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The Lundin name is back in Malaysia in a big way. Since its 'return' in 2008, Lundin Petroleum has acquired six exploration licences focused in two core areas. In the

Exciting time ahead

last two years, the company has undertaken two successful drilling campaigns and is now embarking on the next phase of exploration activity while transitioning into the development phase.

BY SREEREMA BANOO



‘Organic exploration growth’ is a phrase Lundin Malaysia BV General Manager Mike Nicholson uses time and again to describe the Swedish independent oil and gas company’s development strategy. For Lundin Petroleum, pursuing organic growth through exploration means building and focusing on core areas, particularly where there’s an existing proven petroleum system, and then using 3D seismic data aggressively to enable the next generation of exploration.

It is a strategy that has worked for Lundin Petroleum since its inception in 2001, and its adoption in the Malaysian operations appears to be paying off as well. So much so, Lundin Petroleum President and CEO C. Ashley Heppenstall recently noted in the company’s 1Q2013 report that he’s become “more excited” about Lundin Petroleum’s South East Asian portfolio.

He highlighted Malaysia, saying that “our team has done a great job in building a material licence portfolio and the early exploration results have been encouraging.” (In the region, Lundin Petroleum also has exploration licences in Indonesia and exploration drilling in Indonesia is scheduled to commence in the fourth quarter of 2013.)

Sharing Heppenstall’s enthusiasm, Nicholson says, “I think when we look back at what’s been achieved by our team in a short space of time, we’re quite pleased with the progress we’ve made so far.”

Lundin Petroleum operates a total of seven blocks (through six Production Sharing Contracts or PSCs) in Malaysia focused in two core areas, with a gross acreage of about 40,000sq km, net proven and probable reserves of 12.7 mmboe and around 80 mmboe of contingent resources. The company has undertaken two drilling campaigns, one in 2011 and the second in 2012, drilling ten wells in total and discovering hydrocarbons in seven of these.

As noted in the 1Q2013 report, the company is moving forward with the commercial development of the Bertam field, offshore

Peninsula Malaysia. “Our team has been very busy doing the planning and we’re just about to move into the execution phase of that project,” says Nicholson, adding that first oil is expected in late 2014.

Not really a new kid on the block

Although Lundin Petroleum made its foray into Malaysia only in 2008, the Lundin name has had a much longer track record of working in Malaysia, beginning from the late 1980s. At the time, Lundin Petroleum’s predecessor Lundin Oil had a working interest in the PM-3 block in the commercial arrangement area between Malaysia and Vietnam.

Through the 1990s, says Nicholson, Lundin Oil drilled a large number of successful exploration wells, and in 1996 began to develop a fast track oil discovery called Bunga Kekwa, which was brought onstream in 1997.

In 2001, Lundin Oil was acquired by Talisman Energy for US\$400 million. Following the sale, the management team opted to remain with the Lundin Group of Companies, and Lundin Petroleum was set up that same year.

When the company was formed, it had only one exploration licence in Sudan and one in Iran. The company then embarked upon an aggressive acquisition, exploration and development programme in the North Sea (UK, Norway and Holland), France, Tunisia, Indonesia and eventually Russia, which has transformed Lundin Petroleum into what it is today.

“Today the company stands at around US\$6 billion in market capitalisation and has reserves and resources of more than a billion barrels,” says Nicholson. (Most of the resources on its books are focused in Norway, with around 10 percent in South East Asia).



In 2008, in line with its growth strategy, the company decided to return to Malaysia. “One of the things that drove that decision was the fact that we had a long track record and good experience of working in Malaysia as well as a good relationship with PETRONAS,” says Nicholson who has been with Lundin Petroleum since 2005, and with the Lundin’s Malaysian operations since 2008.

The company’s return to Malaysia was cemented in 2008 with the signing of PSCs for three blocks, namely PM-308A, PM-308B (both offshore Peninsula Malaysia) and SB-303 in Sabah. In 2010 the company signed a PSC for two blocks in Sabah (SB-307 and SB-308). A year later, it farmed into PM-307, located just to the north of PM-308A and in December 2012, the company signed another PSC, for PM-319.

Through the six PSCs, the company has built two sizeable core areas – the Peninsula Malaysia core area consisting of PM-307, PM308-A, PM308-B and PM-319, which are contiguous, and the Sabah core area comprising SB-303, SB-307 and SB-308, which are also contiguous blocks.

Formula for success

“One of the lessons we learnt over the years is not just to go into a country and sign one block and then as a result have a relatively constrained exploration programme. If you can build a material and focused acreage position and

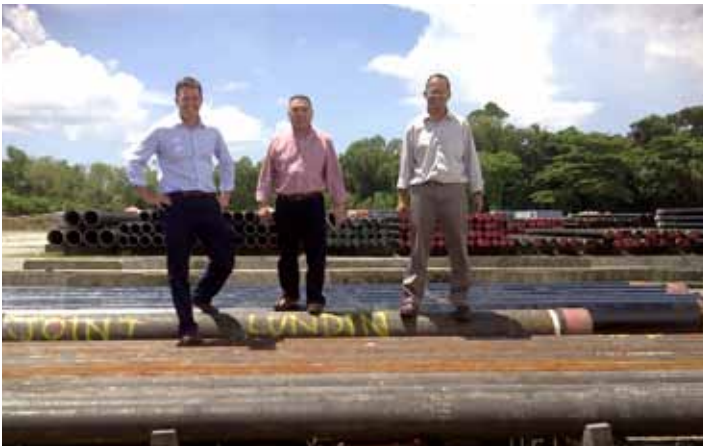
portfolio of prospects, our ultimate view is that we can create more value for all our stakeholders through exploration.

“Our strategy has always been to try and build core areas and to have sustained exploration activity...because ultimately if you’re drilling more wells and you’re having much more activity spread over a large area then you’ll have a much higher chance of creating a successful and sustainable business,” explains Nicholson.

The company’s strategy for growth is also very much sub-surface-driven, says Nicholson. “When we first came to Malaysia, we saw the opportunity to come in and use 3D seismic data more aggressively as one of our key exploration tools,” he says, stressing that this has helped the company de-risk some of its plays. Technology, he believes, is vital, and apart from leveraging the value of 3D seismic data, the company also plans to use equipment such as electric submersible pumps in an effort to maximise the recovery of the Bertam field.

In addition, the company also focused on areas where there was an existing proven petroleum system, which helped to de-risk some of the areas it was eyeing. This, together with the 3D seismic data and the new play concepts that the team were keen to explore and the strong management support from the headquarters are some of the factors driving the company’s success.





“The management team is focused on actively exploring and as such making decisions quickly to try and react to opportunities that come available. We are able to make decisions very quickly and test some new play concepts that although risky, can still deliver positive results... it’s that combination of things that allows us to separate ourselves from the competition. PETRONAS has also been highly supportive of our work programme in Malaysia. This mixture of factors has allowed us to deliver the results we’ve seen thus far.”

It’s a formula that saw spectacular success in Norway – leading to the Johan Sverdrup discovery in 2010. The discovery is presently estimated to

contain gross contingent resources of between 1.7 and 3.3 billion barrels of recoverable oil – making it one of the five largest discoveries ever made on the Norwegian Continental Shelf, the largest discovery since the mid 1980s and the largest exploration find in the world in 2010/2011.

The road ahead

Moving forward, Nicholson is optimistic about the company’s operations in Malaysia, and is keen to build upon its existing base. “Every bid round that comes up, our new ventures team is always evaluating the new opportunities available... obviously we have to rank these opportunities from a sub-surface perspective and fundamentally we have to see sub-surface promise before we



decide to expand. But yes, we have our team on the ground and we're very keen to try to keep the momentum going and sustain our licence position here and even build upon that."

Apart from the encouraging support received from PETRONAS, Nicholson's optimism is further buoyed by the initiatives for the oil and gas industry under the Economic Transformation Programme. "These (initiatives) feed into a positive outlook for the business environment in Malaysia," he adds.

In five years' time, he hopes that the company will have a sustained high level of exploration activity in combination with a pipeline of

development projects that will ultimately lead to a growing production base. "Five years from now I'd like to see oil and gas production coming from a number of projects and I believe we can achieve that."

