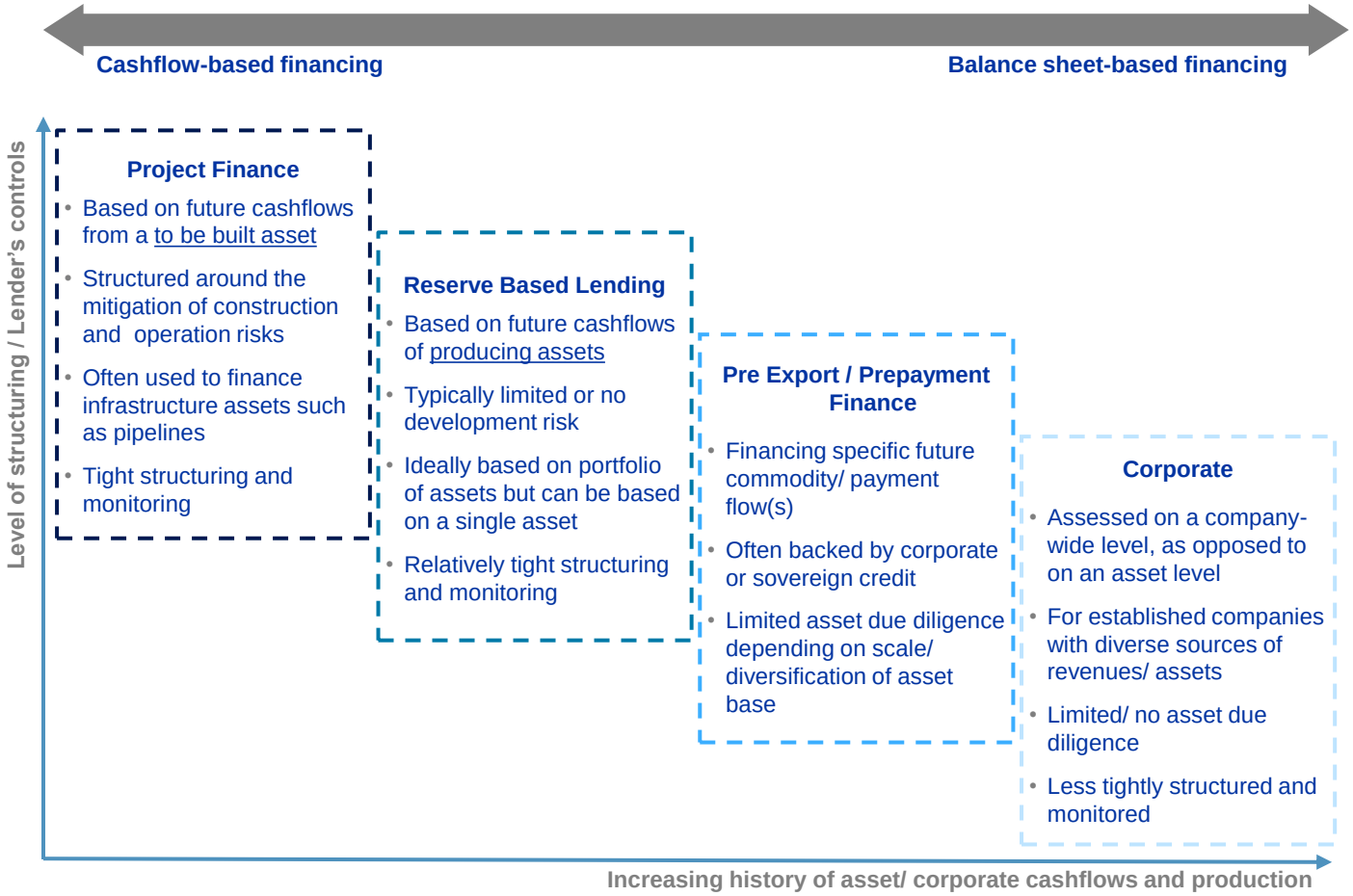
Equity / Quasi-Equity

- Cash equity injections (from shareholder)
  - "Repaid'' by dividends and needs distributable profits
- Shareholder Loans
  - Can be repaid so long as there is cash flow
- Retained Earnings (in time)
- Share Sale
  - Partner with international player
- Farm-in (form of joint venture typical in upstream)
- Joint Venture Project Company (typical in midstream)

Debt

- Corporate Loans
  - Lenders look to entire balance sheet and have recourse to same. Depending on corporate cash flows and to a lesser extent balance sheet strength
- Project Finance/Public Private Partnerships ("**PPP**")
  - Assumed to be midstream project for this presentation (see next slide)
- Reserve Based Lending ("**RBL**")
- Trade Finance
- Leasing/Asset Finance
  - Similar to term debt under IFRS and now typically only used for equipment financing

DEBT FINANCE OPTIONS AVAILABLE



THE ENERGY TRANSITION AND THE OIL & GAS SECTOR

OIL & GAS AS PART OF THE ENERGY TRANSITION

- **Global transition from Fossil Fuels to Cleaner Energy Feedstock:** The global energy system will become cleaner (as a % of increasingly total supply). Africa will likely see an increase in fossil fuel use, giving much needed wider access to energy, before transitioning to a cleaner path, as a % of total African supply
- **Decarbonisation:** Integrated oil companies have set long term GHG emissions reduction targets, aligning executive pay with reducing carbon
  - Shell, Eni and Total aimed to reduce carbon footprint in their energy products by 50% (by 2050), 43% (by 2025) and 60% (by 2035)
- **Access to Reliable Power Supply :** 15% and 8% of the total SSA electricity generation are sourced from oil products and back-up generators respectively underscoring the rationale to clean source of energy

PRODUCTION NEEDS TO MOVE CLOSER TO THE SOURCE

Marine Transportation of products is a significant contributor to GHG Emissions

According to the IMO(1), global shipping accounts for c.1bn tons of CO_2 emissions annually, representing 2.6% of global greenhouse gas (GHG) emissions

World cargo fleet requires 300mt of fuel oil, giving the international maritime shipping industry about the same carbon footprint as Germany

More than 90% trade (including oil & gas exports/imports) for Africa are facilitated by sea through ports, contributing significantly to the global GHG emissions

The Continent can reduce its GHG emission contribution by beneficiating materials closer to their production point. This includes crude oil & gas, into mid/downstream infrastructure that minimises transportation of hydrocarbons e.g. oil refineries, pipelines, etc.

EMISSIONS BY SCOPE

- Greenhouse gas emissions are categorised into three groups or 'Scopes' by the most widely-used international accounting tool, the Greenhouse Gas ("**GHG**") Protocol.
- **Scope 1** covers direct emissions from owned or controlled sources
  - Fuel combustion, on-site venting (process & cold), flaring, fugitive emissions, vehicle use etc
- **Scope 2** covers indirect emissions from the generation of purchased electricity, steam, heating and cooling consumed by the reporting company.
- **Scope 3** includes all other indirect emissions that occur in a company's entire value chain.
  - Purchased goods and services, business travel, employee commuting, waste disposal, use of sold products, transportation and distribution, investments, leased assets and franchises etc

- For all companies making commitments to reducing their environmental impact, the adoption of various GHG reduction methodologies is across their operational footprint, especially for reducing their scope 1 & 2 emissions, where they may have more influence.
- A reduction in routine (production) flaring is a key GHG reduction methodology that gas producing O&G companies can implement to reduce their scope 1 emissions from operational sites
  - This Is aligned with the World Bank Zero Routine Flaring 2030 initiative launched in 2014, to which many IOC's are party to

Sources: IEA, PWC, AFDB, South Africa Department of Transport, Press, Population Pyramid, Reuters, Press, The Carbon Trust
Note: (1) International Maritime Organisation

AFRICAN PROGRESS IN TRANSITIONING THE OIL & GAS SECTOR

NATURAL GAS IS PLACED TO BE A BRIDGE TO CLEAN ENERGY

According to IEA, Africa is expected to become a major player in natural gas as a producer, consumer and exporter. Gas demand in Africa doubles to 2040 in IEA's Stated Policies Scenario. Africa – led by Mozambique and Egypt – emerges as a major supplier of LNG to global markets

#2 Fuel	Gas likely to become the No.2 fuel after coal by 2030 globally
40%	Of global gas discoveries were in Africa during 2011-18
156bcm	Expected natural gas demand during 2018-40, higher than India
5%	Of the SSA energy mix contributed by natural gas

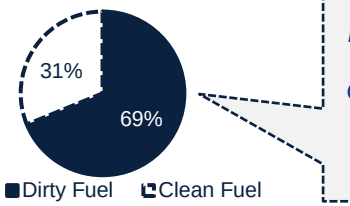
Gas-based projects in Africa	
Coral LNG, Mozambique	A floating LNG project located offshore Mozambique, in the southern part of Area-4 of Rovuma Basin
Mozambique LNG	A USD20bn LNG project that started with the discovery of natural gas off the coast of northern Mozambique
Nigeria LNG	Nigeria LNG is considered one of the most important economic projects in Nigeria, currently developing Train 7 gas expansion project

DEVELOPMENTS IN AFRICAN DOWNSTREAM

- Nigeria has seen increased investments due to the rapidly progressing **Dangote refinery**, with refining units soon to be installed – thus reducing transport emissions for refined product
- Ivory Coast government's USD674m new finance package for the **Societe Ivoirienne de Raffinage refinery** in Abidjan and planned upgrades to meet the ARA's AFRI-4 specifications
- Saudi Aramco announced plans to build an oil refinery and petrochemical complex in SA, while CNOOC is taking a stake in the USD3.5bn East African Crude Oil Pipeline
- The planned Uganda refinery will reduce transportation emissions for refined product in the region, as domestic crude oil will be produced and refined locally.

SEVERAL FACTORS TO CONSIDER IN WOOD TO LP GAS TRANSITION

1) Dirty Fuel (Wood and Charcoal)



According to the WHO, around 900 million people (69% of 2019 population) in Africa use dirty fuel (Wood or Charocal) for cooking, contributing to air pollution that causes an estimated 500,000 premature deaths on the continent each year

2) Deforestation

- Wood fuel contributes to deforestation, a major problem for many African nations, with more than **60% of families in Sub Saharan Africa using wood to meet their energy needs**, making it a significant contributor to forest degradation throughout the region

3) Technology Making Gas Competitive

- The recent **explosion of mobile money**, more **affordable technology to build smart meters** and urbanisation have combined to make pay-as-you-go LPG competitive

Case study: Kenya M-Gas: Replacing Wood/ Charcoal by LPG

M-Gas launched in Jan'20 is tapping into low-income market for clean cooking fuels, using LPG tanks

- Almost halves the expense on the use of LPG as cooking fuel compared to wood
- Smart meters on the M-Gas tanks allow customers to make small payments - even meal by meal - on their mobile phones
- Cost of the stove, meters and delivery is paid through a small premium on the overall price of the LPG – so no upfront costs

Sources: IEA, PWC, AFDB, South Africa Department of Transport, Press, Population Pyramid, Reuters, Press

SUSTAINABLE FOCUS AREAS FOR THE OIL AND GAS INDUSTRY

Sustainable Supply Chains	Embedding ESG Downstream	Natural and Social Capital	Sustainable Operations	The Transition to a Greener Sector
Embed sustainability across the supply chain and procurement by mapping and mitigating risks and identifying opportunities to build a business case, design programs, measure impacts, and report progress to internal and external stakeholders	Promoting the use of gas and waste plastics as feedstock or other methods of greening the distribution process. At a retail level: assessing health risks, complying with hygiene regulations and reassuring employees and customers during day-to-day operations	Focus on assessing natural and social capital risks, designing strategies and implementing processes for managing that capital, and measuring the impacts of efforts to capture benefits and demonstrate measurable progress toward their publicly stated goals	Improving operations through gap assessments (against peers, regulations and other benchmarks), process transformation and more effective resource management (water, waste, energy, etc.) to reduce cost, drive compliance and achieve publicly stated goals	As investors and banks recognise their role in the energy transition, the oil & gas industry needs to engage and adapt to a changing policy and investment landscape. The requirement is to evolve in ways that contribute and lead efforts to decarbonize the energy system

Priority Actions the industry can take to become more energy efficient

1. Use more renewable energy sources and emphasize energy efficiency throughout the entire fuels supply chain (e.g. solar panels on filling stations)
2. Reduce the flaring of gas from operations and identify opportunities to reuse captured gas on-site or provide energy to local communities
3. Setting achievable targets for improving energy efficiency by refinery managers, given the massive energy usage that refining demands and adoption of cogeneration plants and improved, planned maintenance of plants which allow equipment to operation with better energy efficiency
4. Invest in research and development and utilize core competencies to bridge the gap from fundamental research to commercialization of liquid renewable transportation fuels and renewable generation technologies
5. Promote international trade in sustainable energy products
6. Use innovative business models and create new products and services to improve energy affordability and to enable access to clean cooking and heating solutions

Sources: The UN World Water Development Report 2014: Water and Energy, Accenture: Sustainable Energy for All

TRANSITION FINANCE: MARKET OVERVIEW

Transition finance is any form of financial support that helps high-carbon companies start to implement long-term changes to become greener and help bridges the gap between traditional and sustainable financing as businesses begin the journey to net zero

TRANSITION FINANCE: BRIDGE FOR BROWN INDUSTRIES

- Helping high-carbon companies transition toward net zero emissions is a vital part of combating climate change and banks, investors and policymakers must step up their support
- As sustainable financing has had tremendous impact on clean technologies, the financial sector must help businesses in high-carbon sectors find a way to make the transition towards net zero emissions to achieve the ambitions of the Paris Agreement
- Industries such as energy, transport, chemical, steel and cement etc. are normally classified under “High Carbon Sectors” and need to reduce carbon emissions
  - Traditional form of sustainable finance are not always a good fit for transitional phases of such industries
- Hence, transition finance plays as a important bridge, providing transitional funding solutions to such high carbon sectors and helping them reduce GHG emissions
- The launch of a new funding instrument designed to help "brown" companies shift to greener business activities is always going to generate excitement
  - The new product causing even more of a stir than normal is the **transition bond**, targeting companies that are excluded from sustainable finance markets

TRANSITION BONDS: GAINING TRACTION

- Transition bonds are a new asset class targeted at industries with high greenhouse gas (GHG) emissions – the so-called "brown industries" – that will allow them to raise capital with the goal of becoming less brown
  - Their objective is to help the issuer shift to greener business activities
- These bonds provide incentives to such brown industries to become more sustainable
- Transition bonds targets mining (especially of minerals critical for the low-carbon economy, such as lithium and cobalt), heavy industry (e.g. cement, aluminium, iron, steel, chemicals), utilities (e.g. electricity, gas, water, cable, telecoms) and transport & mobility

Urgency of Transition Finance

- As the world is currently on track to reach an increase of between 2.9°C and 3.4°C, which is well above the targeted level, efforts to transition to low-carbon economies must be ramped up rapidly
- In order to align with the Paris Agreement target of 2°C, nations now have to reduce GHG emissions by 7.6% each year between 2020 and 2030, that would imply tripling their target ambitions compared to current policies

International Precedents Exist for Transition Bond Issuances

Other “brown industries” have tapped the Transitional Funding market

1. 2017: Hong Kong's **electricity generation company**, Castle Peak Company Limited issued a USD500m "**energy transition bond**" to finance the building of a new 550MW combined cycle gas turbine generation unit
2. 2019: Italian **gas company**, Snam launched the first **climate action bond** in Europe as it raised a EUR500m six-year bond to fund investments in biomethane and energy efficiency and other projects to reduce the environmental impacts of its activities, including the reduction of its methane emissions by 25% by 2025
3. 2019: Brazilian **beef producer** Marfrig Global Foods issued a USD500m 10-year "**sustainable transition bond**", to fund their purchase of cattle only from ranchers in the Amazon region who comply with non-deforestation and other sustainable criteria, such as animal welfare and fair-labour practices.
4. March 2020: UK **gas distributor**, Cadent Gas, issued a EUR500m 12-year **transition bond** to replace pipelines to facilitate the future carriage of hydrogen and other low-carbon gases and reduce methane leakage

Sources: BNP Paribas, HSBC, Press

STANDARD BANK SUSTAINABLE DEBT PRODUCTS

Sustainability Linked Loan/Bond

- Facility constitutes an ESG pricing mechanism linked to an ESG rating or target aligned to corporates sustainability goals

Green or Social Loan

- Loan where the use of proceeds are designated for eligible Green[1] and/or Social[2] Assets or Projects that are directly owned/funded by the corporate

Green or Social Bond

- Bond of which the proceeds are used to finance Green[1] and/or Social[2] Assets or Projects

Transition Loan or Bond

- Loan/Bond where the use of proceeds are designated for eligible Transition Assets or Projects
- Transition Funding is a new asset class targeted at industries with high greenhouse gas emissions that will allow them to raise capital with the goal of becoming less brown, helping the issuer shift to greener business activities
- Brown industries are not green today and cannot be entirely green tomorrow – yet they can, with the right incentives, take active steps to become more sustainable

Client Interest in the sustainability market includes:

- **Reputation**
  - A key driver, with additional impetus as a perception of lacking social responsibility or adverse environmental impacts (even though legal) can be damaging.
- **Regulations**
  - The global political drive for sustainable development has gathered momentum, culminating in the Sustainability Goals of the UN Conference on Sustainable Development and the Paris Climate Agreement.
- **Credit profile:**
  - Empirical evidence supports that a company operating on a sustainable basis is likely to have better governance and better management.
  - New ratings products directly link ESG with credit rating.
- **Reporting obligations**
  - Increasingly borrowers are required to disclose information on sustainability issues as part of their annual non-financial reporting obligations.
- **Shareholders**
  - Shareholders including pension funds and similar collective investment schemes, are increasingly active and expect companies in which they invest to show that they are responsible citizens through integrating ESG.

Note (1) - Eligible Green Assets/Projects include; renewable energy, energy efficiency, pollution prevention and control, clean transport , climate change adaptation, green buildings

Note (2) – Eligible Social Assets/Projects include; affordable basic infrastructure, access to essential services, affordable housing, employment generation, food security and sustainable food systems and socio-economic advancement and empowerment

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