



NO9805445

NEI-NO--953

30-17

The future of the oil and gas industry; Saga's strategy

Asbjørn Larsen
President & CEO, Saga Petroleum

APC conference
Stavanger 18.11.97

DISTRIBUTION OF THIS DOCUMENT IS UNLIMITED
FOREIGN SALES PROHIBITED

MASTER

RECEIVED
NOV 25 1998
OSTI



NO9805445

DISCLAIMER

Portions of this document may be illegible in electronic image products. Images are produced from the best available original document.

The Future of the Oil and Gas Industry

by Joseph A. Stanislaw

Managing Director

Cambridge Energy Research Associates

Changes are under way that are moving the oil and gas industry toward the creation of global energy companies in a global energy market. In this new world, greater competition along the energy value chain means that oil and gas companies must also push their thinking forward. The energy company is made possible through a different form of integration--creative alliances or associations--to unite the end-user to the E&P company. Integration will occur across all facets of the industry--fuels, geography, companies, and knowledge--as growing interfuel competition breaks the traditional borders of competition in the energy industry. Unlike traditional forms of vertical integration, outright ownership is not necessary, or even desirable. Alliances, joint ventures, and financial linkages can ensure that value at each stage is fully created.

Competition drives the new global energy market. The traditional borders of competition are being broken by forces that are at work throughout the globe--forces that ultimately come back to haunt companies in their own familiar markets. "Global" means that the players in all industries need to be aware of the world beyond their borders or else run the risk of being caught by surprise at home by changes that originate from far away.

The path to the new form of integration in the global energy market should not be chosen opportunistically, but strategically, with a focus on knowledge as an asset and access to the end user as the key. The new and different integration allows players at any point in the chain to leverage their own value while at the same time enhancing and benefiting from the values of others in the chain. This type of integration must focus on enhancing or accessing knowledge and complementing skills in order to be the accepted, preferred player.

If E & P companies choose not to integrate, they must stay alert to what is happening in the other links of the integrated chain, both forward to the needs of the end-user, and backward to the political imperatives of host countries. In order to remain competitive they must be the most cost-effective in their niche.

In the new energy landscape of the 21st century there is a need for focused strategy on the part of E & P companies. Upstream companies tend to follow the pack to current exploration hotspots; and most hotspots, by definition, attract a herd. The herd instinct is not all bad, as long as a company can make itself stand out with a distinctive and focused strategy. A company may be with the herd in its areas of geographic focus, but its strategy in those areas could be a differentiating factor.

Three key forces are creating the changes oil and gas companies will face:

- **A global market for energy.** For the first time in history, we are dealing with a genuinely global marketplace. The fall of the Berlin Wall in 1989 opened the whole world up to business. Before that dramatic event there was an East and a West, a North and a South. There were 1 billion people on one side, but another 4 billion out of reach on the other. Now, almost overnight, we have a real world market with almost 6 billion potential consumers in it. That is a tremendous opportunity for anyone who wants to take part-- but it is also a tremendous challenge: these new consumers are also serious competitors.
- **Growing demand, ample supply.** By expanding to include the South and the East, the global marketplace now includes the countries--in Latin America and Asia-- with the fastest-growing energy demand. Supply from countries formerly off-limits has created an abundance of natural resources, and that availability combined with technological advances, is providing the global marketplace with resources that were once beyond reach.
- **The end-user is key:** In a world of abundant supplies, resource-based ownership is no longer enough to be a durable and profitable player. A company in today's and tomorrow's energy industry will confront the head-on realization that the world does not really consume oil, gas, or coal. The world consumes services--services that are created by industries selling these fuels in a usable format. What is required is access to the end-user, and this can be achieved through a new concept of integration or through awareness of the integrated value chain.

Challenges for Saga



- **The market challenge**
 - Which products shall we deliver to the market?
 - Shall Saga become an energy company?

- **Internationalisation**
 - How can we profitably make use of the competence we have developed on the NCS in other countries?

- **The environmental challenge**
 - Environmental consequences are inevitably linked to our industry. How do we tackle these?

- **Organisational competence and structure**
 - What should be the future structure/skill level of the company to meet the challenges ahead?

18.11.97, page 1

Vision



Saga will be a world class international oil and gas producer with its head office in Norway.

We will

- be among the most profitable and efficient companies in the industry
- be a preferred operator company with outstanding expertise in exploration, reservoir management and deepwater technology
- achieve results through the commitment and creativity of our employees
- develop the company in close partnership with the industry and research communities around us
- integrate health, environmental and safety considerations in all our activities

18.11.97, page 2

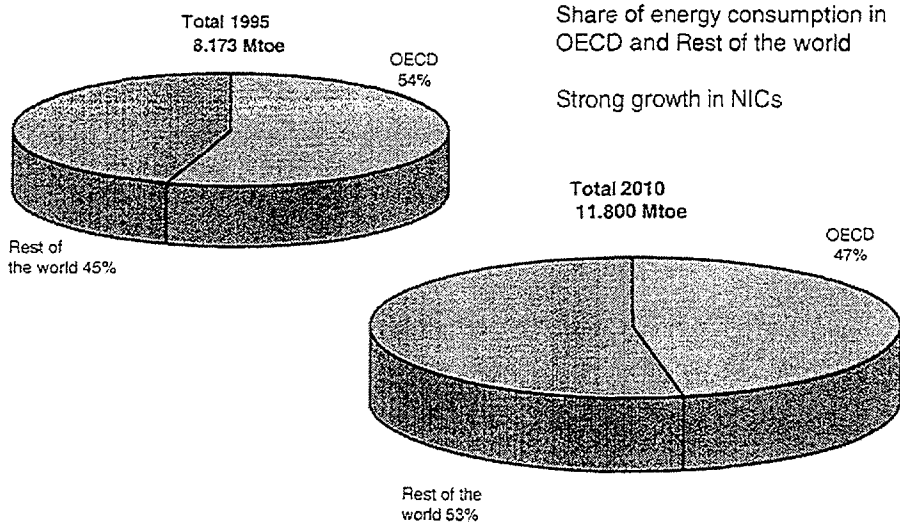
The market situation



- Saga expects a continued increased global demand for both oil and gas
- The outlook for a substantial growth in the European gas demand is good
- We are well positioned to take advantage of this growth

18.11.97, page 3

Market challenge - Trends



Source: BP, IEA

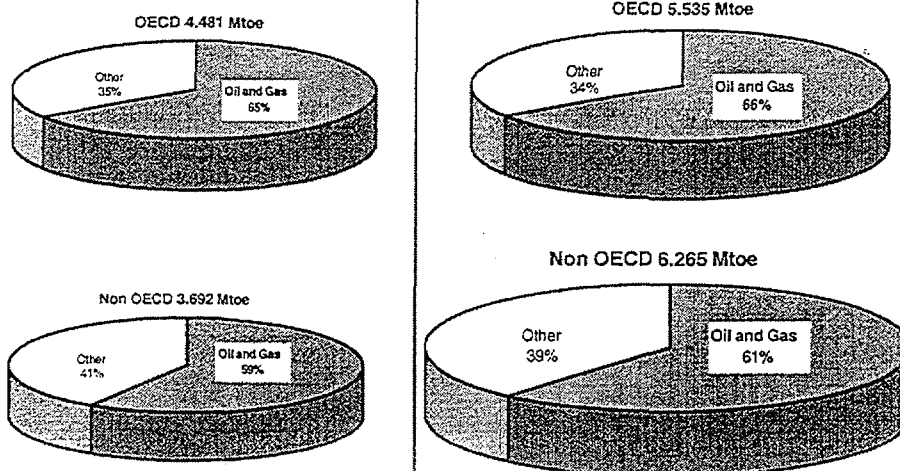
18.11.97, page 4

Market challenge - Trends



Energy consumption 1995

Energy consumption 2010



Source: BP, IEA

18.11.07, page 5

Principal goals



The company's principal goal is to increase the value of its portfolio beyond the required rate of return of 9 per cent per year

- The company's oil production shall exceed 300 000 barrels per day by 2005
- The company's gas sales shall exceed 10 billion Sm³ per year by 2005
- The company's reserves base (P1+P2) shall be at least 2 billion barrels of oil equivalent in 2005

Saga aims to carry out its activities without harm to people, damage to the environment or loss of property.

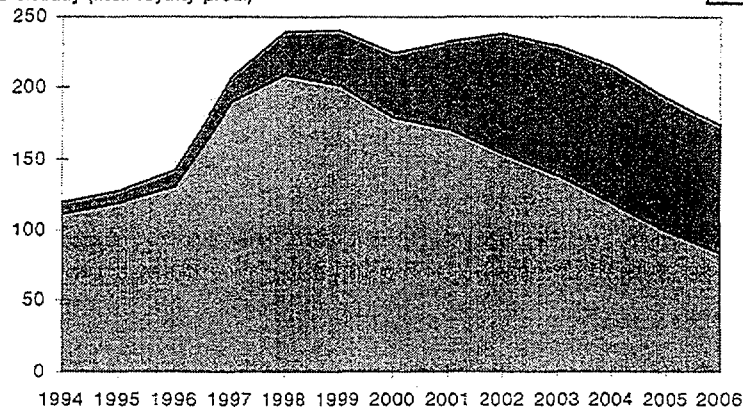
18.11.07, page 6

Saga's oil and gas production forecast



Based on proved and probable reserves at 31.12.96

1000 bbbls o.e./day (incl. royalty prod.)



18.11.97, page 7

Saga as an upstream company



- Saga will be a world class international oil and gas producer with its head office in Norway
 - We will remain an upstream company.
Upstream specialization is a way for Saga to continuously create value
 - The upstream goals we have set are ambitious, but such goals should be ambitious
- No expansion in output unless this is profitable
 - The only possible exception to remain a pure upstream company is downstream gas integration

18.11.97, page 8

Gas strategy: Maximize value for Saga's gas reserves



Can be done by:

- Cutting upstream costs; securing a better utilization of upstream gas assets, acceleration of the sale of gas reserves or obtaining a better price for the gas sold
- Identifying the opportunities that will improve the total gas economics of Saga, in particular by integrating downstream
 - The intention is not to invest in downstream activities for their own sake, but to identify opportunities that will also benefit Saga as an upstream company

Saga is therefore actively evaluating downstream gas projects

18.11.97, page 9

Sagas gas strategy



Downstream options:

- Within the range of options for downstream gas investment that have been considered, **gas-fired power generation** stands-out clearly as most attractive
- Of the countries that have been considered, investments in the **UK, Ireland** and the Netherlands/Germany are most attractive
- Depending on local circumstances, power generation would need to be supplemented by **supporting activities** or investments
 - UK: gas storage and gas & electricity wholesale / trading
 - Ireland: gas transportation and gas & electricity wholesaling
 - the Netherlands/Germany: gas storage and electricity wholesaling
- Focused activity will be needed to develop these projects to **investment decision level**

18.11.97, page 10

Profitability



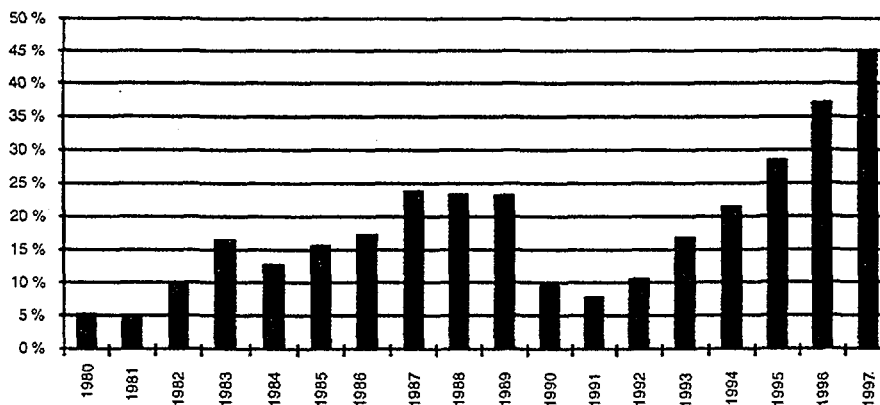
- Vision: We will be among the most profitable and efficient companies in the industry
- Is our required rate of return of 9 per cent a realistic goal?
 - In sight of the past record; **yes**

18.11.97, page 11

Share price performance



Real average return on equity
from 1.1.XX up to 31.8.97



e.g. shares bought in 87 has given the investor an annually return of approximately 24 percent

18.11.97, page 12

International strategy



Vision: Saga will be a world class international oil and gas producer

- 25 per cent of Saga's production internationally based
- No fixed aim how large part of our total production to come from international activities

18.11.97, page 13

Why internationalize?



- While the Norwegian shelf will remain the main area of activities
- Necessary to internationalize in order:
 - To gain insight and profit from other production areas
 - To keep a competitive edge in Norway
 - To meet an eventual abatement of activities on the Norwegian shelf and balance political risk of today's activities in the same area

18.11.97, page 14

International activities: How to do it



- Focused international upstream activities through the development of core areas
 - One core area established in the UK / Ireland / the Faroes
 - At least one core area in Africa by year 2000
- “Scouting” activities in relation to other opportunities
- Withdraw from international activities when appropriate

18.11.97, page 15

Environmental strategy



Vision: Integrate health, environmental and safety considerations in all our activities

- We have observed a continued improvement in the oil industry / Saga's environmental record
- Saga is intensifying its environmental work on future projects

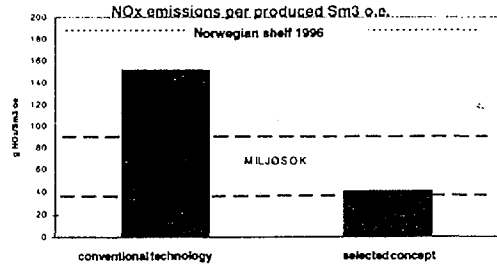
18.11.97, page 16

Snorre 2, Environmental profile



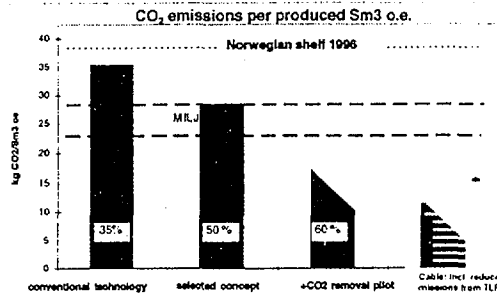
Environmental measures

- injection of produced water
- injection of oil based drill cuttings
- sliding sleeves
- closed flare
- combined cycle
- low NOx turbines



Under evaluation

- CO₂ removal pilot
- Cable between installations



18.11.97, page 17

Company skills and structure



Saga: A company relying on the creativity of its surroundings

- Size used to be a disadvantage for a company like Saga
- Today the opposite is true; our relatively modest size gives us advantages
- We want to maintain a core competence, relying to the largest extent possible on expertise and contractors around us

18.11.97, page 18

Example: The supply industry



- Saga's philosophy since the end of 1980'ies:
 - Maintain a small and very competent core of people to carry out our projects
 - Rely to the maximum extent on outside suppliers
 - Hire, not own technology

18.11.97, page 19

Example: Alliances



- Great value to be gained in teaming up with other oil companies
- No permanent strategic alliance. Cooperate case by case
 - Deep water alliance in Atlantic Margin and in Libya: Total
 - Haltenbanken: Statoil

18.11.97, page 20

Conclusions



- Saga will remain an upstream oil and gas company
- Saga will increasingly internationalize its activities
- The environmental challenge is permanent for the industry
- Saga will maintain a slim organisation. The company will to the maximum extent possible, continue to draw on external resources to fulfill its aims

18.11.97, page 21