

# An Examination of Private Oil Company Growth

Rob Arnott  
OIES Internal Seminar

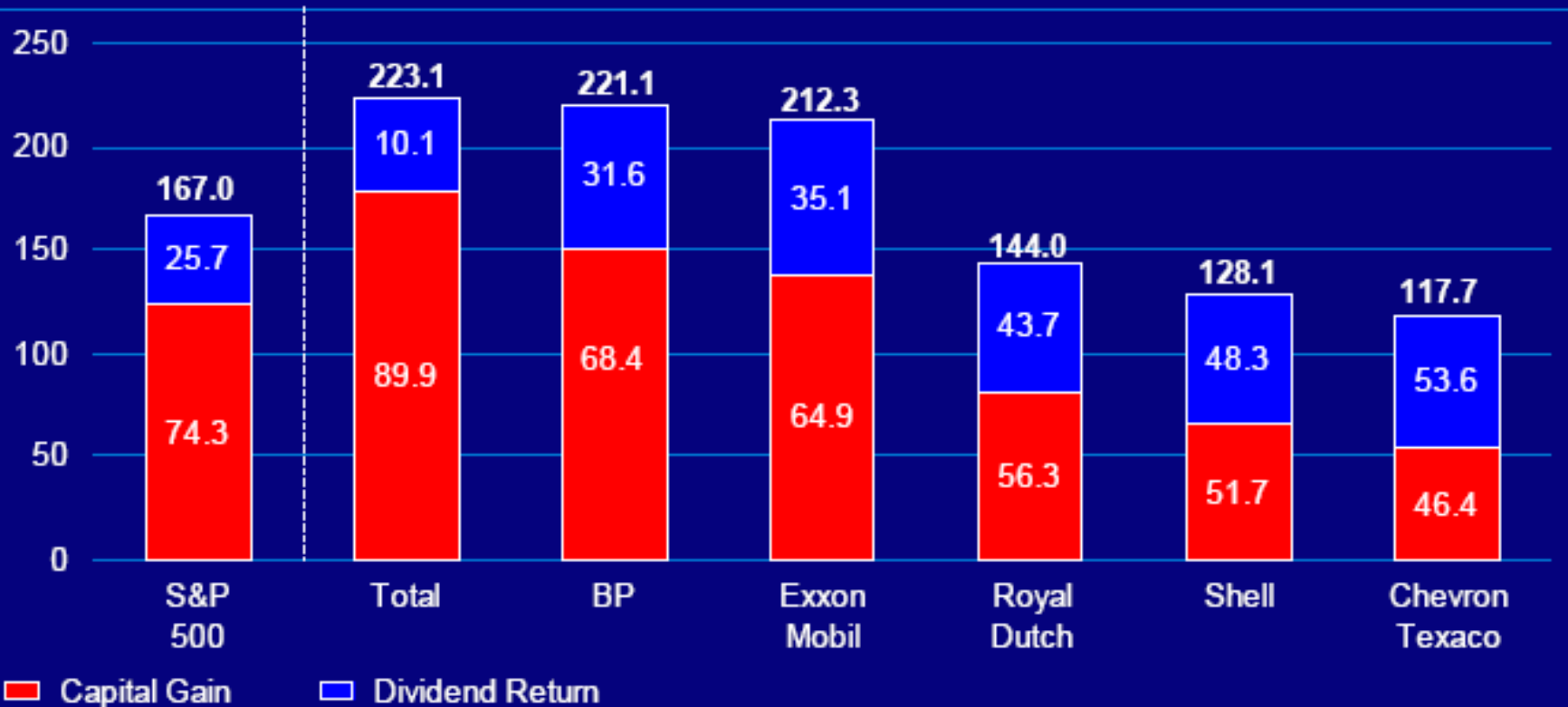
25<sup>th</sup> November 2003

# Private oil company growth

- Overview of global industry trends
  - Regional costs and capital migration
- Industry costs and implications
  - Why is further consolidation likely?
- Company specific growth
  - Where will growth come from?
- Conclusions
  - How much more risk are companies taking on?

# Capital growth is key to equity investors

**Total Return in Local Currency**  
Last 10 Years, %

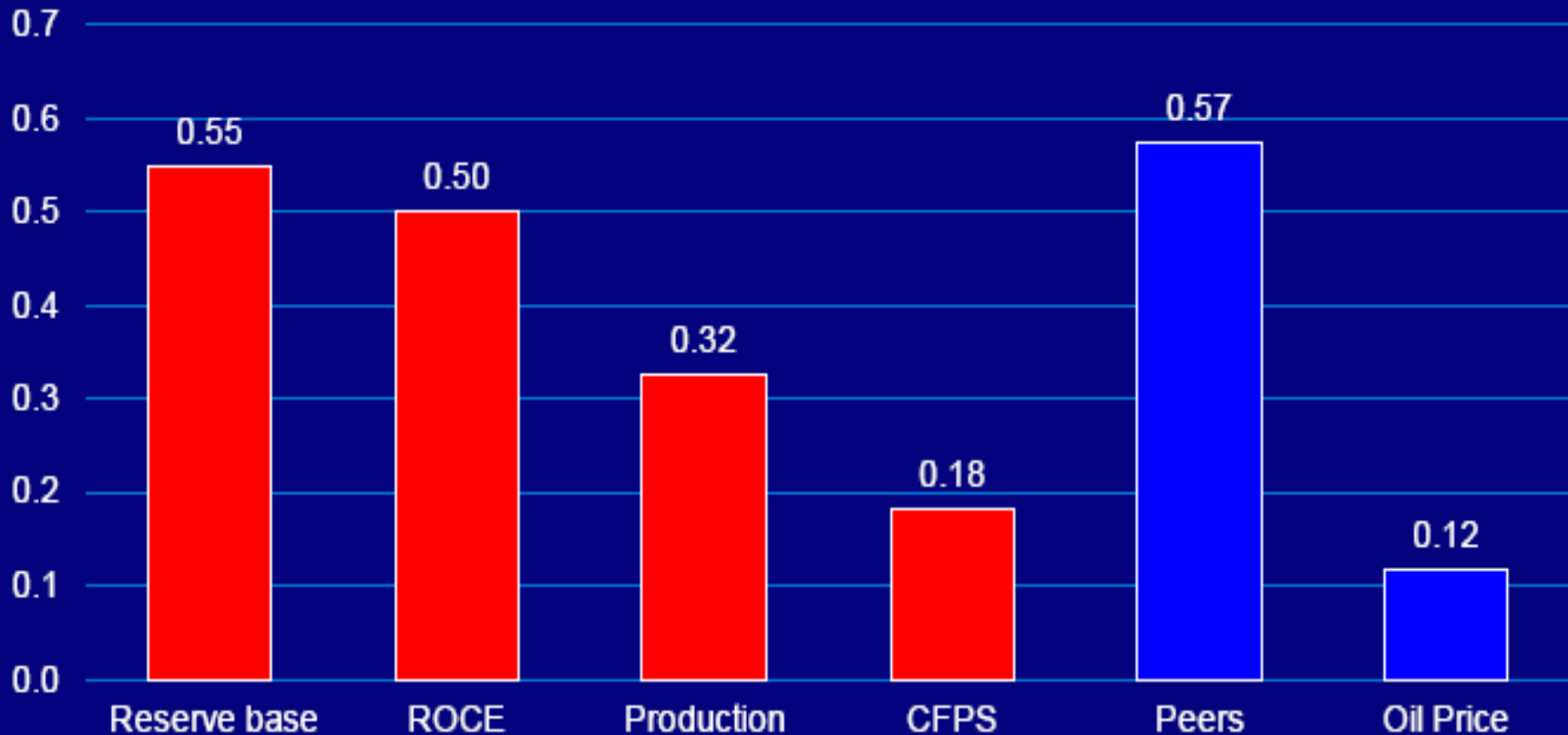


Source: LSE, NYSE

# Reserve growth influences share price

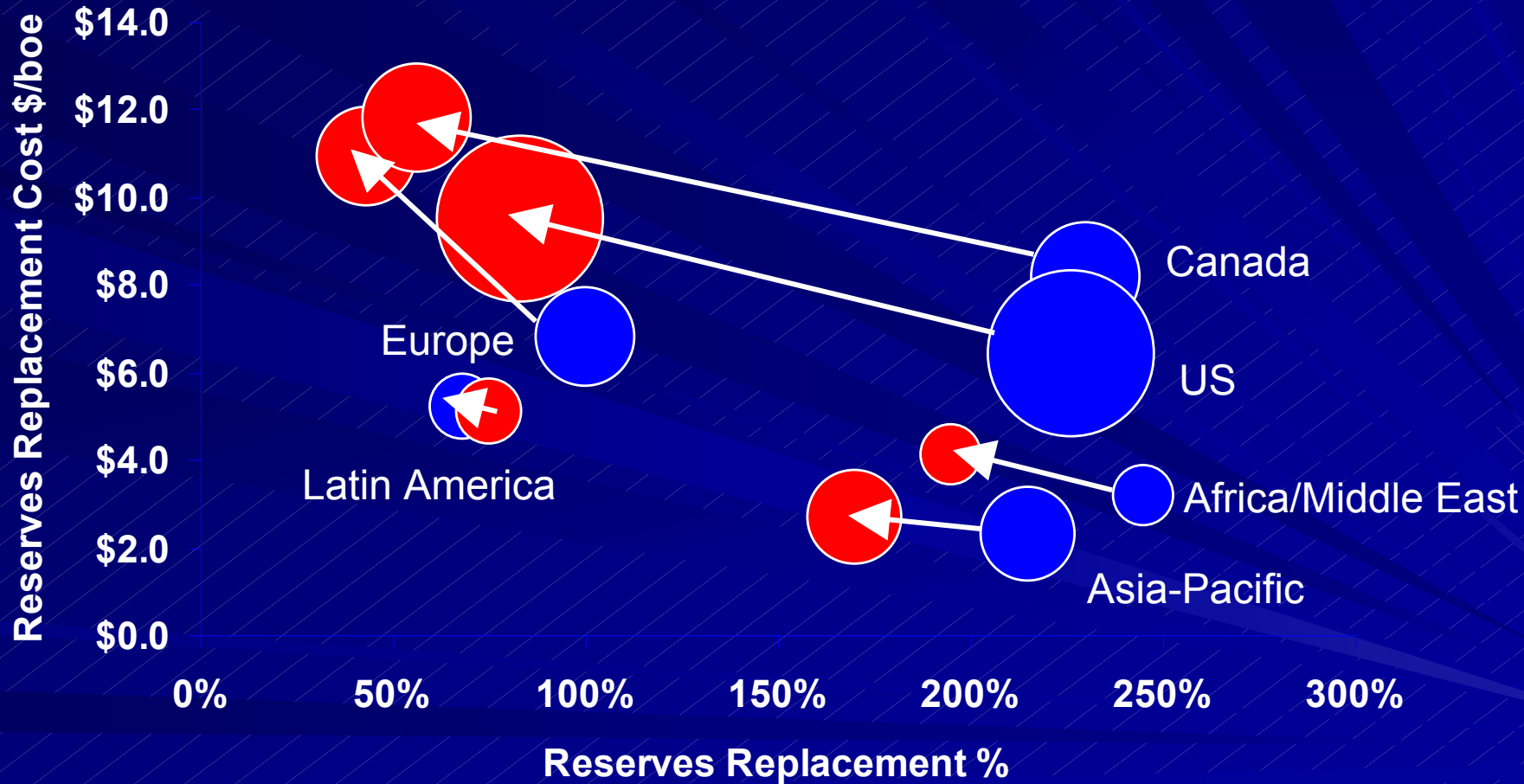
## Correlation Between Relative Changes in Key Variables and Share Price

Illustration



Source: LSE, NYSE, Morgan Stanley

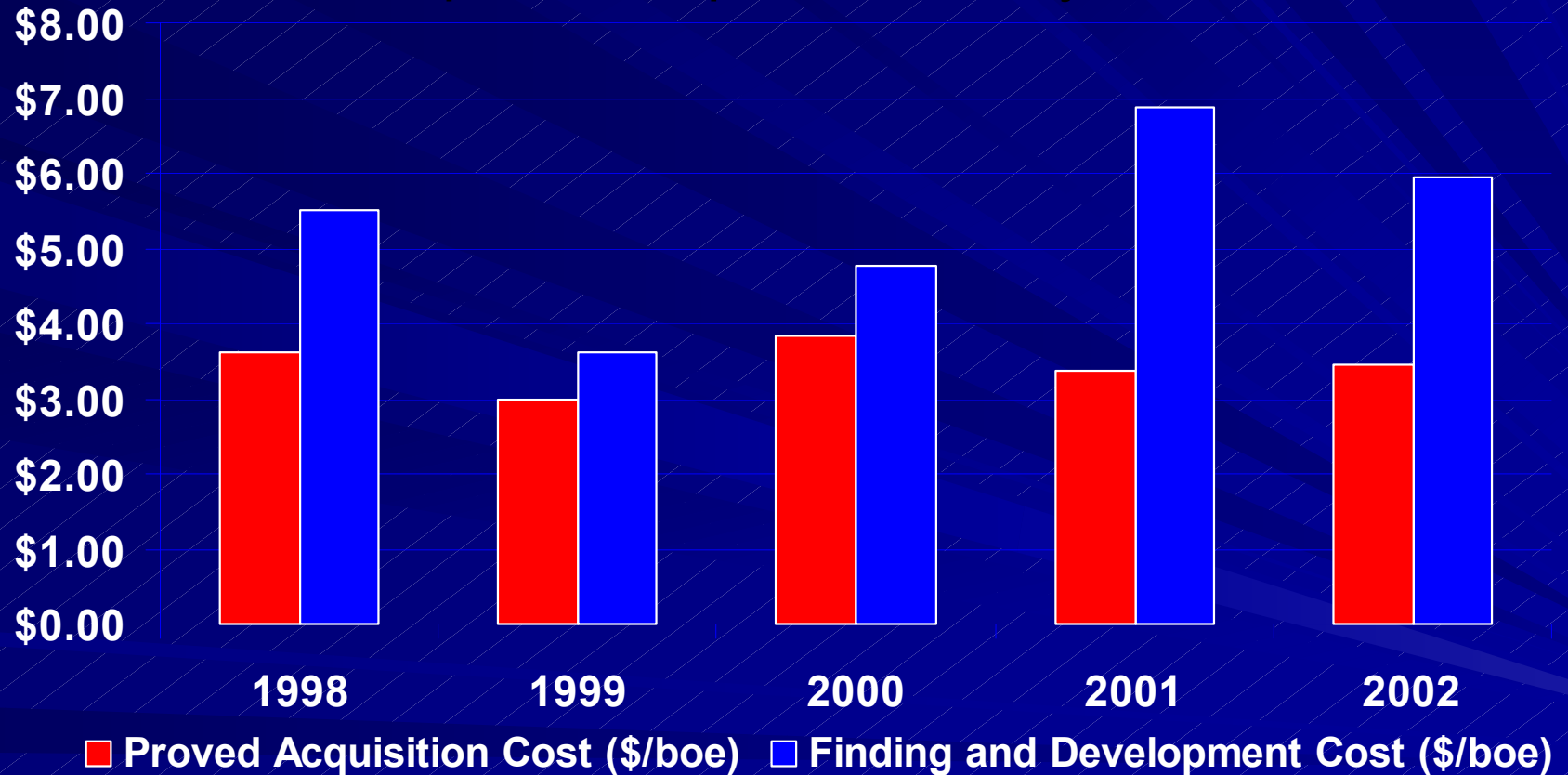
# Replacement figures are deceptive



Source: Company data, JS Herold

# Acquisitions a cheaper route to growth

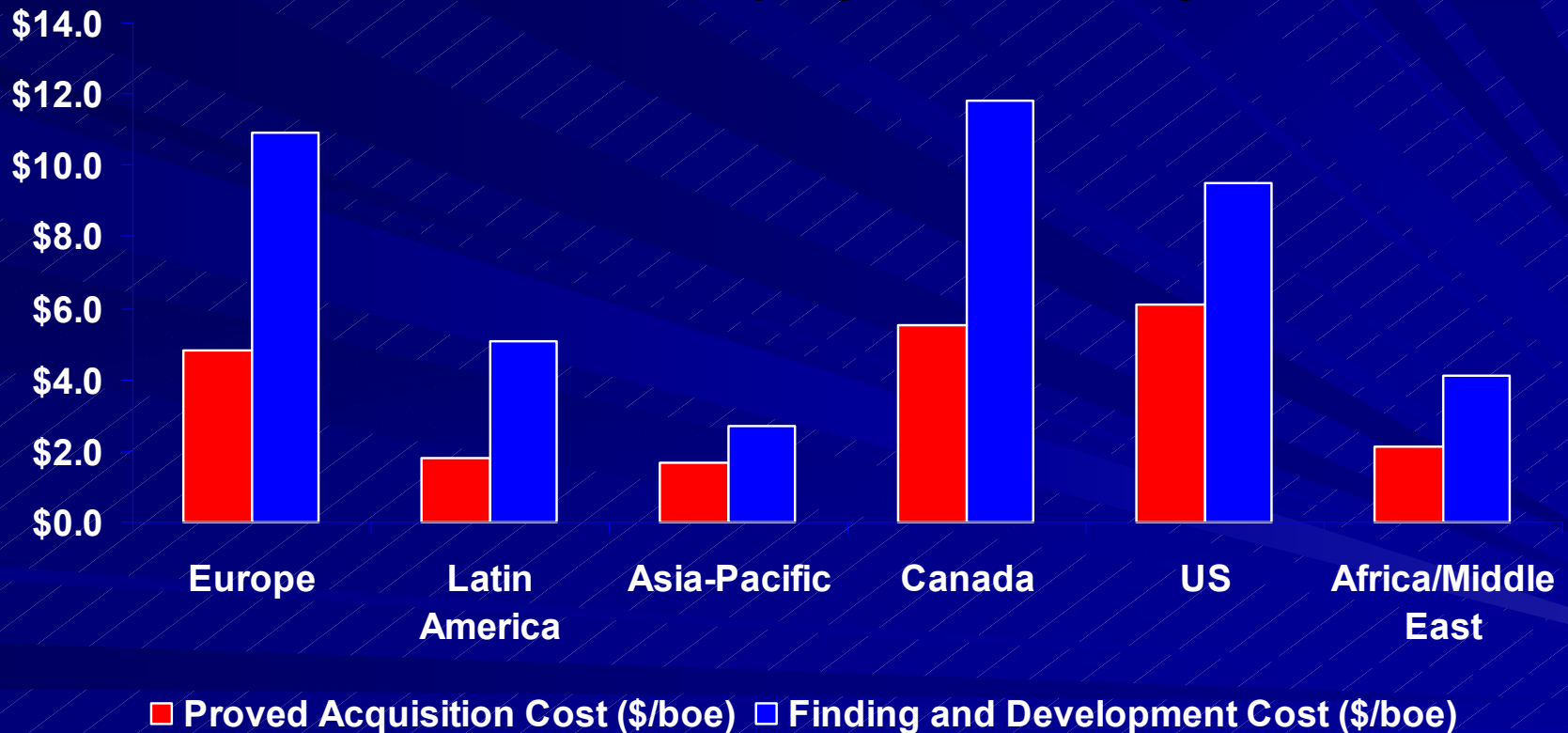
Consistent pattern explains industry consolidation



Source: Company data, JS Herold

# US, Canada and Europe overheated

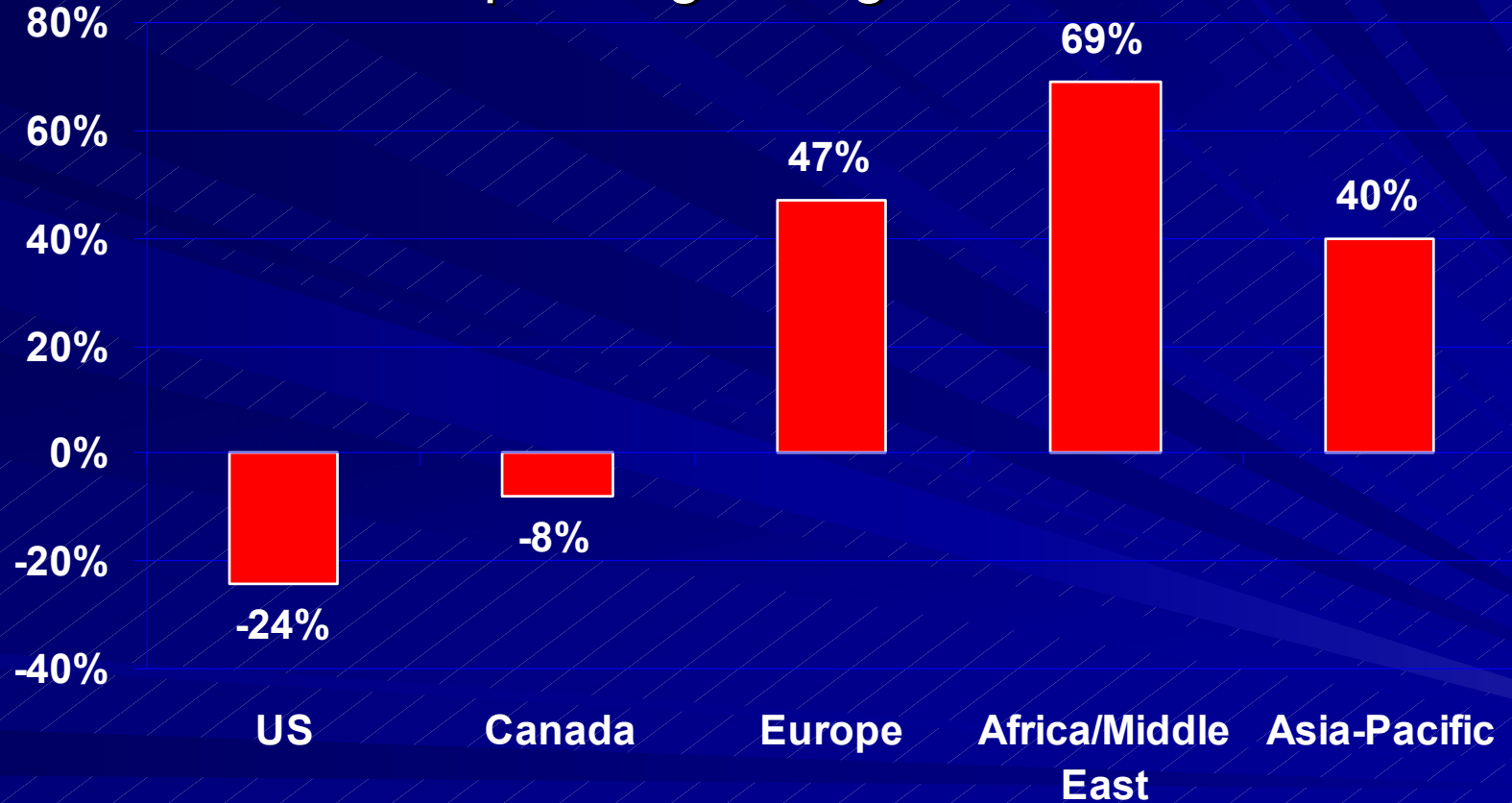
## Companies overpaying to achieve growth



Source: Company data, JS Herold

# Migration of capital away from US

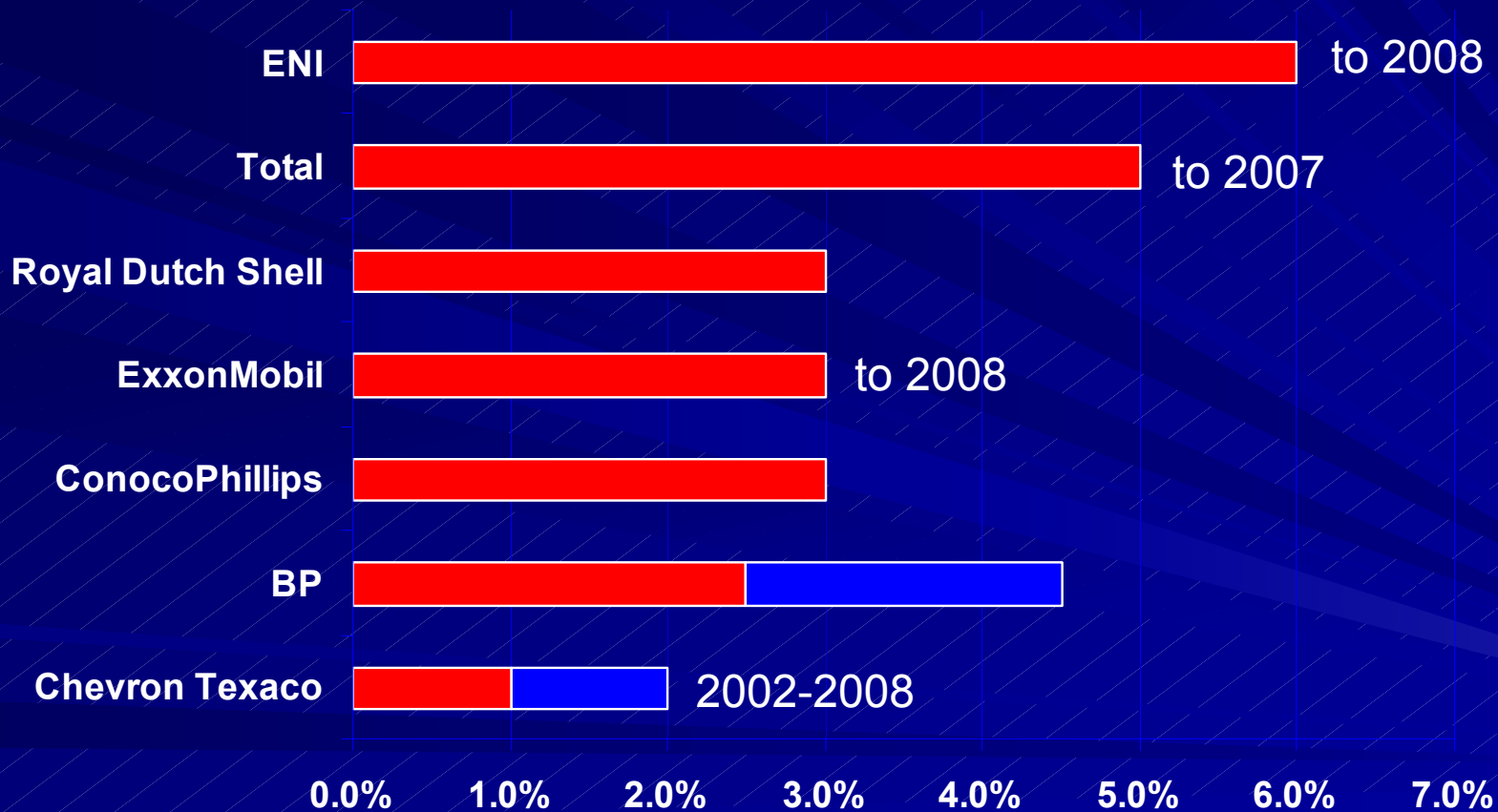
Spending changes 2000-2002



Source: Company data, Harrison Lovegrove



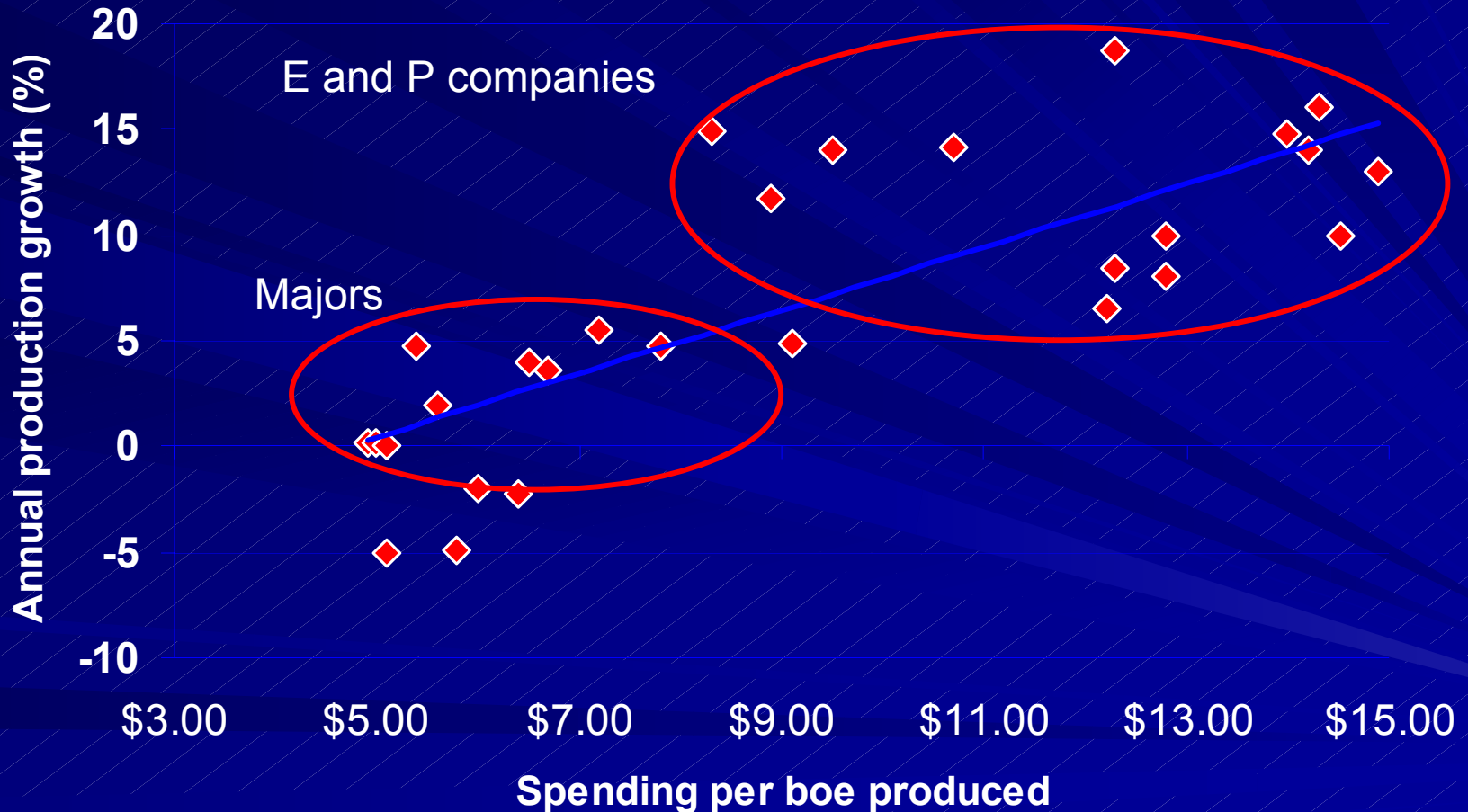
# Private oil company growth targets



Source: Company data

# The real cost of growth

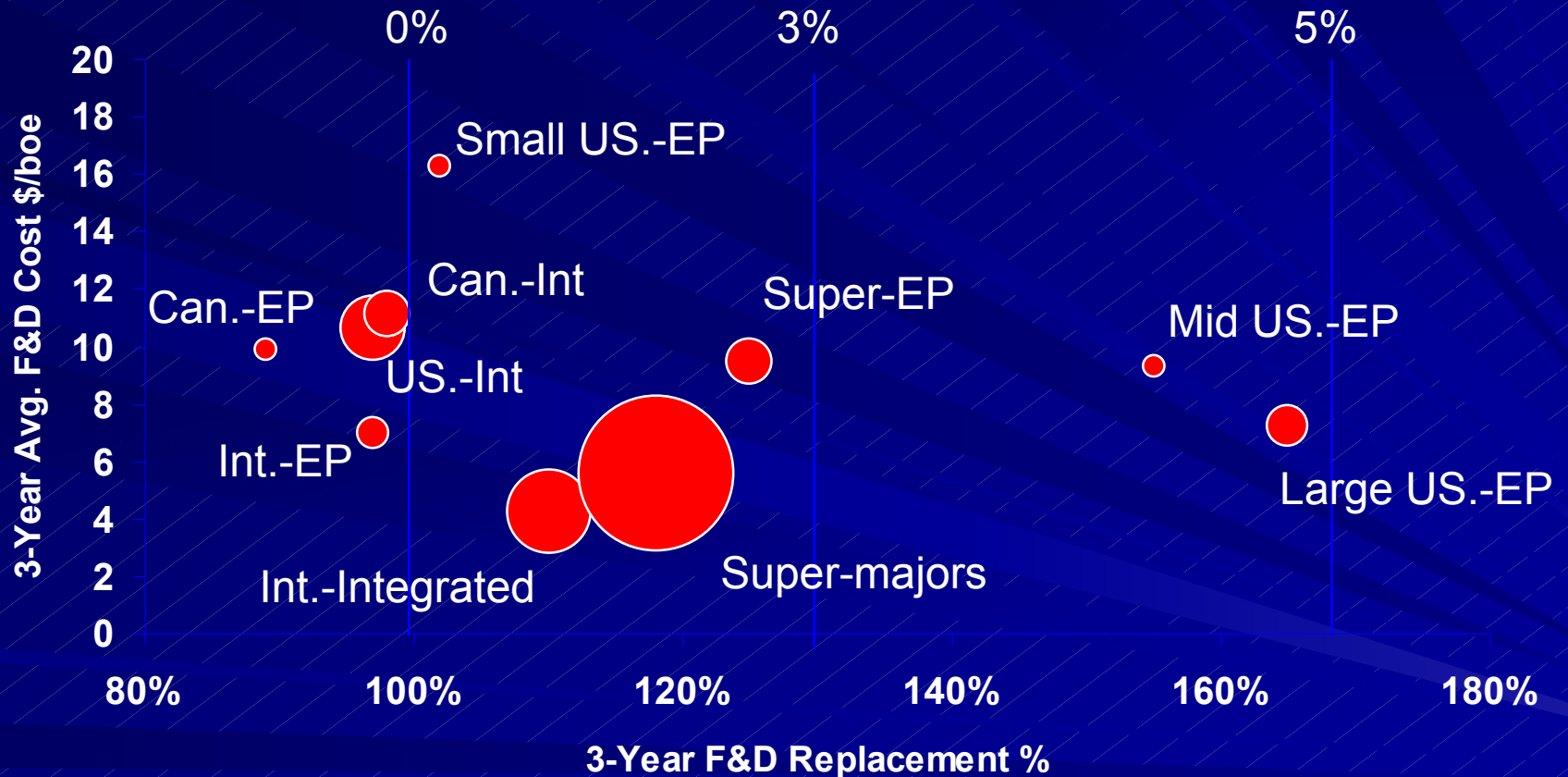
Smaller companies chase growth at shareholders expense



Source: Company data, JS Herold

# Growth without acquisitions unrealistic

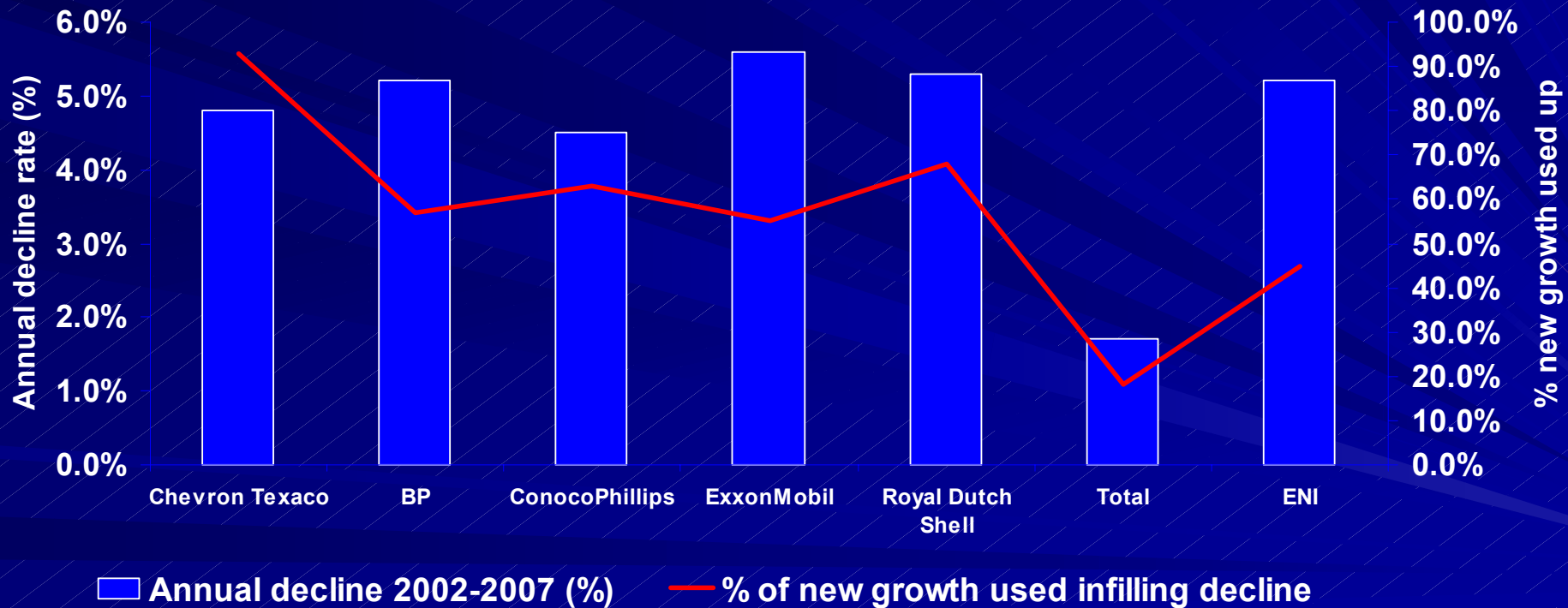
Even revised targets are unlikely to be achieved



Source: Company data, JS Herold, OIES

# Decline versus growth

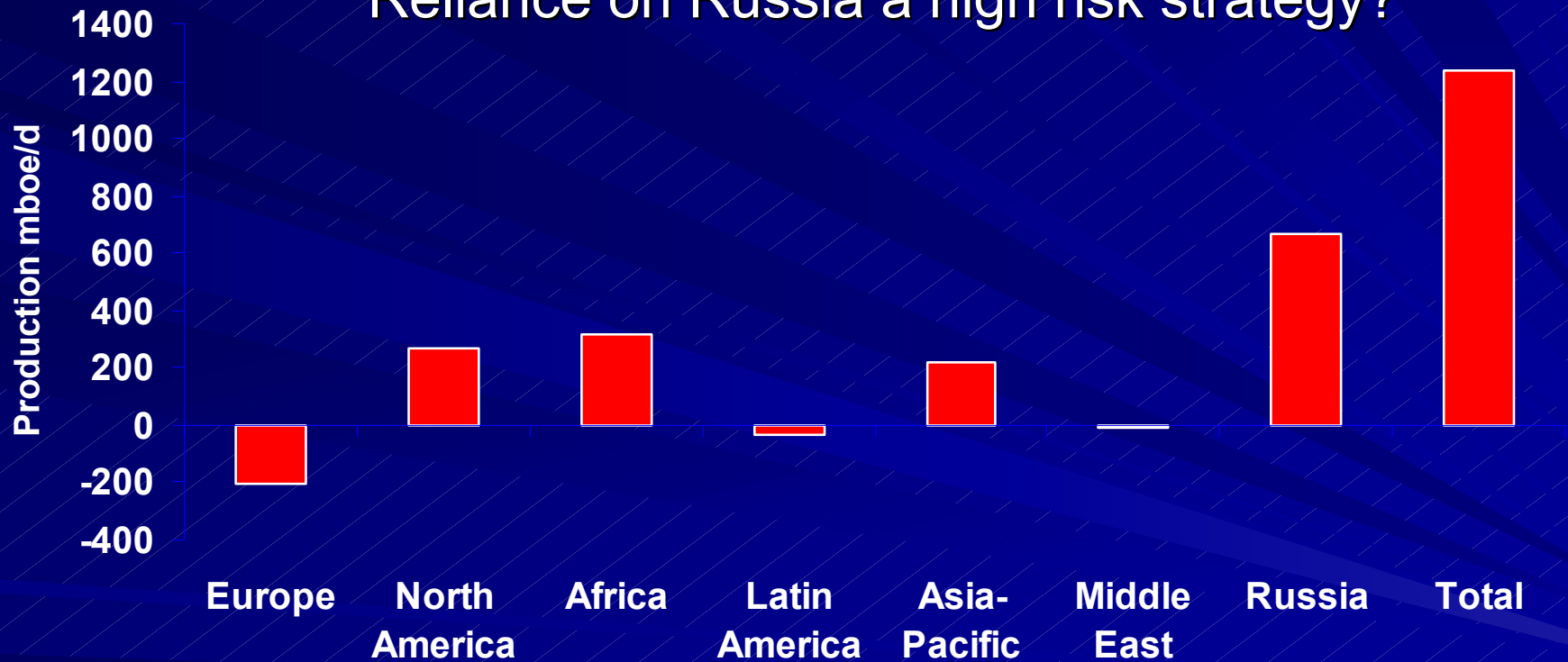
More and more growth projects are needed to infill decline



Source: Company data, OIES

# BP's oil production growth 2002-2007

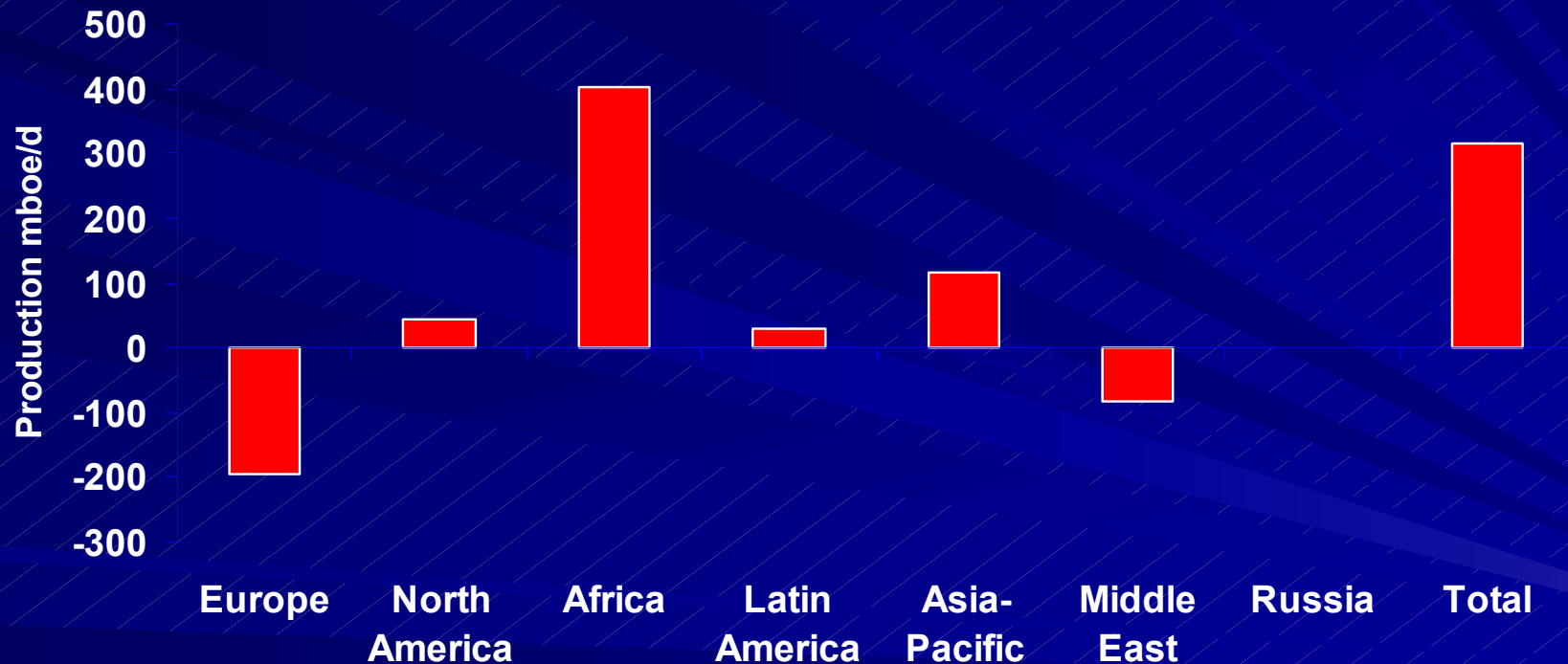
Reliance on Russia a high risk strategy?



Source: Company data, OIES

# Shell's oil production growth 2002-2007

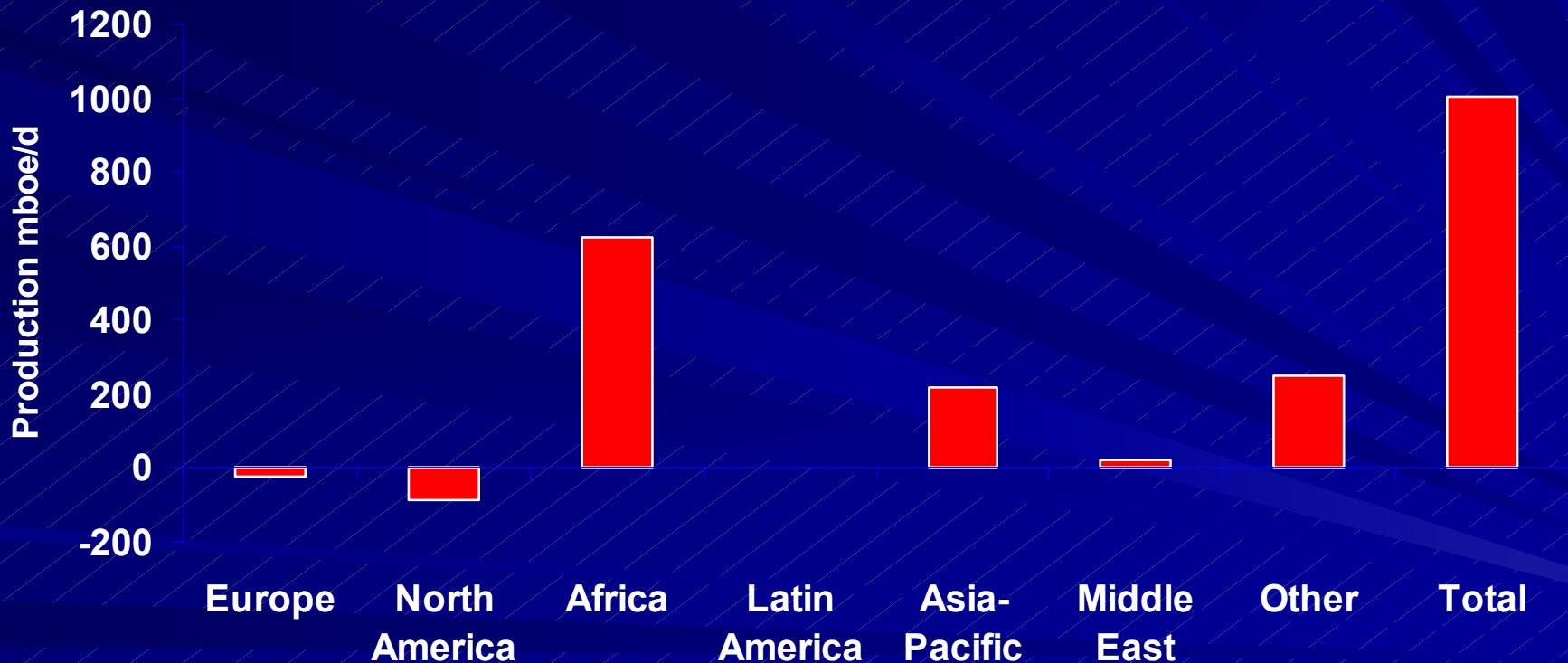
Growth reliant on Nigeria (Bonga, NLNG liquids)



Source: Company data, OIES

# Exxon's oil production growth 2002-2007

Growth from Bonga (Nigeria) + Kizomba/Dalia (Angola)

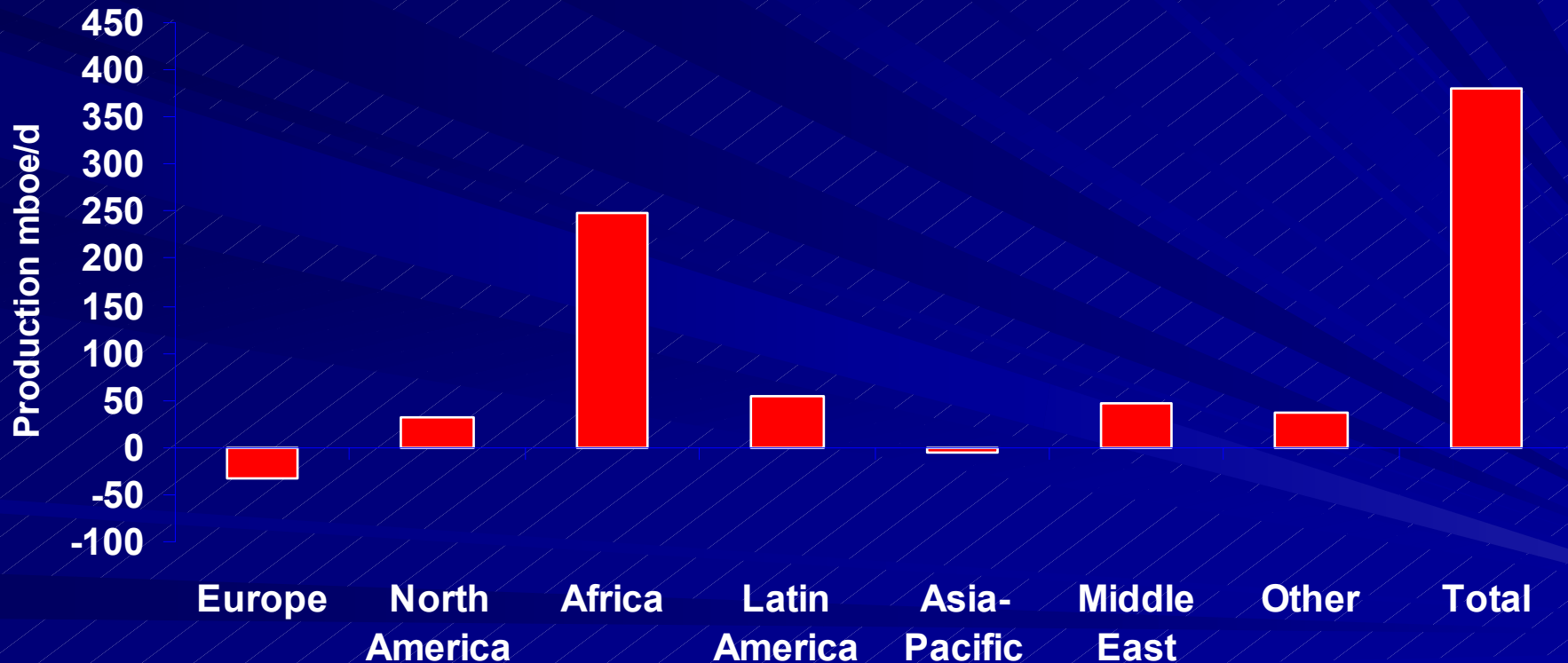


Source: Company data, OIES



# Total's oil production growth 2002-2007

Deepwater Africa the key (Nigeria: BongaMain, Congo: Moho, Angola: Dalia)

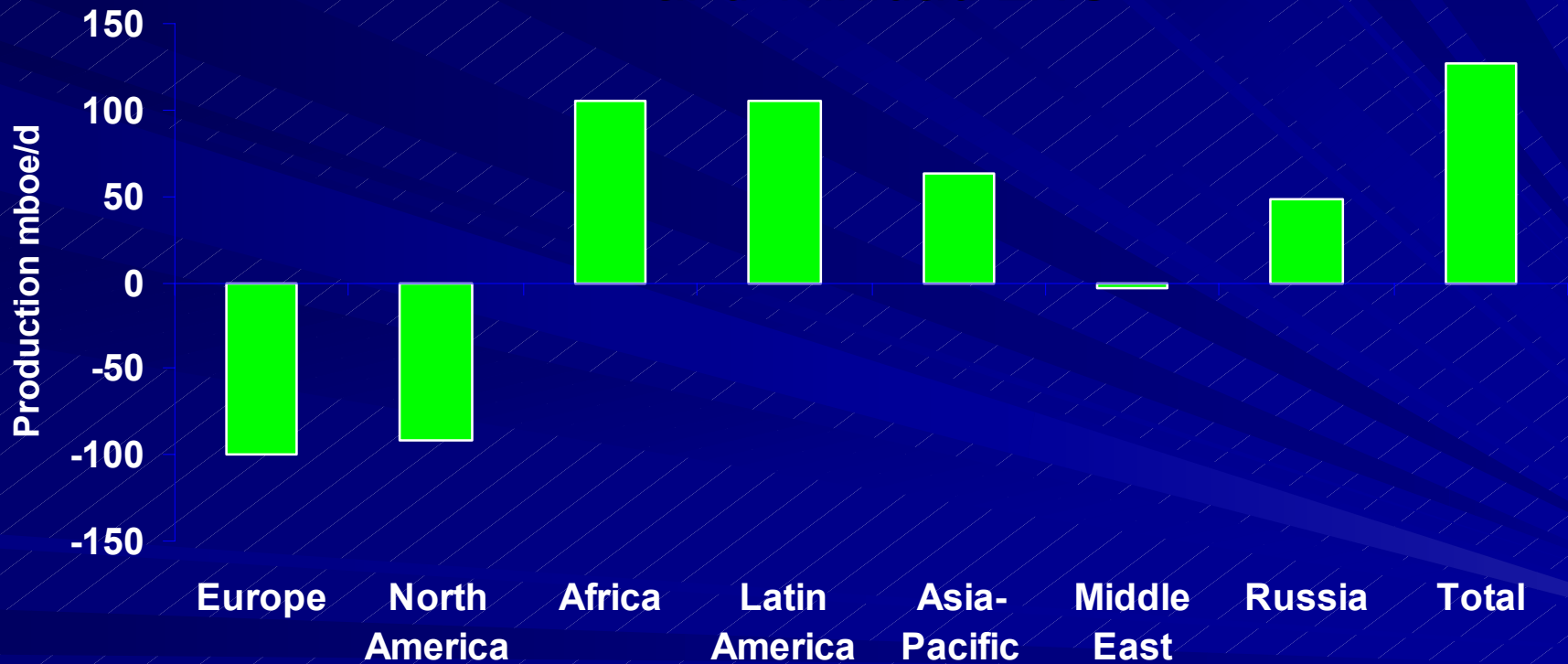


Source: Company data, OIES



# BP's gas production growth 2002-2007

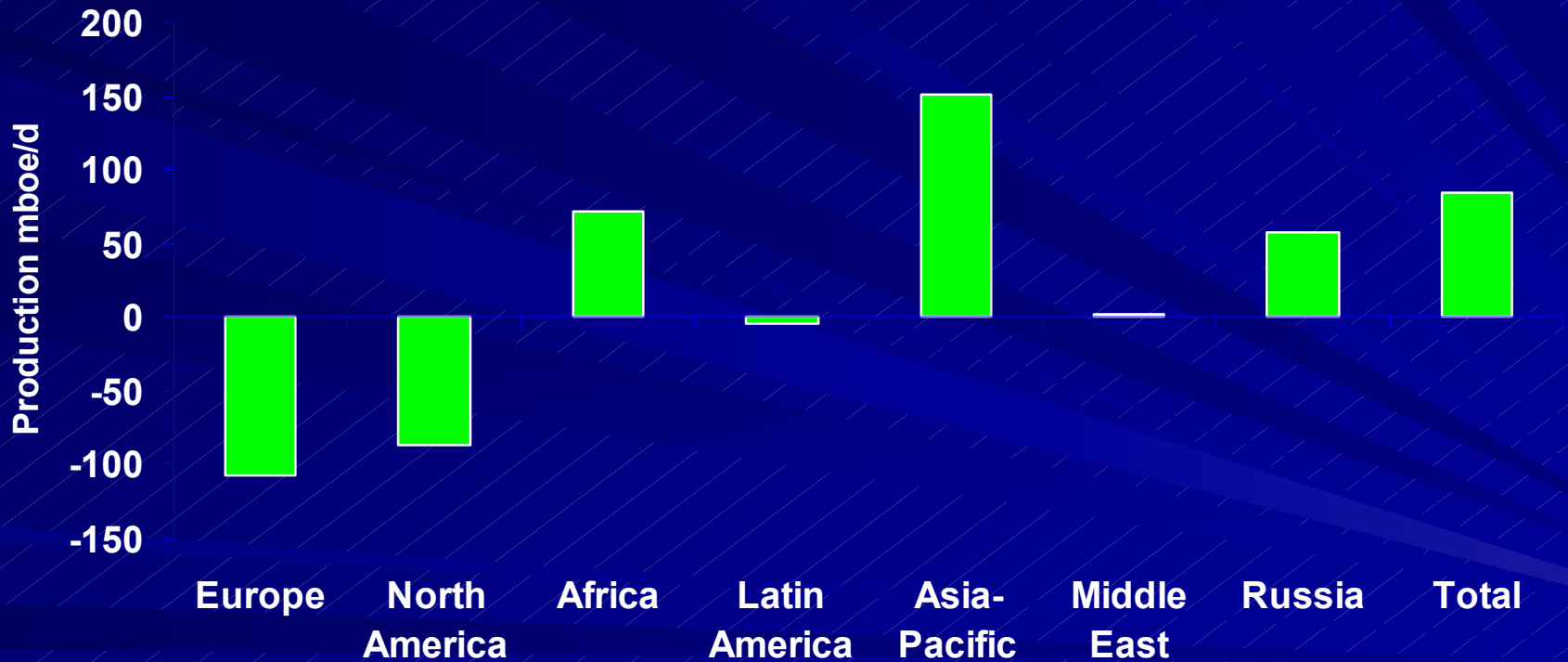
A switch from Europe and North America to Egypt, Algeria and Trinidad LNG



Source: Company data, OIES

# Shell's gas production growth 2002-2007

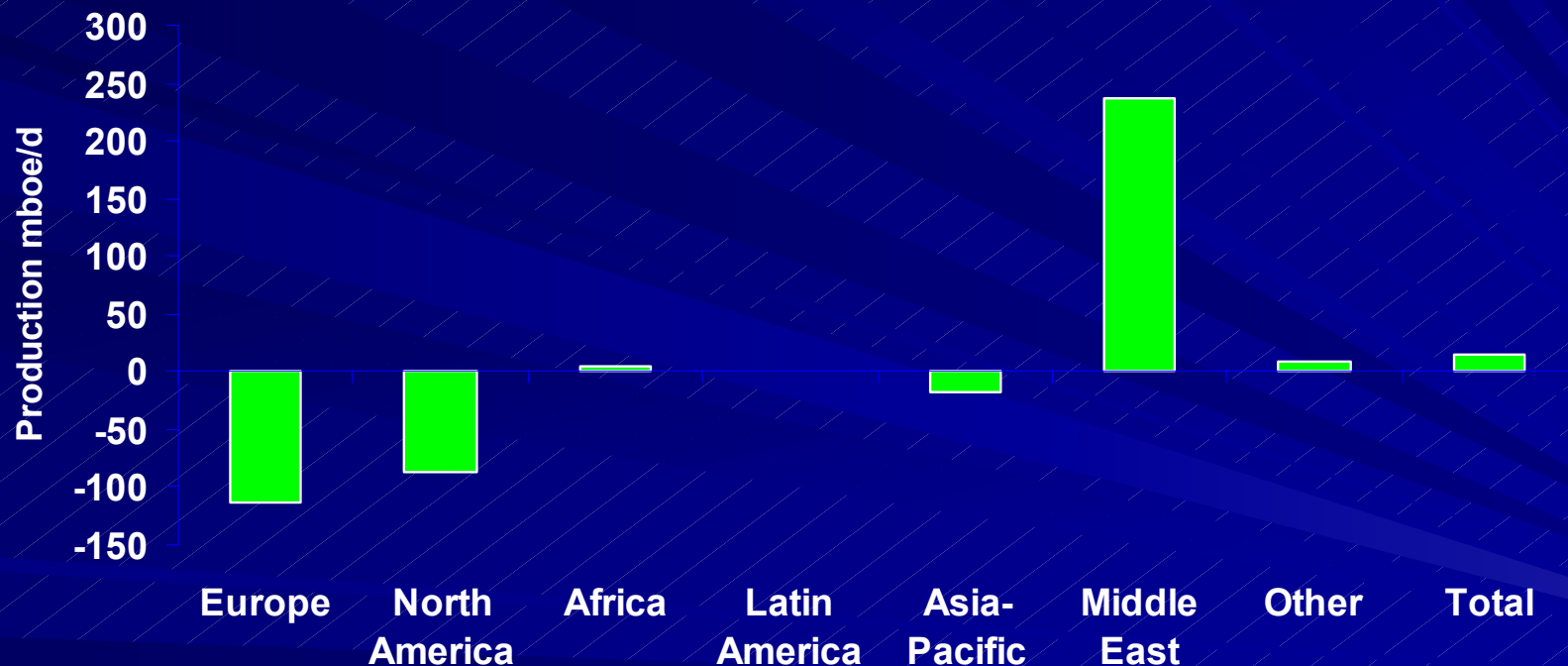
NW shelf Australia and Nigeria LNG the drivers



Source: Company data, OIES

# Exxon's oil production growth 2002-2007

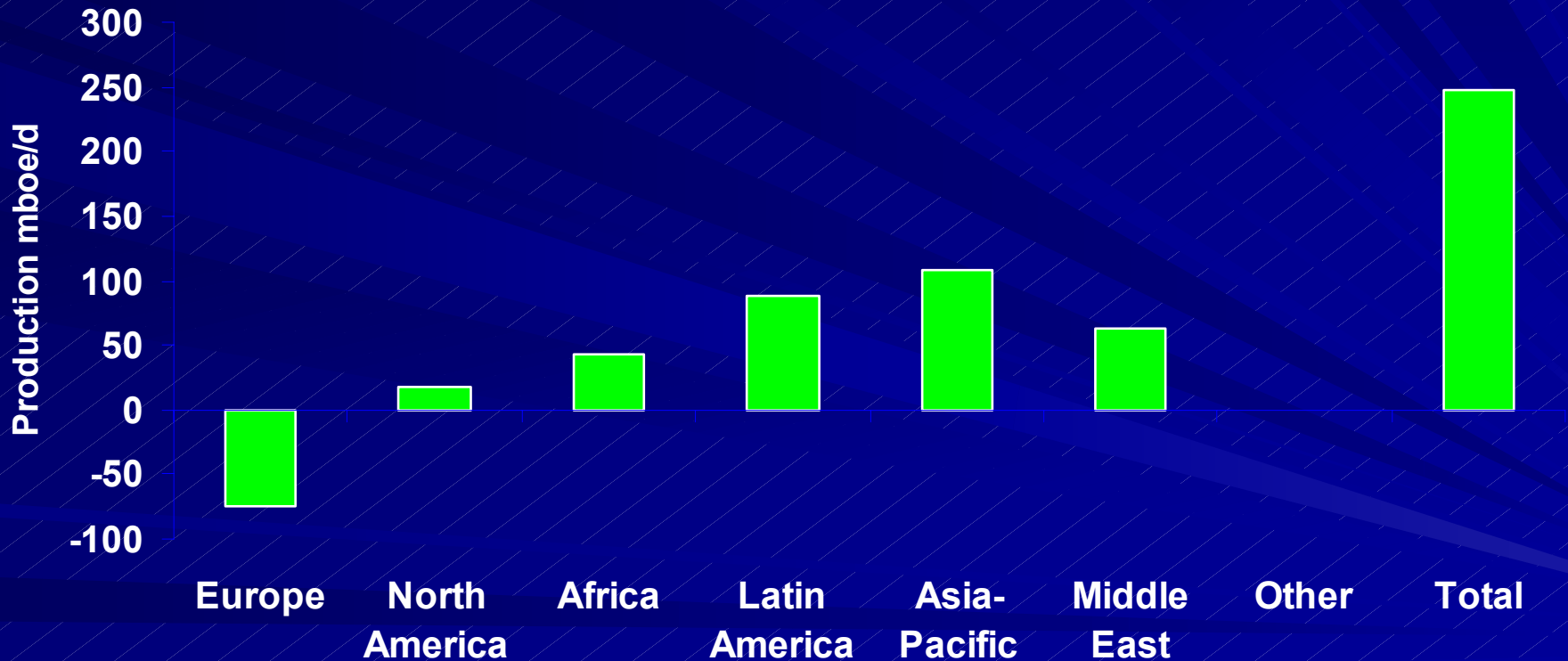
Middle East gas project (RasGas LNG trains 3 and 4 + Qatar) driving growth



Source: Company data, OIES

# Total's gas production growth 2002-2007

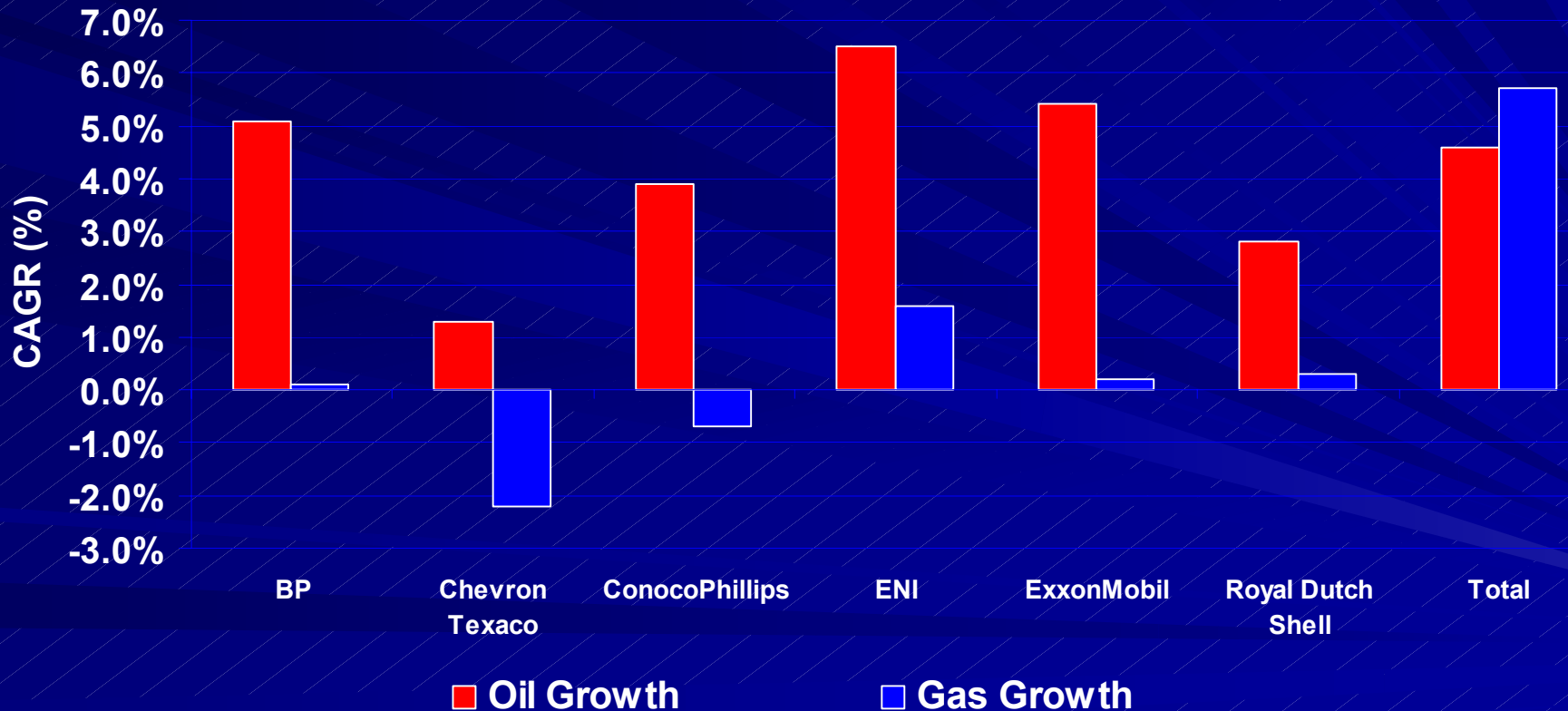
A more even spread from Indonesia, Venezuela (Yucal), Argentina (Carina/Aries),



Source: Company data, OIES

# Oil is still driving production growth

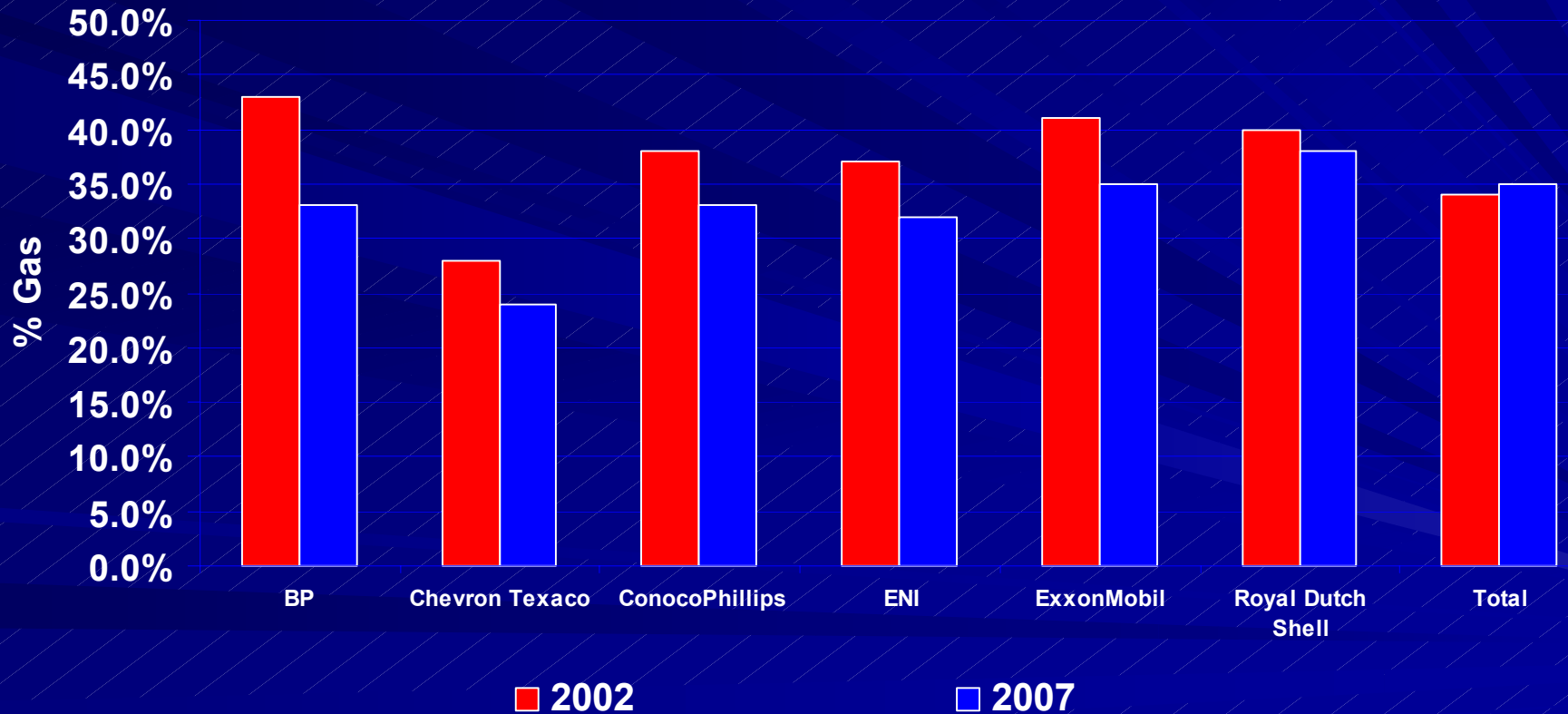
Targets will only be met if 'oil' developments proceed as planned



Source: Company data, OIES

# Oil regaining share of production mix

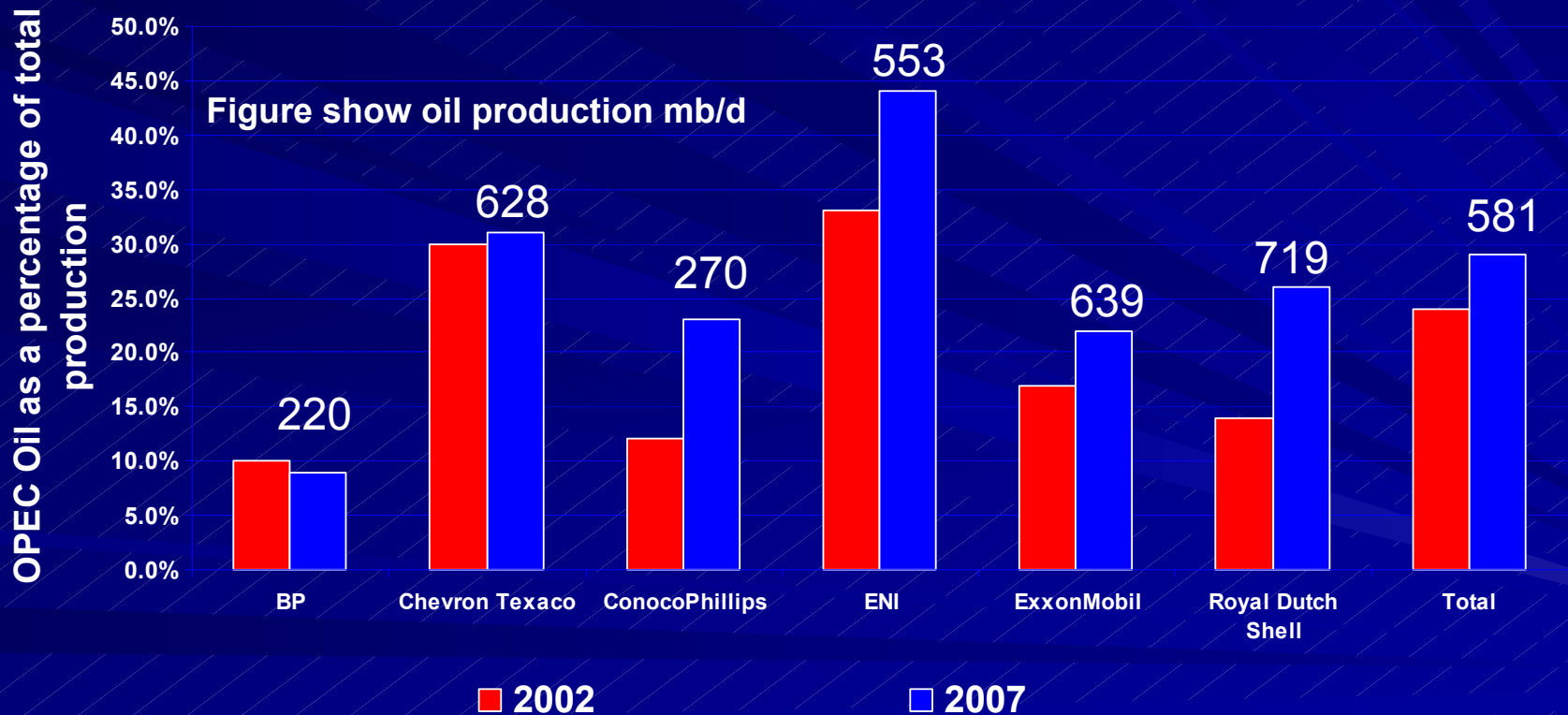
Only in Total does gas increase proportionately



Source: Company data, OIES

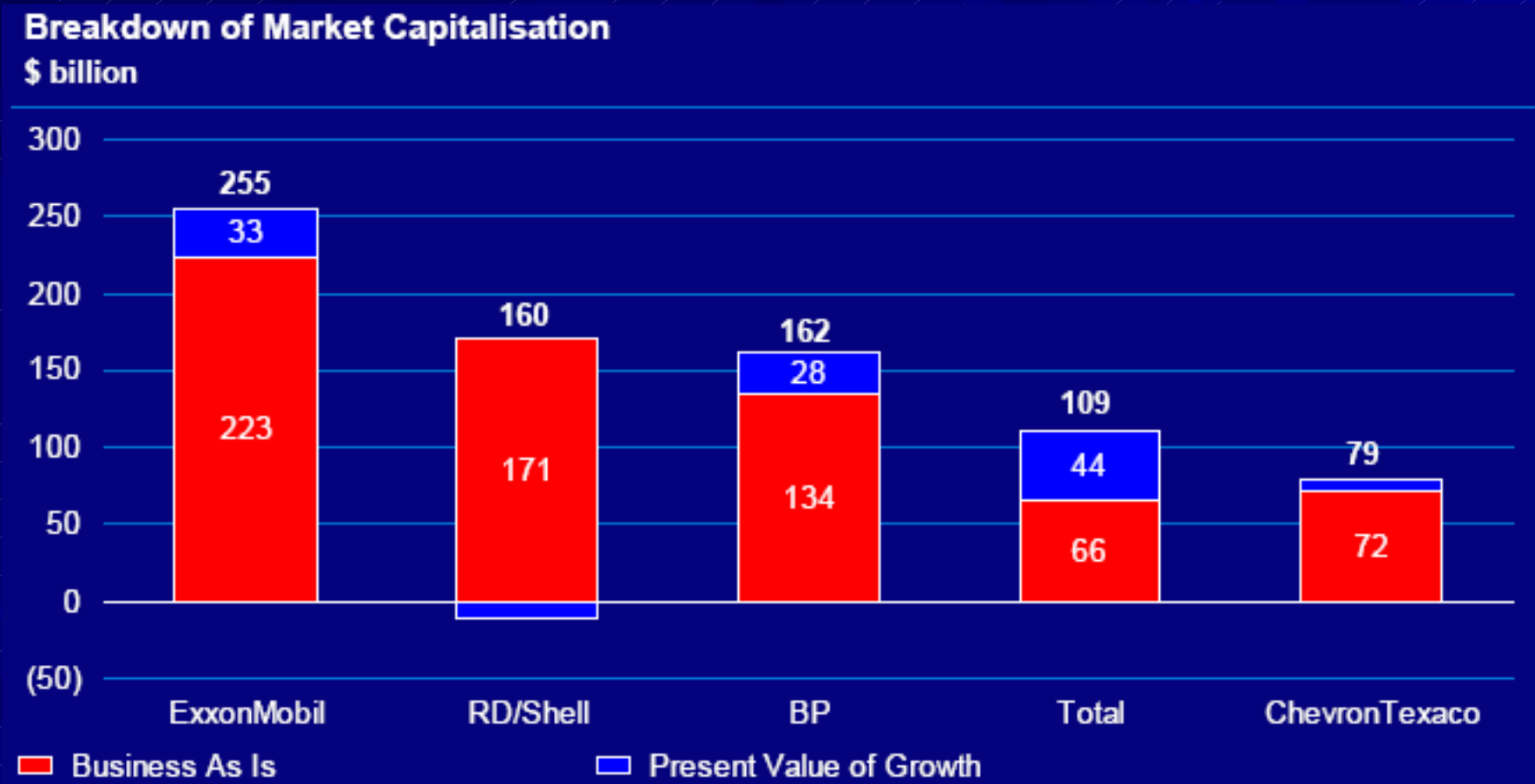
# OPEC exposure is increasing

3.6 million b/d out of 15.8 million b/d will come from OPEC in 2007



Source: Company data, OIES

# The equity market expects growth but delivery is at risk



Source: Morgan Stanley



# More access on easier terms please!

- Further consolidation inevitable
  - US, Canada and Europe are ex-growth
  - Acquisition costs still below FD costs
- Oil continues to drive POC production growth
  - Companies are not shifting to gas
  - Increasing differentiation between companies
- Capital flowing from low risk to high risk
  - OPEC exposure increasing
  - Technical and political risk increasing

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