



Oil & Gas: Under pressure



June 13, 2009

A presentation to the International Student Energy Summit

In the oil and gas sector, only the end game matters, but...

Current conditions

- Economic downturn
- Volatile markets and commodity prices
- Dramatic short and medium-term changes
- New opportunities and threats

Deloitte has a ringside seat

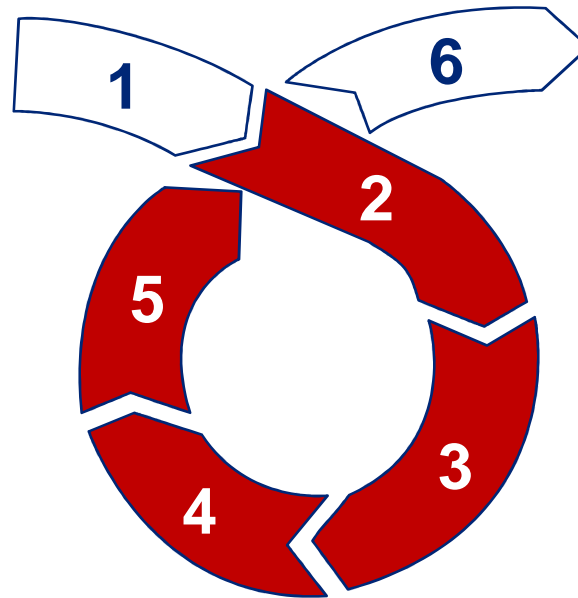
10 top issues

- Near-term issues
- Facing executives

We will discuss how to deal with the issues facing oil & gas executives

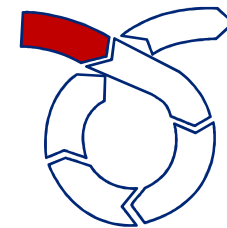
- An interactive session with voting
- Group discussions on selected issues
- Focus on five issues

1. Introduction
2. Issue vote
**3. Deloitte
Point Of View**



**4. Discuss key
question in groups**
5. Q&A vote
6. Wrap up

Top 10 oil & gas issues (1 of 2)



1. The cash crunch

Economic uncertainty may spark supply shortages

2. Counting the costs

Elevated expenses squeeze margins

3. Regulatory complexity

Global operations demand robust processes

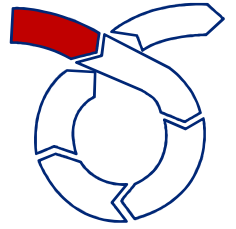
4. Missing in action

Talent shortages loom

5. Boosting reserves at bargain prices

The pace of mergers and acquisitions accelerates

Top 10 oil & gas issues (2 of 2)



6. Nowhere to go

Market access limited by resource nationalism

7. The end of easy oil

Reserves are getting harder to reach and extract

8. Playing it safe

Health and safety remain critical concerns

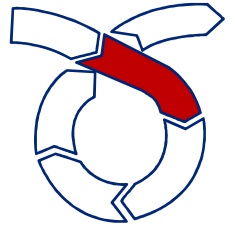
9. An inconvenient truth

Carbon reduction target rise in prominence

10. It's not easy being green

An alternative energy strategy is mandatory

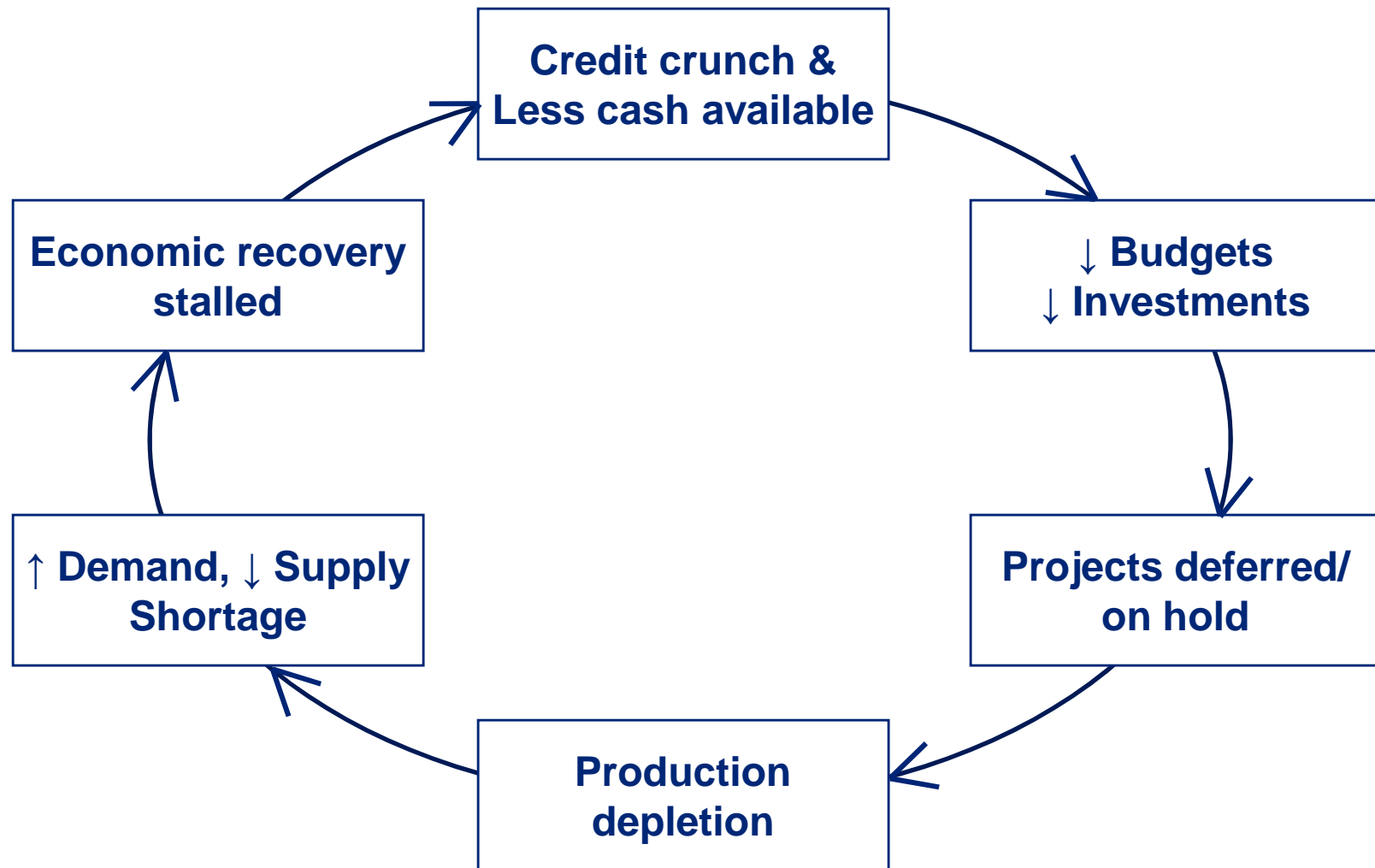
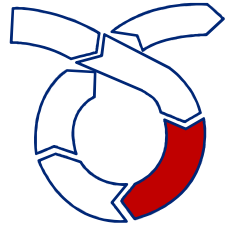
Top 10 issues – vote now!



1. >>> The cash crunch
2. >>> Counting the costs
3. >>> Regulatory complexity
4. >>> Missing in action
5. >>> Boosting reserves at bargain prices
6. >>> Nowhere to go
7. >>> The end of easy oil
8. >>> Playing it safe
9. >>> An inconvenient truth
10. >>> It's not easy being green

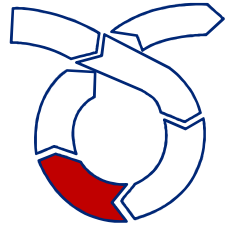
1 The cash crunch

Economic uncertainty may spark supply shortages



1 The cash crunch

Economic uncertainty may spark supply shortages

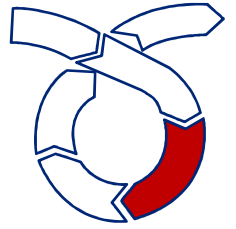


What do you see as the most likely consequence for industry of a supply shortage?

- 5 Partial collapse of the industry (e.g., bankruptcies)
- 4 Rising costs
- 3 Negative public sentiment toward 'Big Oil'
- 2 Mass layoffs
- 1 Major project cancellations

2 Counting the costs

Elevated expenses squeeze margins



Recent years

- Record high oil price
- Record high profits
- Increased operating costs

Current costs

- Function of past agreements
- Past investment
- Not easily rebated

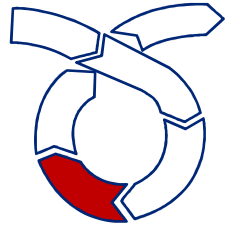
Last 6 months

- Oil price down to \$34 and up to \$69
- Operating costs remain high
- Non-viable projects



2 Counting the costs

Elevated expenses squeeze margins

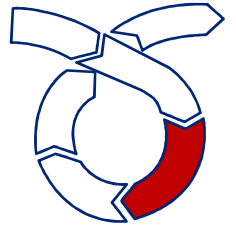


What do you perceive to be the most effective and sustainable way to cut costs?

- 5 Cut staff
- 4 Renegotiate costs with suppliers
- 3 Outsource non-core activities
- 2 Battle internal inefficiencies in operations
- 1 It's a financial play with numbers, tax benefits, allocations, etc.

3 Regulatory complexity

Global operations demand robust processes



Situation

- Growth requires access to new reserves
- Reserves are globally scattered
- Expansion gets farther afield

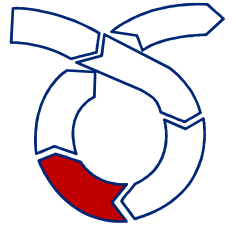
Complication

- Diverging regulations and regimes
- Non-compliance is not an option
- Complexity is adding on costs
- Costs might be passed on to consumers
- Regulations poses threats and opportunities



3 Regulatory complexity

Global operations demand robust processes

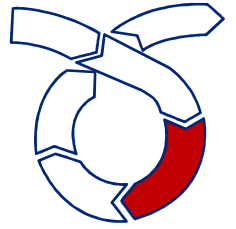


From your perspective, what area of international regulation is most attractive to tighten up?

- 5 Ownership and rights of land/reserves
- 4 Commodity pricing
- 3 Greenhouse gases (GHG)
- 2 Site safety
- 1 Taxes and royalties

4 Missing in action

Talent shortages loom



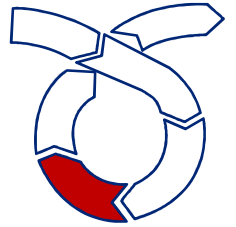
- Bulk of employees are Baby Boomers (born post World War II)
- Generation X is missing in action (born 1970s – 1980s)
- Generation Y is in action (born mid 1980s – early 1990s)

- FIFO (First In, First Out)
- Baby Boomers retire
- Generation Y on the bench
- Increasing skill gap

- Industry with a leaking image
- Recruitment and retention challenges

4 Missing in action

Talent shortages loom

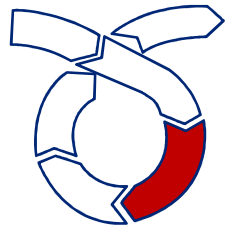


What can the industry do to make itself more attractive to your generation?

- 5 Invest heavily in alternative energy
- 4 Increase flexible work arrangements
- 3 Increase safety and support healthy work environments
- 2 Collaborate more closely with educational institutions
- 1 Don't worry about it: just recruit from overseas

5 Boosting reserves at bargain prices

The pace of mergers and acquisition accelerates

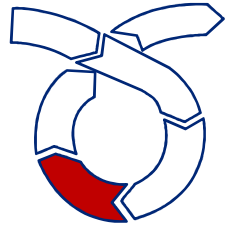


- Tight credit market
- Split of players into 2 segments
 - Cash-rich
 - Cash-poor
- Cheaper buying competitor(s) than exploration?
- Window of opportunity
- Strengthen the portfolio
- Wave of M&As?
- Currently less M&A activity than anticipated



5 Boosting reserves at bargain prices

The pace of mergers and acquisitions accelerates

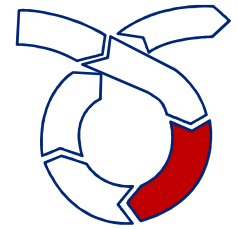


Being a cash-rich oil & gas company,
what strategy would you follow?

- 3 Focus on exploration alone.
Keep the company structure intact through the storm
- 2 Due diligence and acquisitions/mergers
- 1 Divest assets that is currently not viable to produce

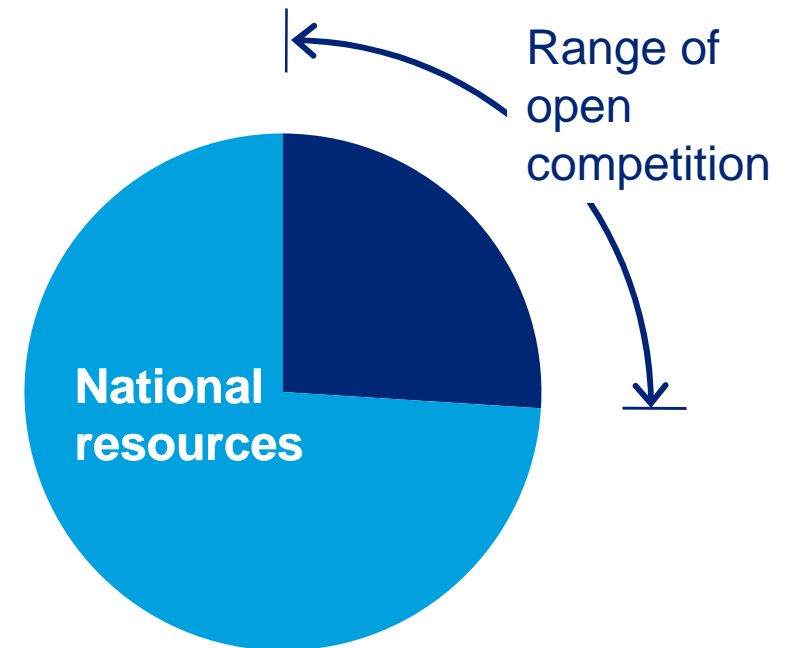
6 Nowhere to go

Market access limited by resource nationalism



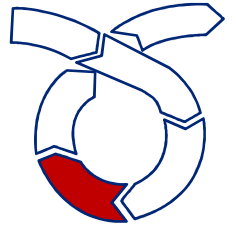
- Business and politics as bedfellows
- Cheap oil → open borders
- Higher oil price → different tune

- NOCs control access to ~75% of proven conventional resources
- Open competition on ~25%
 - Increased royalty rates
 - Protective rules/bans



6 Nowhere to go

Market access limited by resource nationalism

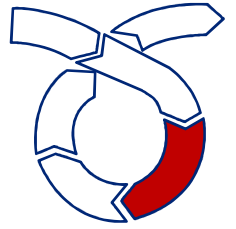


What do you think governments will do?

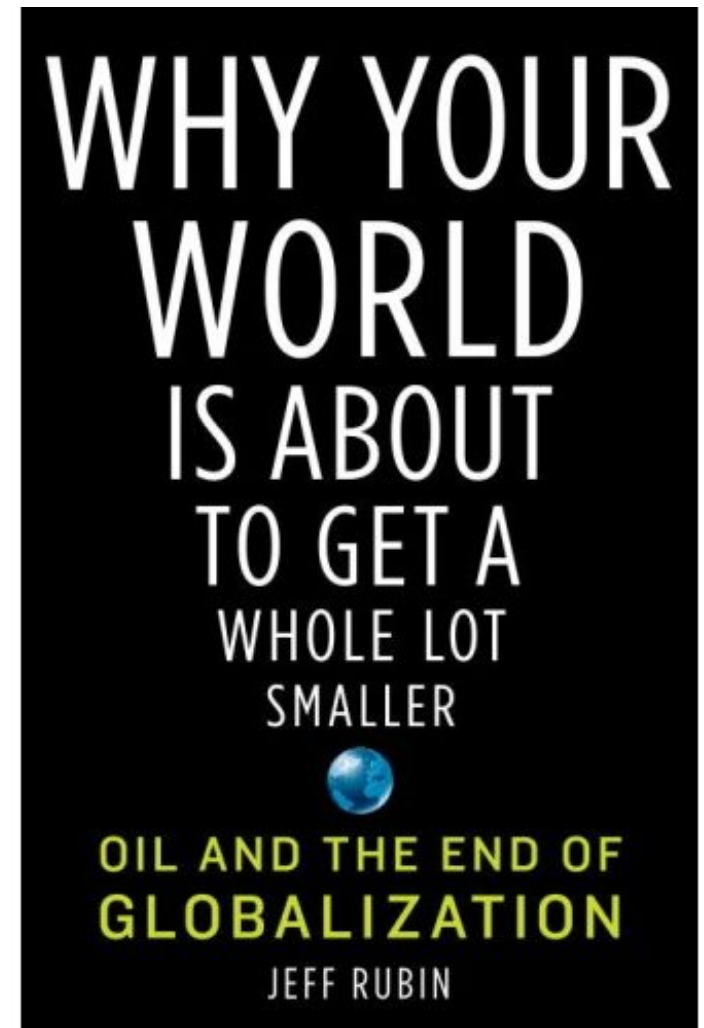
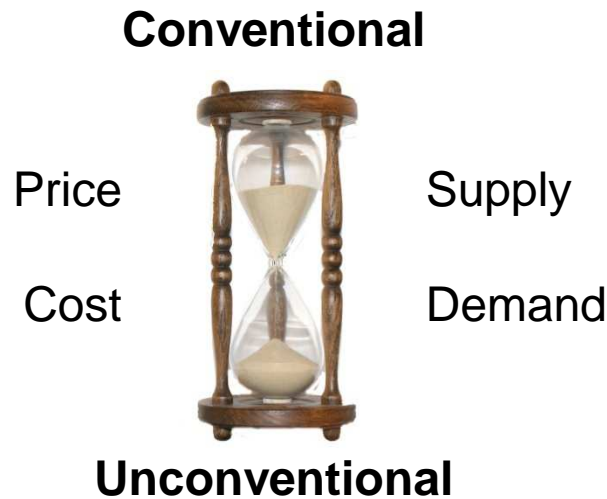
- 4 Open up their markets – they need rich country talent
- 3 Close their markets – oil is a strategic resource
- 2 Partner – protect their reserves
- 1 Go global – let their NOCs explore globally

7 The end of easy oil

Reserves are getting harder to reach and extract

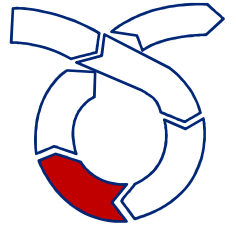


- Oil & gas - core source of energy
- Cheap energy → globalization
- Remaining fossils unconventional
- More energy, more difficult to extract
- Oil price ↑



7 The end of easy oil

Reserves are getting harder to reach and extract

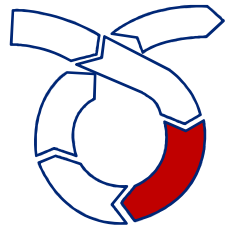


Is globalization set to end?

- 4 YES – we are running out of oil
- 3 YES – there is lots of oil, but unable to make it to the market
- 2 NO – there is lots of oil, and oil production costs will decrease with improved extraction technologies
- 1 NO – Oil will run out, but we will transition 100% to alternative energy sources beforehand

8 Playing it safe

Health and safety remain critical concerns



- “There will be blood”
- Risk of accidents a concern
- Legislation is in place
- Onshore & offshore

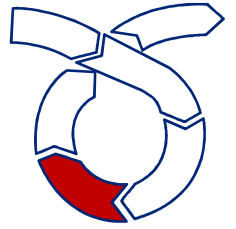
- Infrastructure is aging
- Cost pressures grow
- Operation in remote regions

- Focus and improvements must persist



8 Playing it safe

Health and safety remain critical concerns

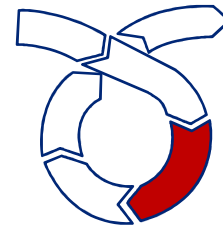


Are safety and health issues of importance in your selection of career path?

- 4 Very high importance
- 3 High importance
- 2 Important, but not affecting my choice
- 1 No importance

9 An inconvenient truth

Carbon reduction targets rise in prominence



Bridging the gap



Economy based on **dirty** energy



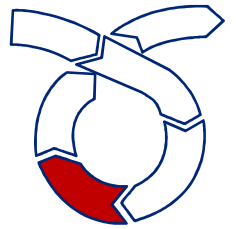
Economy based on **clean** energy

- Obama government
- Green public conscience
- Scientific evidence

- Reduced emissions?
- Carbon capture?
- Emission trading?

9 An inconvenient truth

Carbon reduction targets rise in prominence

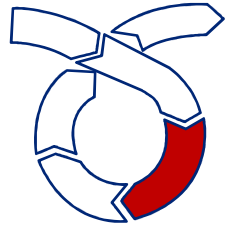


What do you find to be the most effective way to reduce carbon emissions?

- 5 Carbon tax
- 4 Cap and trade
- 3 Carbon capture and sequestration
- 2 Halt the oil sands
- 1 Improve efficiencies of extraction technology

10 It's not easy being green

An alternative energy strategy is mandatory



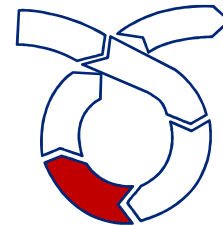
- Green is impossible to ignore
- Executives are tuned in ... and geared for changes
- Alternative energies are trendy ... and much needed

- Petroleum still major energy source
- Business as usual?
- Cheap oil → less 'green' investments
- Clear industry wide strategies required



10 It's not easy being green

An alternative energy strategy is mandatory

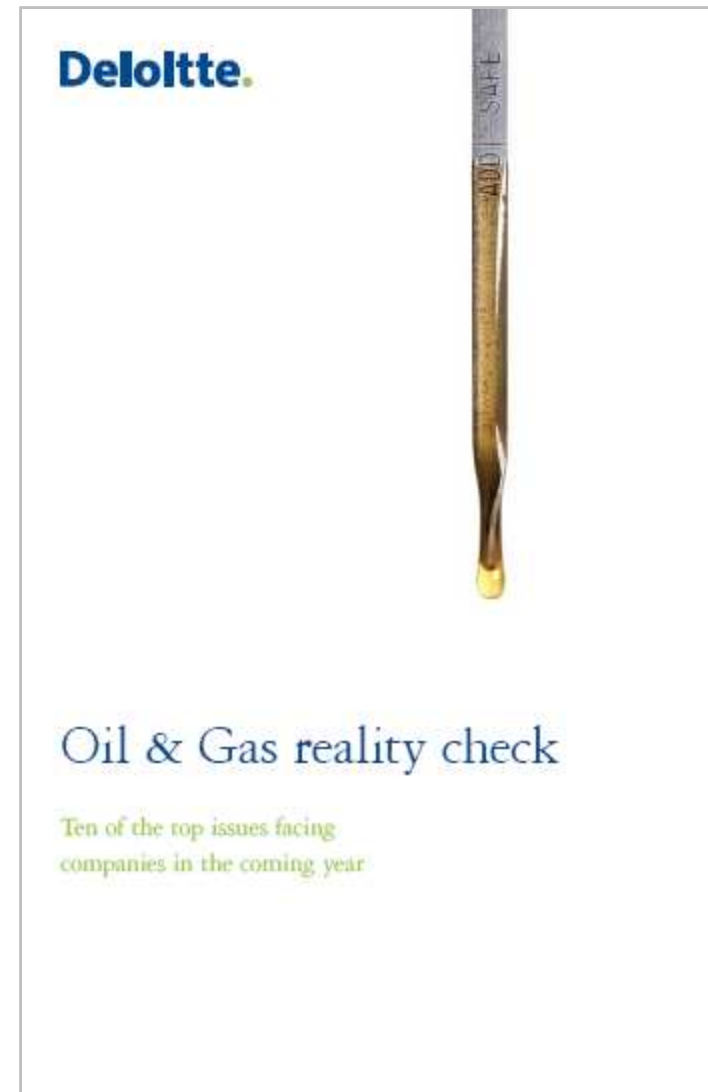


What will effectively drive the industry toward alternative 'green' energy production?

- 5 High oil prices, which leads to 'green' investments
- 4 Legislation
- 3 Public demand and green requirements
- 2 Technology & innovation
- 1 Scientific proofs of feasibility (economic & environmental)

Thank you for attending

- Presented by Geoffrey Cann
- Recent Deloitte publication
Oil & Gas reality check
- Deloitte.com → Canada →
Industries → Oil & Gas
[http://www.deloitte.com/dtt/article/0,1002,
cid%253D260907,00.html](http://www.deloitte.com/dtt/article/0,1002,cid%253D260907,00.html)



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