IPAA Private Capital Conference
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Presented By:
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EIG Global Energy Partners

• TCW’s former Energy Team is now EIG Global Energy Partners
  – All energy funds previously managed by TCW are now managed by EIG
  – All energy professionals who previously worked for TCW now work for EIG
  – EIG is a new company separate and independent from TCW

• Experience
  – Solely focused on energy since 1982
  – Longest track record of any energy specialist investor
  – Over $11 billion invested
  – Over 260 portfolio investment made

• Active Global Investor
  – From 2008 – 2010 invested $4 billion in global energy opportunities
  – Have made investments in 33 countries on 6 continents
Oil & Gas Specialist

- **Houston based oil & gas team**
  - Includes 6 petroleum engineers with average industry experience of 23 years
  - Experienced in most basins and plays in the US
  - Have made E&P investments in 17 countries

- **Upstream and midstream experience**
  - Drilling
    - Conventional / Unconventional
    - Onshore / Offshore
    - Domestic / International
  - Waterfloods
  - Enhanced oil recovery
  - Gas gathering, processing, treatment, storage
Investment Approach

• **Very selective**
  – Only expect to do 2-3 E&P deals a year (but have no constraints on number or amount)
  – Prefer working around assets rather than business plans
  – Experienced management a must
  – Typically we don’t partner with other financial institutions

• **Not tied to a specific structure or place in the capital structure**
  – The opportunity and need dictate where we invest
  – Prefer debt or debt-like instruments but frequently make equity investments

• **Want to accelerate growth for proven teams with ready to go opportunities**
  – Preferred investment size $100-250 million, will write a check up to $500 million
  – We like companies with dominate positions; differentiators
  – Management conviction backed by their co-investment
Where do we typically play in the upstream and midstream space?

- **What we like the most**
  - Development / program-type drilling
  - Technically complicated projects - Waterfloods and Enhanced Oil Recovery
  - Construction projects - pipelines, gas plants, storage, terminals
  - Asset-backed opportunities

- **What we like the least**
  - Exploration
  - Funding technology ventures
  - Buy outs
  - Start ups
  - Asset-lite businesses (service companies)
Where have we been investing recently?

Represents $4.2 Billion of Committed Capital Since 2007*

*Includes only mezzanine-like investments committed & closed, or approved by investment committee as of February 15, 2011.
Capital Source Does Matter

• E&P is a very tough and risky business (duh!)
  – Constant need for capital
  – Depleting assets
  – Various Risk - Geologic, execution, production, environmental
  – Commodity price volatility
  – Endless competition, few barriers to entry
  – Regulatory

• Many E&P companies fail. Is it so surprising that financial players do too?
  – Terrible at pricing risk
  – Rely too heavily on third parties to assess risk – ratings agencies and independent engineers
  – Rely too heavily on funding formulas and reserve classifications
  – Too anxious to win business
  – Too quick to cut and run when things don’t go according to plan
  – View the sector as a whole and loose sight of what makes individual companies / assets different
Few Debt Specialists Have Done Well In E&P

EIG (TCW)

RIMCO


Enron
Torch
Beacon
Cambrian
MG
KCS
Tenneco/Range
Wells Fargo
Koch
Mirant
Stratum
Williams
Duke
Deutsche Bank
Shell
Cargill
Aquila
NGPC
CIT
Macquarie
Denham
Petrobridge
Guggenheim
Lehman
Silverpoint
D.E. Shaw
Goldman Sachs
Gasrock
Carlyle
Chambers

*This list is illustrative only and is not purported to be comprehensive or precise as to the dates shown
Prepared for IPAA Private Capital Conference
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E&P Debt Markets: An abridged history of the recent past

• During the most recent “easy credit” period (2004-2007), funny things happened in the debt markets catering to E&P companies

  – Post Glass-Steagall, lines between investment banking and commercial banking blurred
    • Investment banks typically didn’t hold much (if any) of the loans that they originated
    • Banks begged PE shops to allow them to underwrite these loans, often in conjunction with a buy out

  – Origination of Loans and Holding the risk were separated
    • “Covenant Lite”
    • Widely syndicated, making it difficult for lenders to act
    • 2nd lien loans dominated the market

  – Many willing buyers of these and similar type loans
    • Primarily CLOs, non-US banks
    • CLOs borrow at libor + 100, and buy loans at libor + 350-400
    • Institutions begged syndication desk for big allocations of these loans
E&P Debt Markets: An abridged history of the recent past

- Once the financial crisis hit, paper traded at steep discounts and “distressed” investors stepped in
  - The downside of widely syndicated debt
    - Paper traded extensively and wound up in the hands of opportunistic investors
    - Nearly impossible to amend even a healthy deal
    - Generally purchased by generalists investors with no ties, and minimal experience in E&P
    - “Relationship” had no meaning
    - “Loan to Own”
    - Lenders argued and positioned amongst themselves while borrowers died on the vine.
Why Gas Prices Aren’t Going to Get Better Any Time Soon

EIG Funded Shale Wells Since January 1, 2009
Gross Daily Production Ramp Up

Wells Drilled  Wells Producing  Daily Production

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