
Building an International Portfolio - Newfield's Experience

Bill Schneider

IHS Energy's Perspective Forum

APPEX Houston

September 14, 2004

NEWFIELD



APPEX 2004 – Forum Themes

- What is the role of exploration in shaping the energy future?
- Will it be possible for oil and gas to fuel economic growth in the 21st century without a robust exploration business?

APPEX 2004 – Outline of Presentation

- Background
 - Snapshot of Newfield Exploration
 - International program
- Current philosophy
 - Investment criteria
 - E&P Trends
- Future outlook
 - Economic Growth
 - Role of Exploration

APPEX 2004 – Newfield's Business Principles

- Focus
- Talented people
- Balance between acquisitions and exploration
- Control of operations
- Teamwork and technology
- Employee ownership

APPEX 2004 – Newfield's Corporate History

- Founded in 1989
 - Initial capitalization US\$9 million
 - Focus on Pliocene Trend, offshore Louisiana, Gulf of Mexico
- Initial Public Offering in 1993
 - Enterprise value US\$250 million
 - Reserve base 140 bcfe
- Onshore US effort started in 1995
- International program started in 1997
- Current status
 - Enterprise value US\$4,200 million
 - Reserve base 1,700 bcfe

APPEX 2004 – International program (1997)

- Purpose
 - Exposure to impact projects
- Strategy
 - Take what we do well and export it to other basins
- Guidelines
 - Known hydrocarbon province
 - Offshore operations
 - temperate climate
 - shallow water
 - Clastic reservoirs
 - 3D seismic

APPEX 2004 – Int'l Program History

- 1997 - 2000
 - China drilling
 - Australia acquisition and drilling
- 2001 – 2004
 - Additional focus areas
 - Brazil – 2001
 - UK North Sea – 2002
 - Malaysia – 2003/2004
 - Australia disposition - 2003

NEWFIELD



APPEX 2004 – Investment criteria (2004)

Factors Newfield considers when evaluating a new country

- Geologic Potential
- Economics
 - Fiscal terms
 - Entry cost
 - Commercial upside
- Above ground risks
- Competition

APPEX 2004 – E&P Trends

Factors that countries may consider to stimulate exploration

- Improved access to:
 - Acreage
 - Infrastructure and markets
 - Data
- Regulatory framework
- Appropriate fiscal terms
- Transparency

NEWFIELD



APPEX 2004 – Forum Themes

Will it be possible for oil and gas to fuel economic growth in the 21st century without a robust exploration business?

- Yes

- There are substantial remaining crude oil and natural gas resources in the world
- The impact of rising energy costs on economic growth is overstated

APPEX 2004 – Economic Growth

- There are substantial remaining crude oil and natural gas resources in the world, but ...
 - Low cost reserves are declining
 - Remaining resources, while significant, pose challenges
 - The primary challenges are
 - Extraction technology and costs
 - Transportation and infrastructure investment

APPEX 2004 – Economic Growth

- Impact of rising energy costs on economic growth is overstated
- Free market elasticity
 - moderates supply and demand changes
- Increased efficiency
 - Oil consumption as percent of GDP spiked between 1973 – 1986 and has been relatively flat since (~3%)
 - Manufacturing output (1970 – 2004) is up 260% while energy use per unit output is down 60%



APPEX 2004 – Economic Growth

- Impact of rising energy costs on economic growth is overstated
 - Energy costs in the US, are ~5% of total personal consumption
 - Down from 7% in 1960 and 9% in 1981
 - Health care has increased from 5% to 17% since 1960
 - Since 1999, energy expenditures have risen \$155 billion while non-energy expenditures have risen \$1.9 trillion
 - While oil imports account for 25% of the trade deficit, they are only 12% of total imports



APPEX 2004 – Forum Themes

What is the role of exploration in shaping the future?

- Will the decreasing trend in exploration turn around?
- What will trigger a turnaround?
- What is the future of exploration?
- What are the types of plays that will attract future exploration investments from independents?

NEWFIELD



APPEX 2004 – Exploration Activity Levels

Will the decreasing trend in exploration turn around?

- Factors contributing to decreasing activity
 - Acreage availability
 - Basin maturity
 - Financial considerations and market expectations
 - Shortage of people

APPEX 2004 – Trends in Exploration

Paste in Treasure Island slide

APPEX 2004 – Exploration Activity Levels

Will the decreasing trend in exploration turn around?

- Factors contributing to decreasing activity
 - Acreage availability
 - Basin maturity
 - Financial considerations and market expectations
 - Lack of people

APPEX 2004 – Role of Exploration

What is the future of exploration?

- Targets
- Technology
- Challenges

APPEX 2004 – Areas of Interest

What are the prime types of plays that will attract future exploration investments from independents?

- Mature basins where major companies are in “harvest mode”
- Deepwater extensions of producing provinces
- Frontier areas

APPEX 2004 – Conclusions

- Successful exploration is the primary value adding element in the E&P business
- Declining rate of worldwide exploration activity is due to a combination of prospect availability and financial considerations
- The E&P industry faces numerous challenges in the effort to reverse this decline

APPEX 2004 –

NEWFIELD

