



# Global Upstream Performance Review

## 2007

September 5, 2007

**John S. Herold, Inc.**

An IHS Company

**Harrison Lovegrove + co**  
The oil + gas corporate advisers



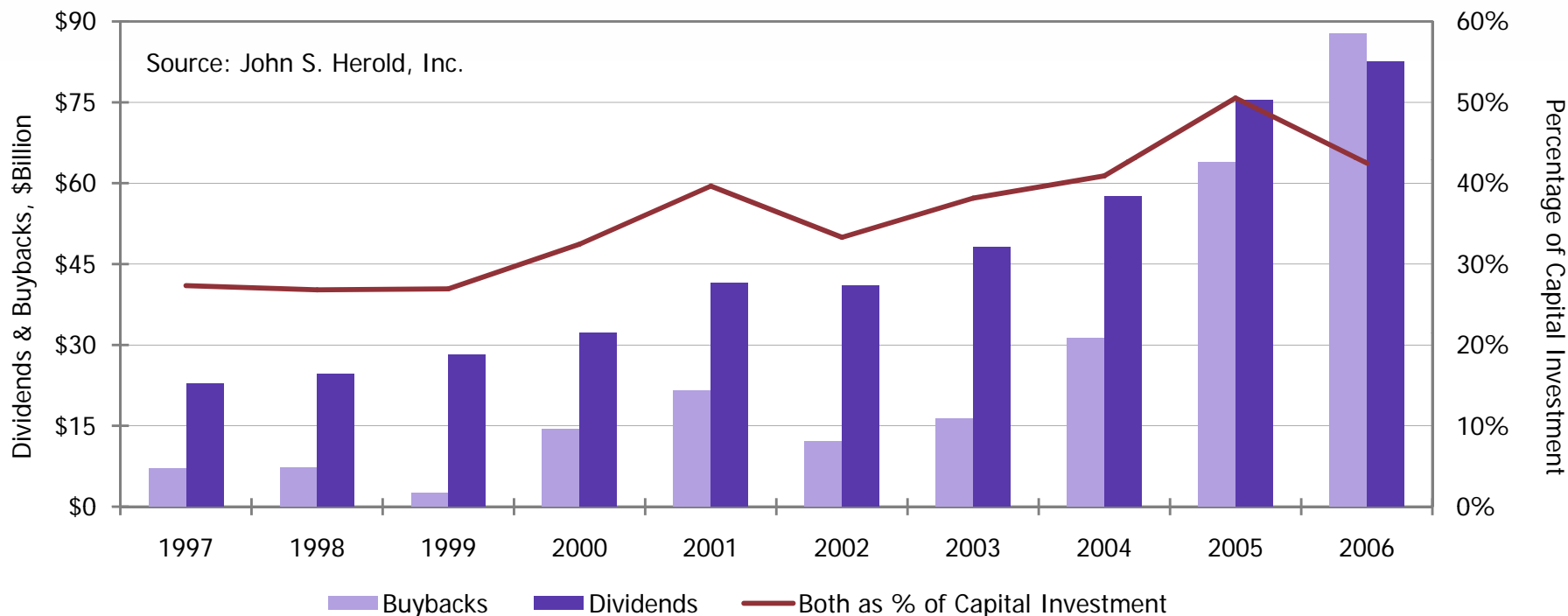
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# Key Findings

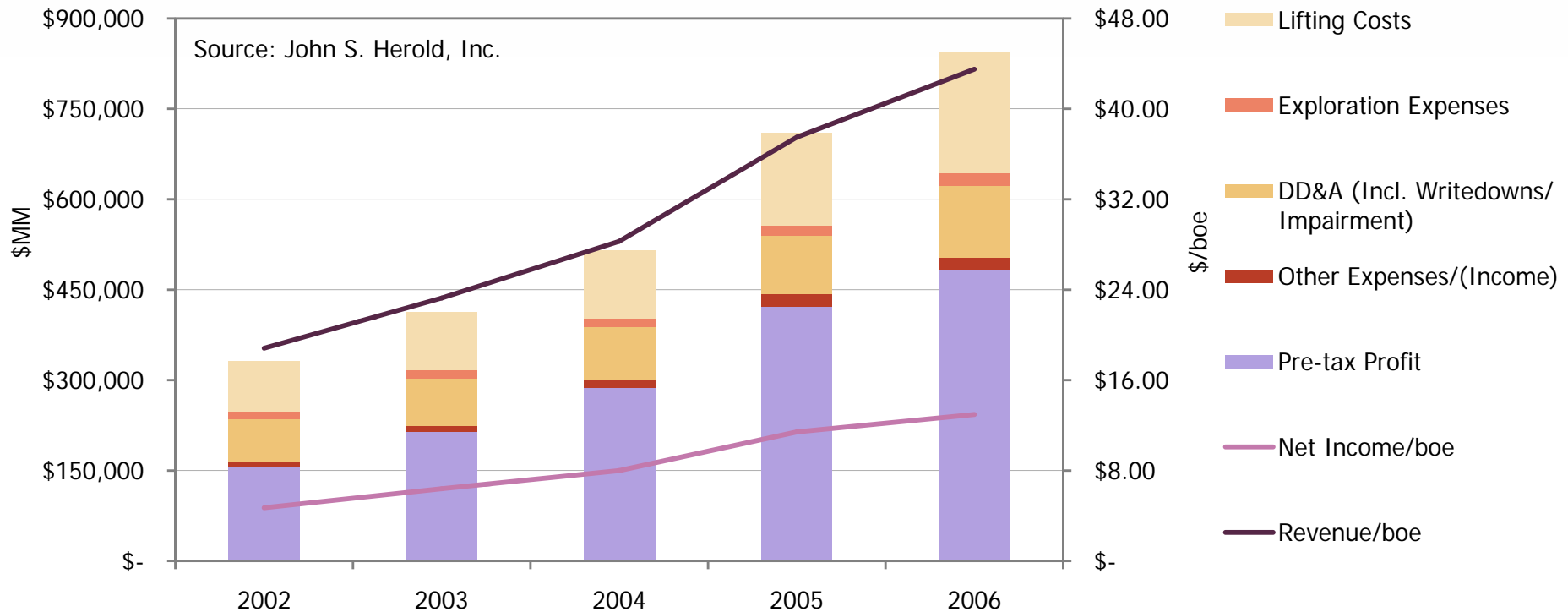
- Rising prices boost upstream revenue and earnings
- Cost escalation accelerates, now exceeds revenue growth
- Industry margins dip a bit, but remain wide
- Capital investment surges, exceeding cash flow
- Dollar volume of share repurchases exceeds dividends, both are at record levels
- Minimal oil reserve growth, but solid additions to natural gas
- Proved reserve acquisitions nearly double in dollar volume

# Capital Investment Rises Faster Than Payments to Shareholders



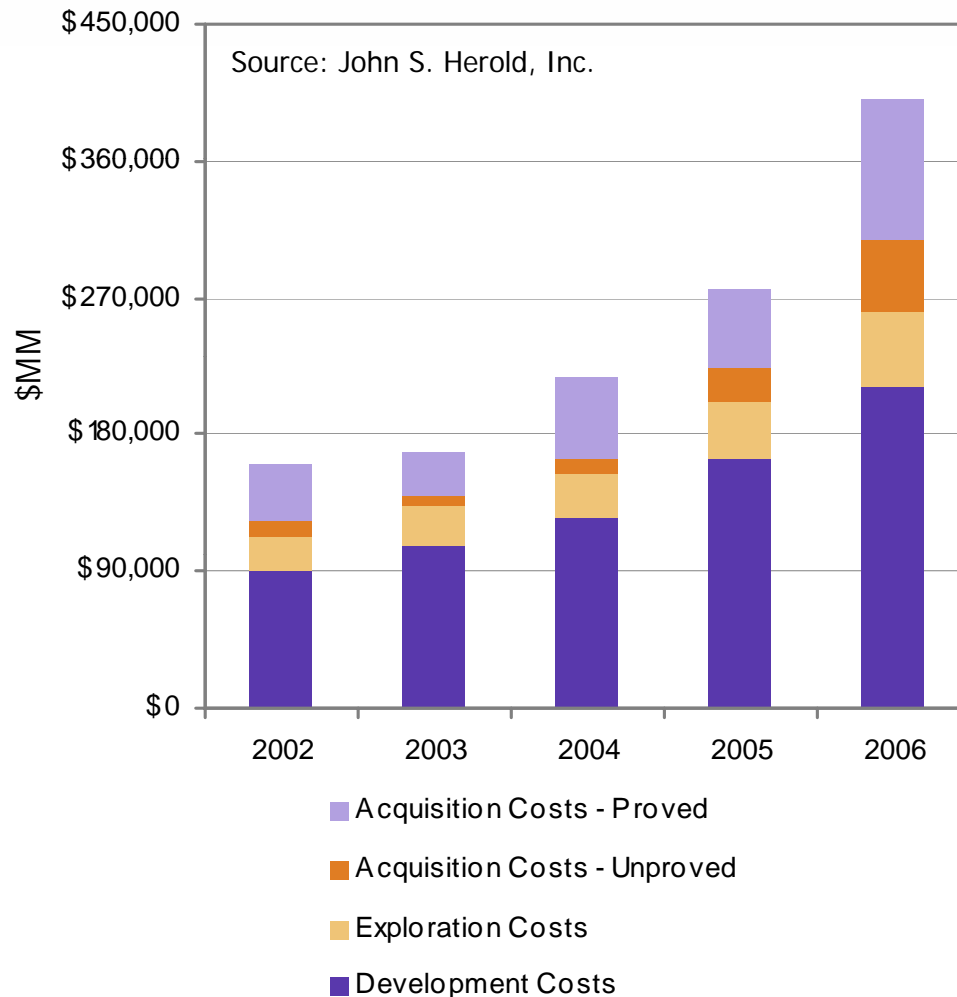
- Share repurchases (\$88 billion) exceeded dividends (\$83 billion)
- Strong refining results, combined with another excellent year upstream, allowed for record payments to shareholders

# Revenue Growth, But Margins Under Pressure



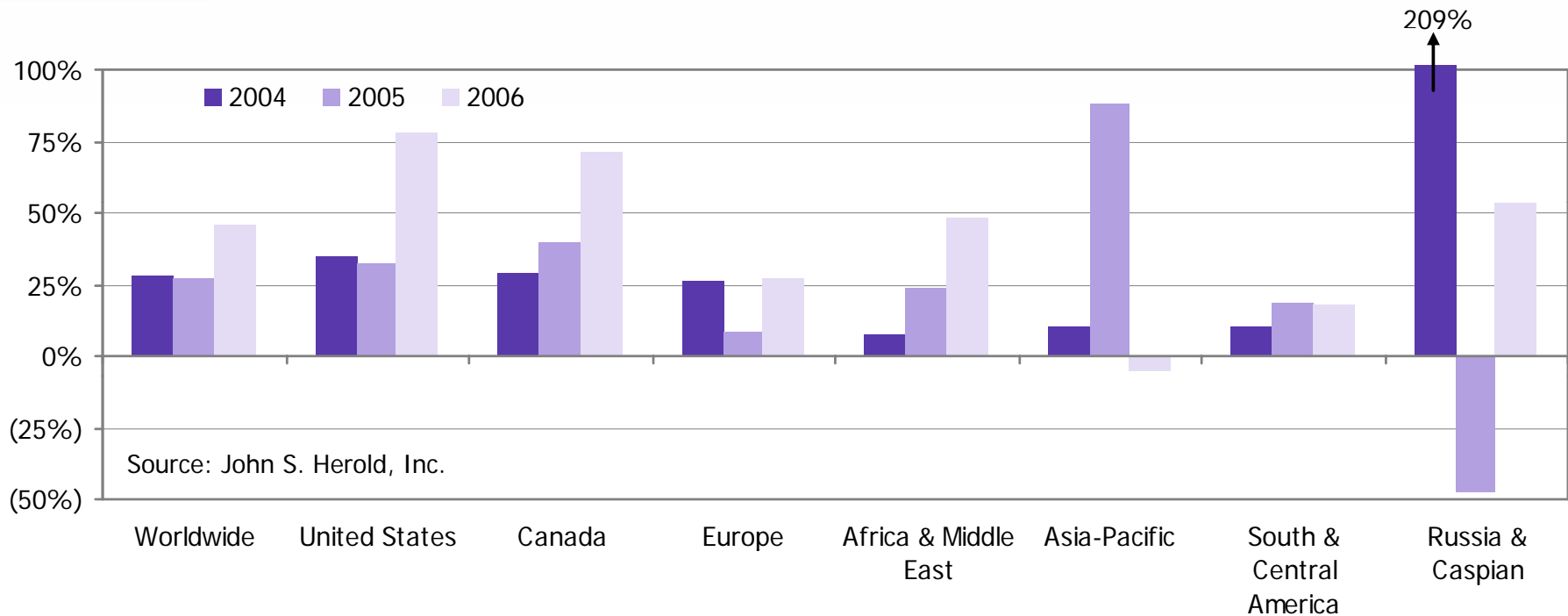
- Revenue jumped 19% due to gains in oil and gas prices, resulting in net income surging to \$240 billion
- Net-back margin, return on cumulative capitalized costs and net income margin slipped as cost increases outpaced revenue gains

# Capital Spending at Record Levels



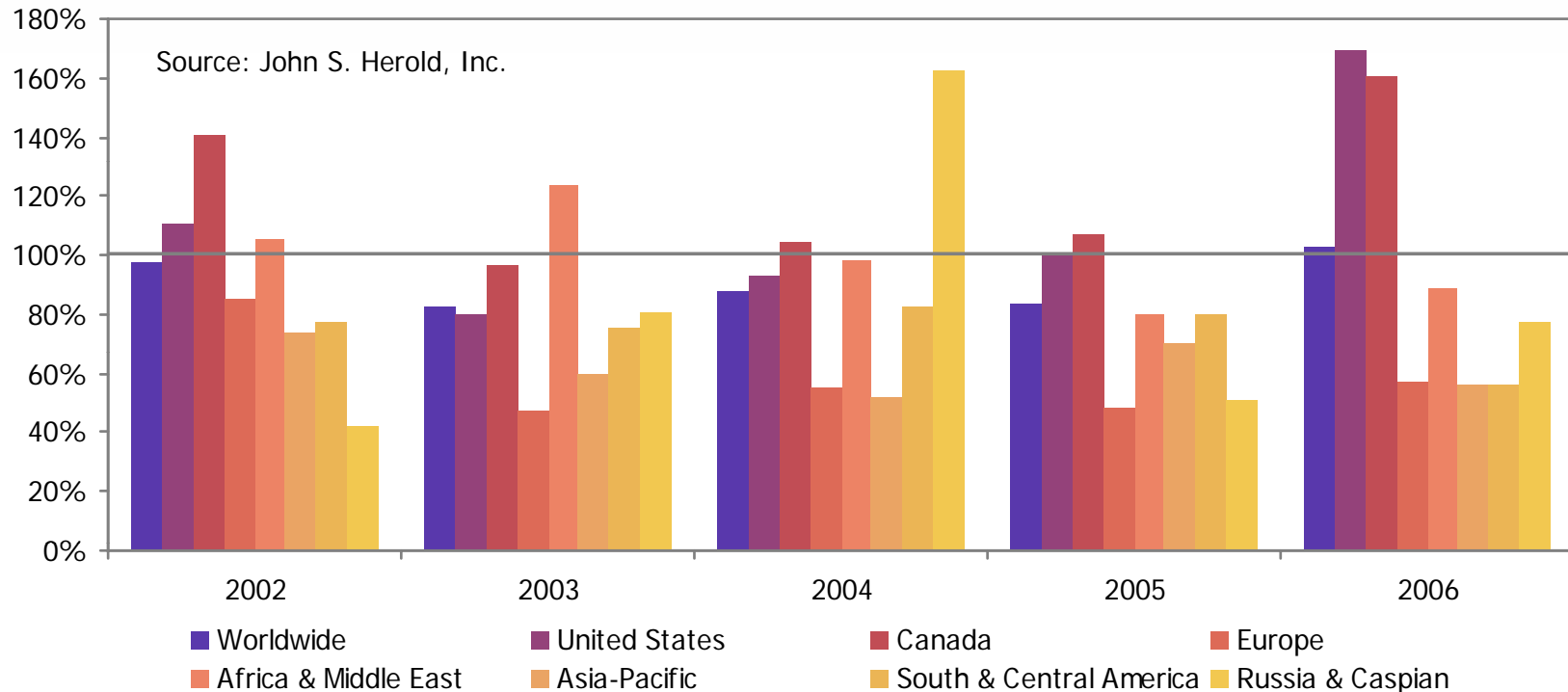
- Upstream capex reached \$401 billion, up 45%
- Acquisitions, proved and unproved, drew the lion's share of the increase
- Development drilling drew more than \$200 billion, but percent of total declined
- Exploration's share of the total dipped, but total outlays rose

# Annual Changes in Regional Capital Investment



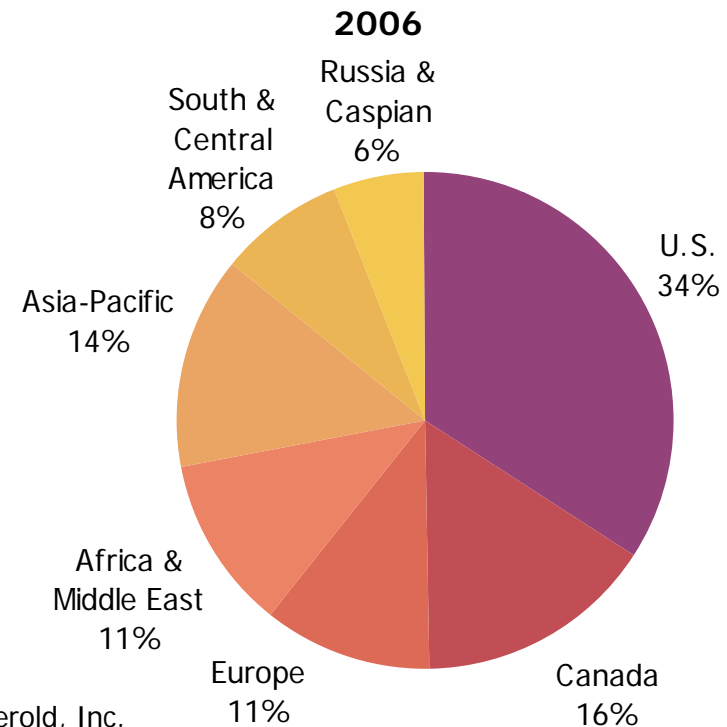
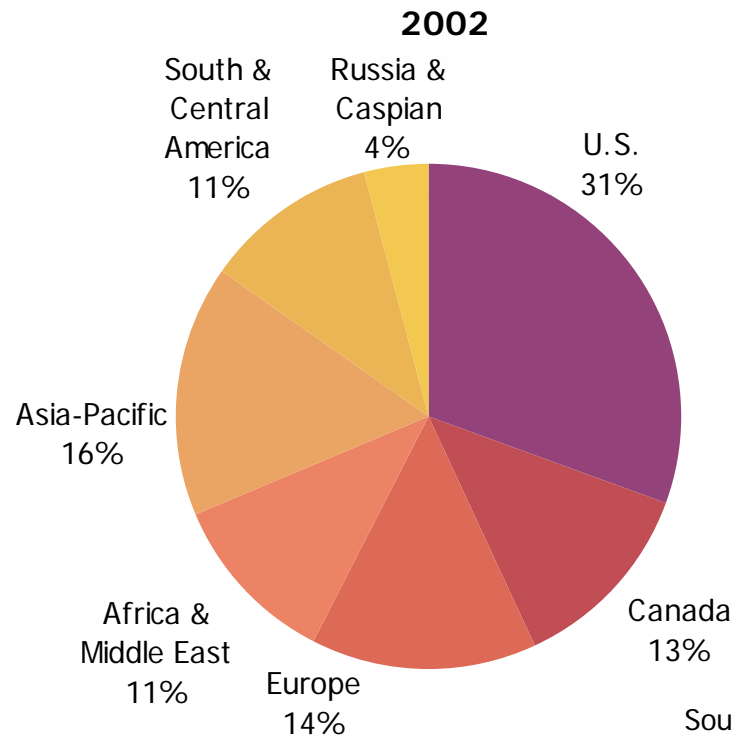
- Investment in North America growing more rapidly than other regions
- Resource potential of the Russia & Caspian and Africa & Middle East regions is attracting funds
- Opportunities in Europe and South & Central America perceived as limited

# Regional Capex as % of Cash Flow



- Capex exceeds cash flow for first time since 1999
- Acquisitions boost U.S. outlays; robust development spending in Canada
- Rest of world is self-funding

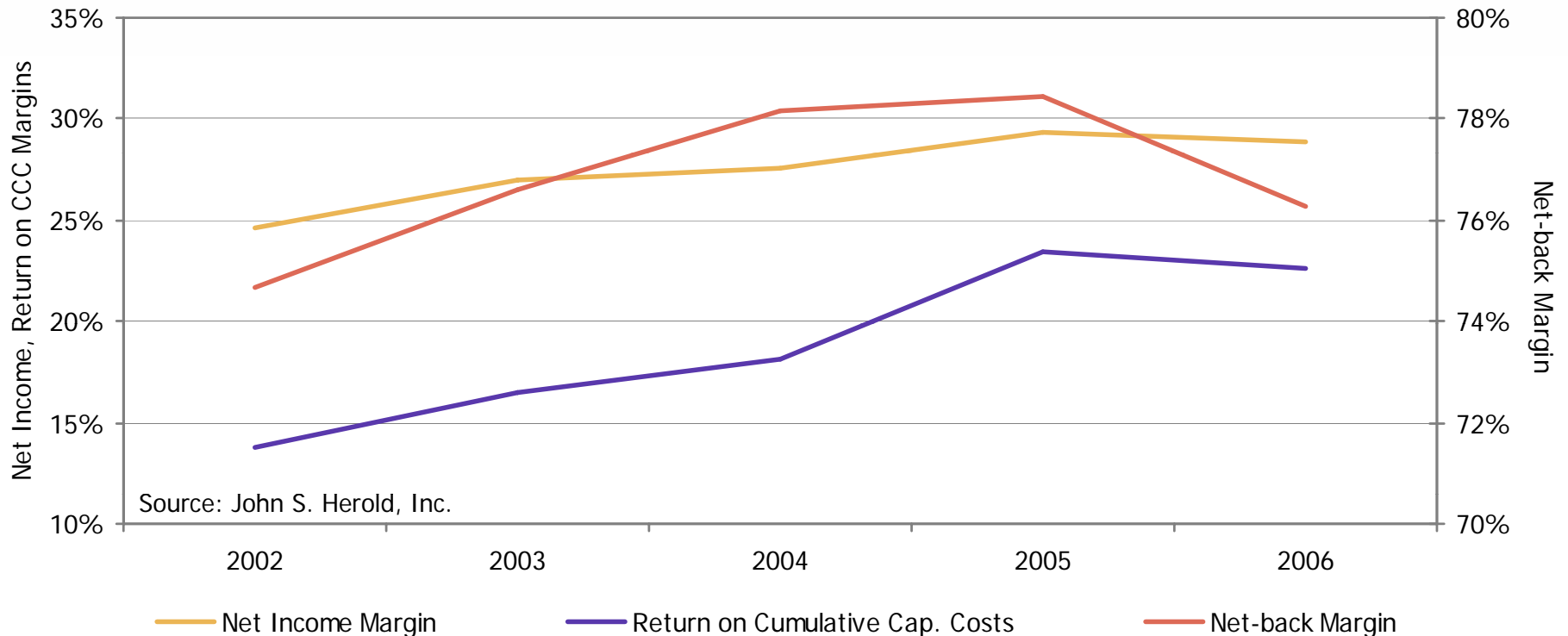
# Regional % of Finding and Development Investment



Source: John S. Herold, Inc.

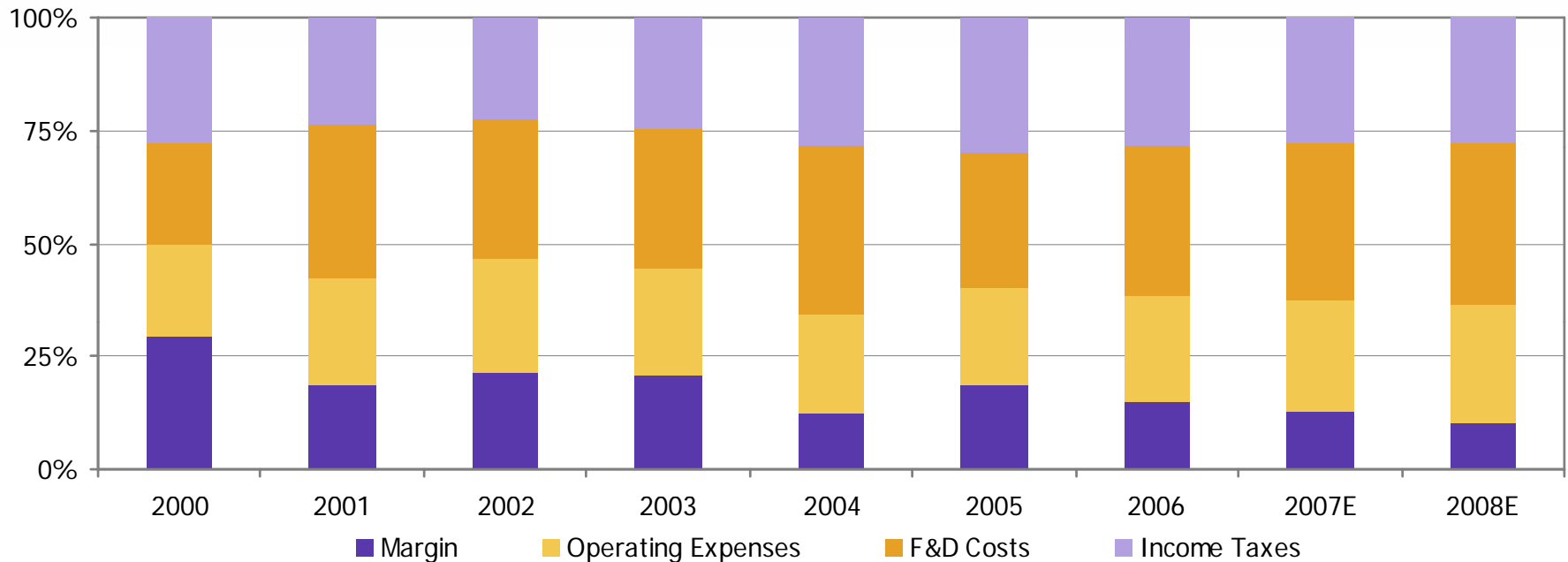
- In 2002, U.S. and Canada received 43% of investment, rising to 50% in 2006, at the expense of Europe and South & Central America

# Oil and Gas Industry Margins Declining



- Cost pressures are becoming a concern, but margins remain above the historical norm

# Two Year Trend of Declining Margins Likely to Continue

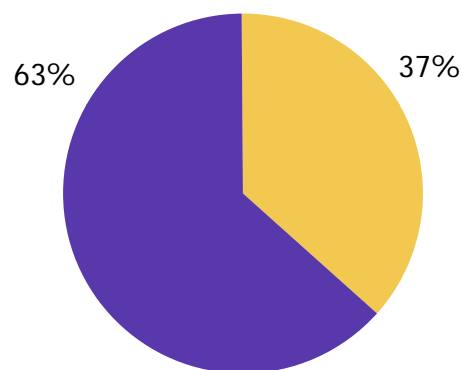


Footnote: 2007E and 2008E estimated by John S. Herold, Inc. (Revenue gains 5%, costs gain 10%)  
 Source: John S. Herold, Inc.

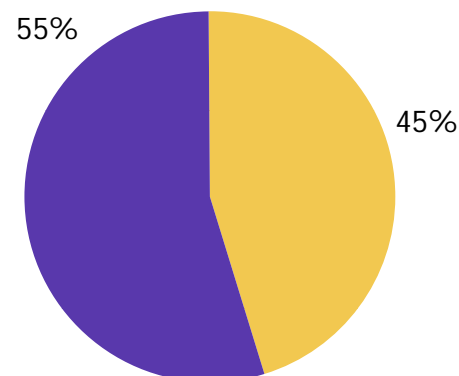
- Downtrend in margins due to production and reserve replacement costs on nearly an equal basis
- Rising prices have helped to mask the problem

# Smaller Oils Invest Much More Aggressively in North America Than the Majors, But Equally Elsewhere

North America:  
Production



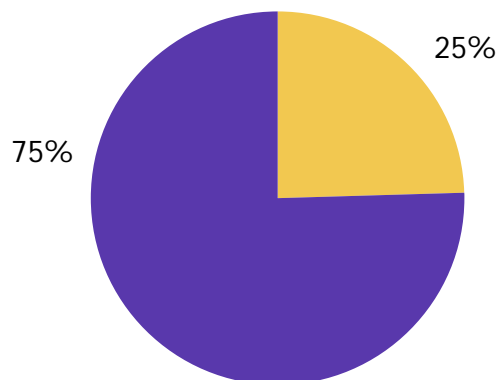
Outside North America:  
Production



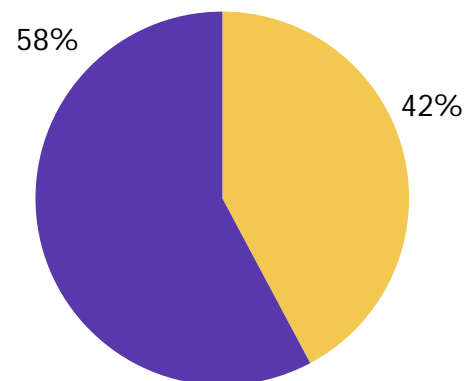
Major Oils  
Rest of Universe

Source: John S. Herold, Inc.

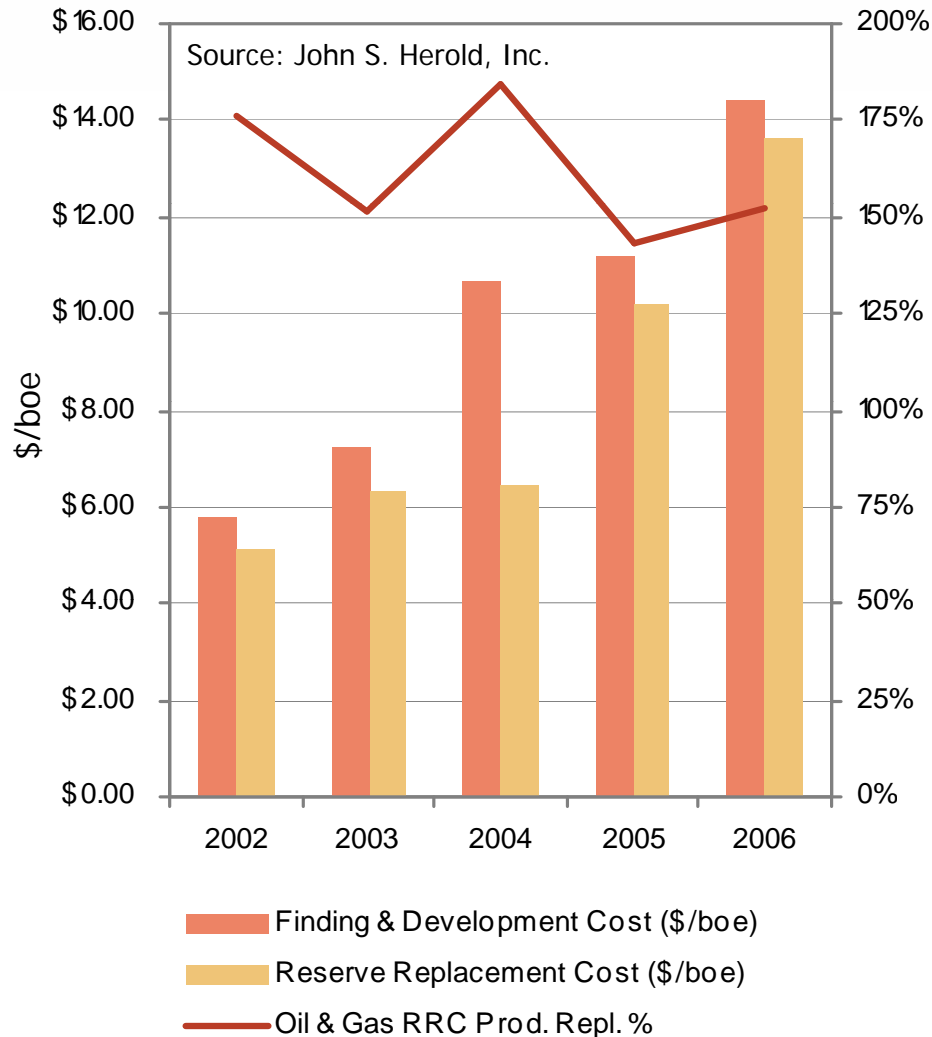
North America:  
Capital Investment



Outside North America:  
Capital Investment

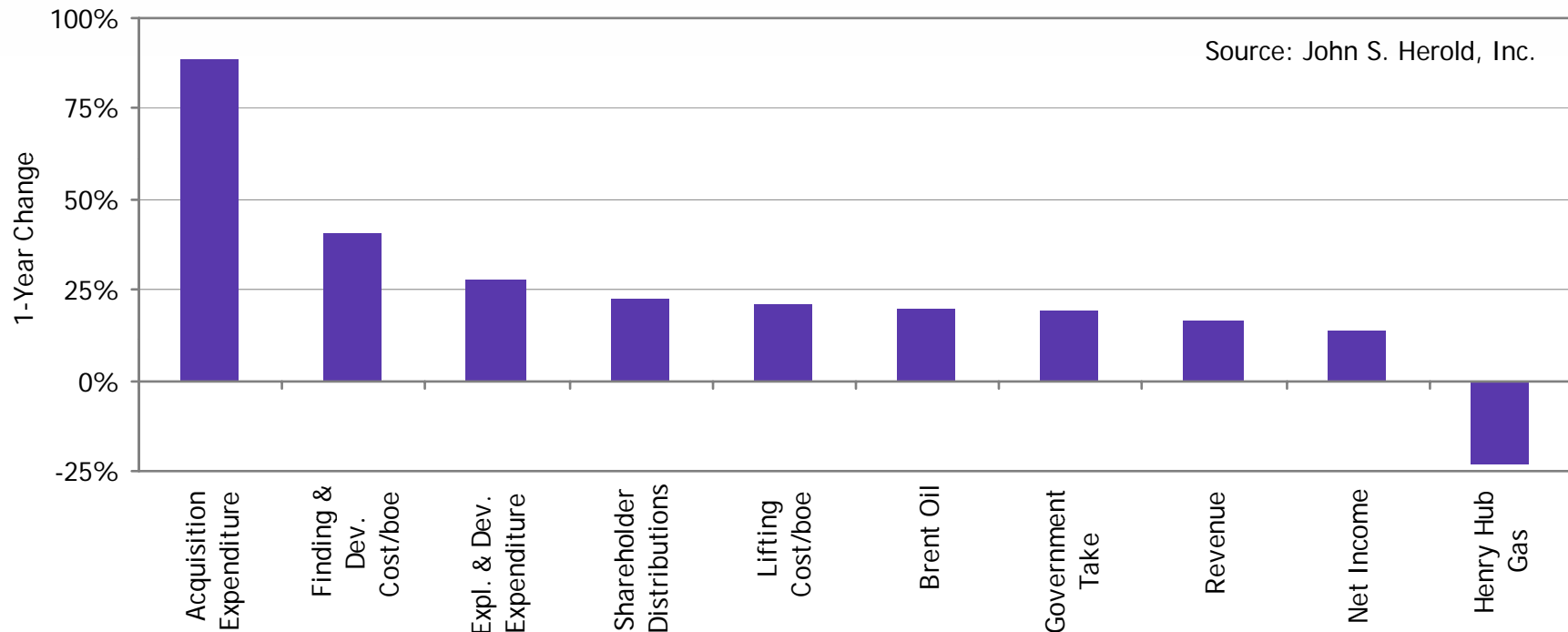


# Replacement Rates Flat Despite Capex Surge



- Highly competitive market continues to put upward pressure on the cost of adding reserves
- Reserve replacement percentage rose some but trails results from early in this decade
- Reserve replacement costs jumped 33% to \$13.60/boe
- F&D costs higher still at \$14.42/boe, up 29%

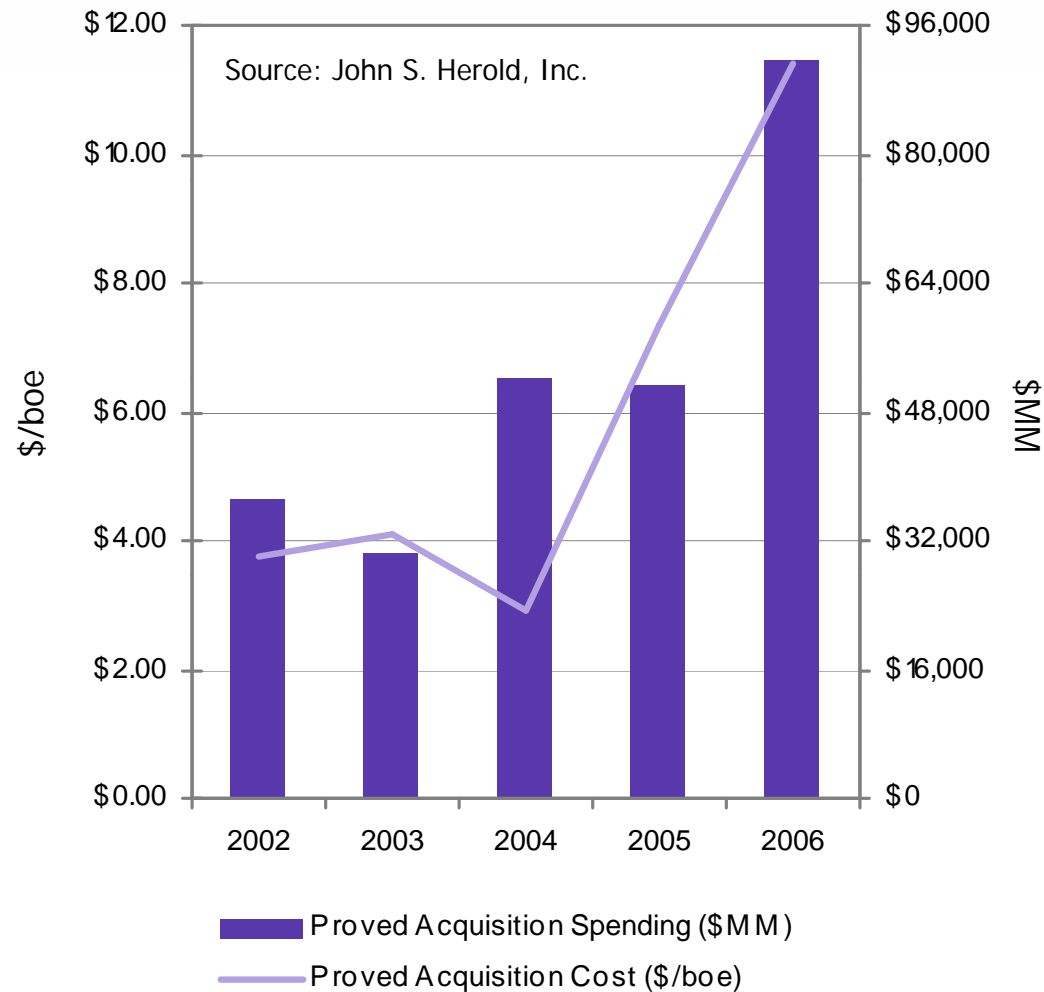
# Acquisition and Capital Investments Rise Very Rapidly



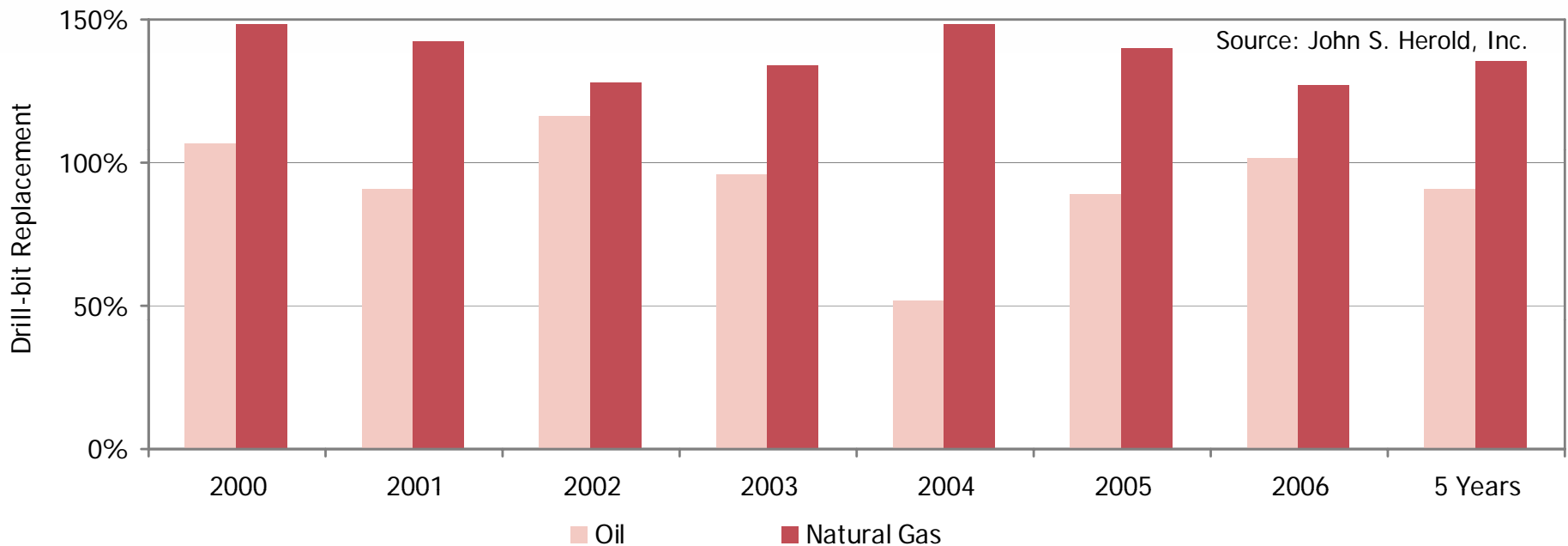
- Capital investment up by \$135 billion to \$401 billion due to expanded drilling efforts and a surge in acquisition activity

# Proved Acquisition Costs Spiral Higher

- Proved reserve purchases topped \$90 billion
- U.S. purchases accounted for 48% of the dollar total
- Costs were up 55% to \$11.42 per boe, more than triple the level of 2002

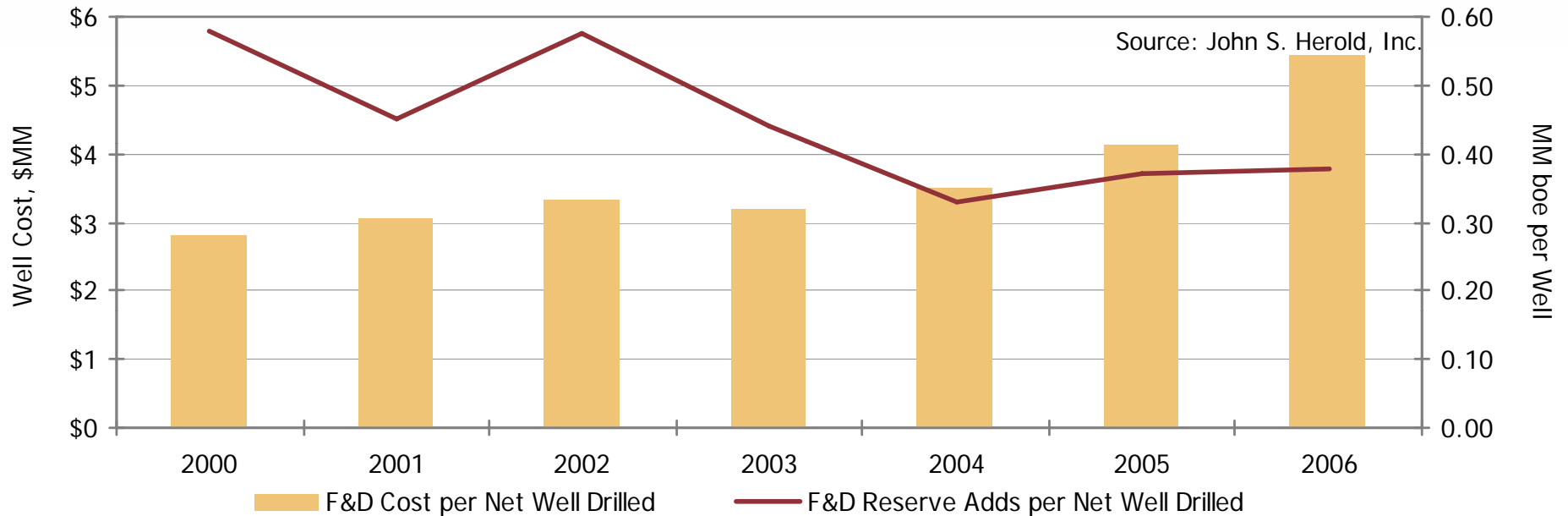


# Tiny Oil Reserve Growth, But Natural Gas Looks Good



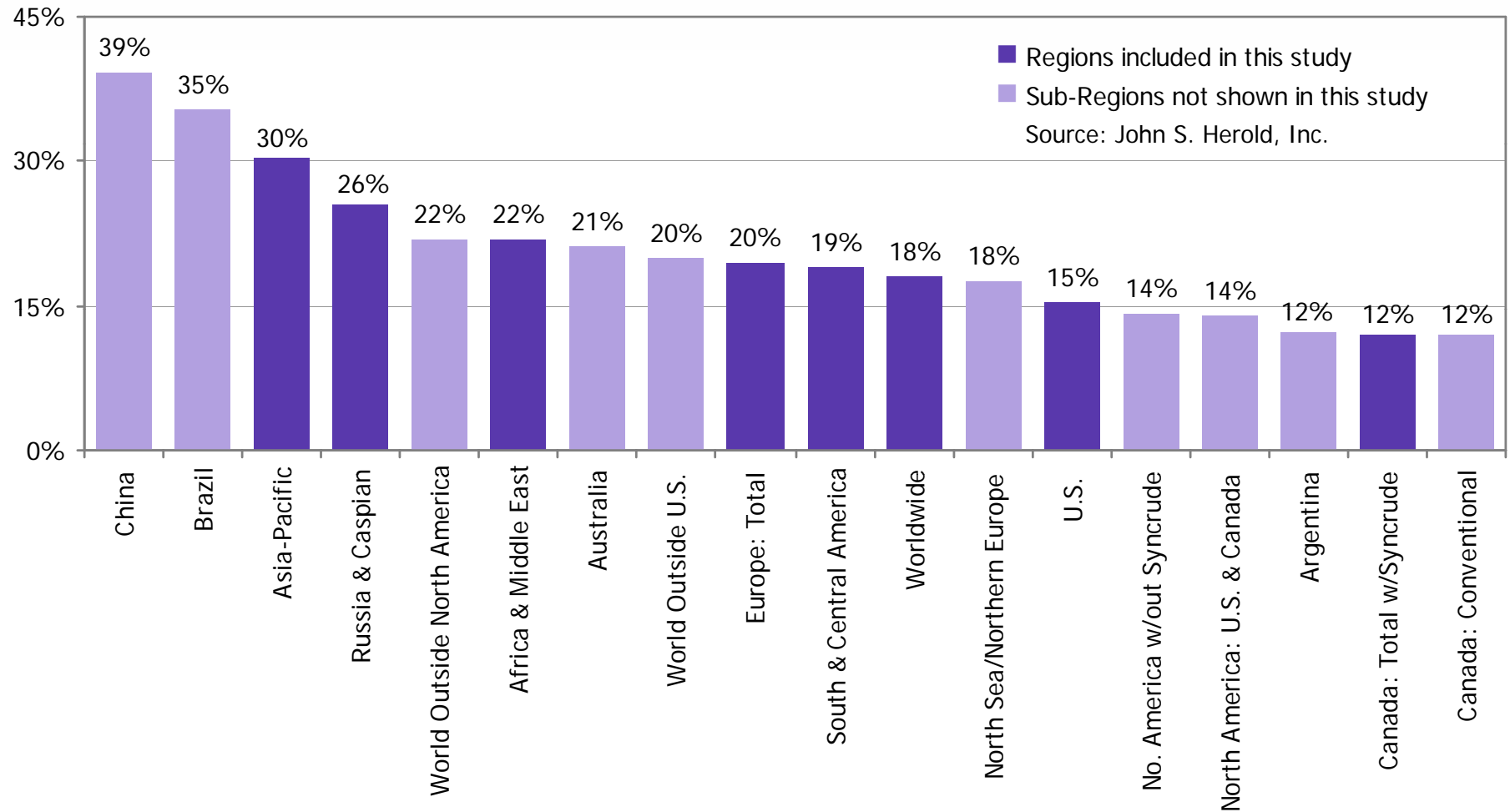
- Oil reserves up 1% thanks to bookings in Canada's oil sands
- Gas reserve growth continued at a steady 3% due to U.S. "resource" plays plus expanding LNG operations in Asia-Pacific region

# Wells Are Expensive, But Technical Discipline Is Maintained

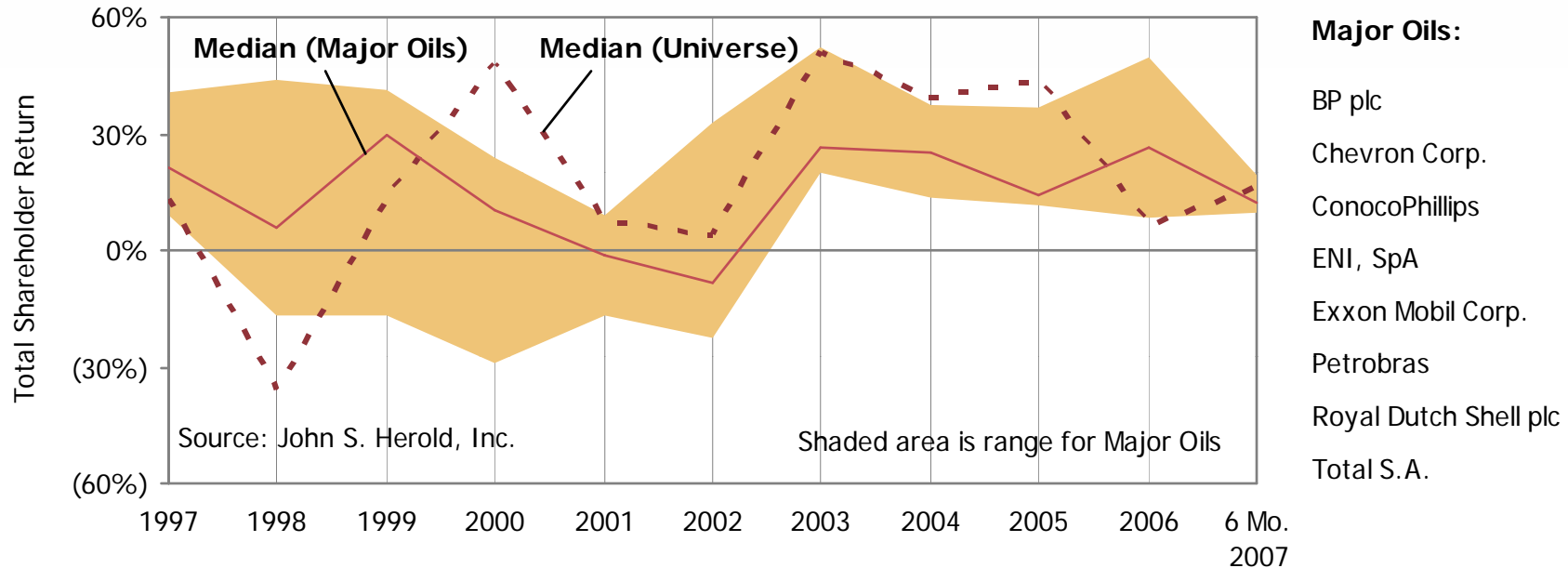


- Cost of an average well jumped about 30%
- Reserves added per well drilled stayed level with 2006
- More than 56,000 wells were completed in 2006, a 4.4% increase over the prior year

# 5-Year Return on Cumulative Capital Costs by Region & Sub-Region



# Major Oils Outperform Smaller During 2006



- Major oils reward holders with a total return of 26.2%
- Downstream assets contributed to the advance
- Smaller stocks gain a much smaller 6%, partly due to weakness in North American gas prices

# Contact Details

**John S. Herold**  
[www.herold.com](http://www.herold.com)

## Norwalk

14 Westport Avenue  
Norwalk, CT 06851  
Phone +1 (203) 847 3344  
Fax +1 (203) 847 5566

### Contact:

Nicholas Cacchione  
Senior Vice President &  
Co-Director Equity Research

## Houston

Three Riverway, Suite 700  
Houston, TX 77056  
Phone + 1 (713) 973 9222  
Fax + 1 (713) 973 9221

**Harrison Lovegrove & Co. Ltd**  
[www.hargrove.co.uk](http://www.hargrove.co.uk)

## London

80 Strand  
London WC2R 0DT  
Phone +44 (0)20 7632 1500  
Fax +44 (0)20 7632 1501

### Contact:

Martin Lovegrove  
Chief Executive

## Washington DC

816 Connecticut Av. NW 11th Floor  
Washington DC, 20006  
Phone: + 1 (202) 861 3160  
Fax: + 1 (202) 861 3161

### Contact:

Rodney Schmidt  
Managing Director

