

**FACES OF CHANGE:**  
**THE E & P INDUSTRY, ANADARKO, AND ALGERIA**

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**IN ALGERIA’S ENERGY AND MINING SECTORS”**

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**ALGIERS**

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It is a particular pleasure for me to be here as I recall seeing many of you at CWC's conference in Geneva in October of 1999. That was just a little over a year ago, and I think it is fair to say .... A LOT HAS CHANGED in that short time. In fact, that is really what I want to talk about today – CHANGES.

Certainly a lot has changed in the Global Exploration and Production Industry. Similarly, many things have changed at Anadarko – and I want to tell you about that. Clearly things have changed in Algeria as well – and I have a few observations I would like to share with you..

But let me start with a quick review of changes in our industry. Now to talk about change, it is important to know what the change is compared to. So let me set the stage with a few reminders from the fall of 1999 – really just a little over a year ago.

As I recall, oil prices were about \$20.00/bbl having recovered from the \$10.00 range at the start of 1999 in no small part due to cohesive and decisive action by the members of OPEC. Of course, we all thought \$20 oil was nice, but many people thought it would not last long. In the United States, natural gas prices also had increased to about \$2.00/mcf. Of course, North American gas was (and still is) very important to us at Anadarko. We thought \$2.00 gas was ok; it was about 30% higher than it had been at the start of the year. We expected gas prices to continue to increase.

In the fall of 1999, many companies were merging; being bought and sold – even some of the largest and oldest companies in our industry. Everyone wondered who would be next? Who would buy? Who would be bought?

At Anadarko, our revenues for 1999 were expected to be about \$700mm. Our work in Algeria was moving ahead – and if you attended the CWC Conference in Geneva that fall – you may recall that I talked about a few problems we were having in our relationship with SONATRACH. I hope you also recall my confidence that together we would resolve those problems.

In Algeria, the Administration of President Bouteflika was finishing it's first year, energetically working to implement the President's plans and ideas.

That was the fall of 1999 – just over one year ago, and our base for talking about changes.

That really seems like a long time ago, and things have really changed! In a little over a year, oil prices have moved well above \$30.00/bbl driven by global economic growth, lack of significant new supply, and continued cohesiveness among the OPEC members. And, I note that OPEC recently took proactive steps to keep prices within a stable range. I should also mention North American natural gas. Gas prices have increased from the \$2.00 range I mentioned a moment ago to about \$10.00/mcf just last month. Over the last month, gas prices have dropped all the way to about \$7.00/mcf, still more than three times the price one year ago.

In the past year, consolidation and acquisitions among global E&P companies have continued. We've been involved in that at Anadarko, and I'll talk more about that in a moment. I think it is likely that mergers, acquisitions, and consolidations will continue to be a major factor in the

future – driven by the continued and competitive needs for companies to keep the right balance of opportunities, financial resources, and human resources to deliver the growth and profitability demanded by the financial markets. This is certainly reflected in the current plans of companies like Chevron, ENI, and Total FinaElf.

Certainly over the past year, global exploration and development activity has increased. Without question, this has been driven by the higher prices, and resulting cash flow available for investment. But in reality, those same strong prices are just a very clear signal that the economies of the world are continuing to call for increased exploration, development, and production of hydrocarbon fuels. With this increase in global exploration and development activity, it is not surprising that our costs of business have begun to increase. In certain areas, the costs of drilling rigs, equipment, services, and personnel have begun to increase.. We must all work creatively, and apply the best and newest technologies to ensure that cost increases do not negatively affect the economic viability of our projects. If history is any guide, we can expect oil and gas prices to decline at some point. I certainly hope we never see \$10.00 oil again – but if we do

experience lower prices we must still find the means to explore and develop new sources of oil and gas production, and do this profitably.

I want to turn now to talk briefly about the changes that have happened at Anadarko. We've grown!. This past year has possibly been the most exciting year in Anadarko's 40+year history.

First, we have benefited financially from the higher prices for oil and gas. This has been combined with significant new production from fields in Alaska, the Gulf of Mexico, and even in Texas, to lead significant growth of the company.

But probably, the single most important event in Anadarko's history was the acquisition of Union Pacific Resources, which was completed in mid-July of last year. UPR was another U.S. based oil and gas company with tremendous assets, a very strong and capable staff, and a great history. With the completion of this acquisition, Anadarko is not only one of the largest independent oil and gas companies in the world, but we believe one of the best. I don't mean to boast, but we're proud of our company and excited about our future.

All of these changes in the past year have been very exciting for Anadarko, for the employees, and for our shareholders. Let me give you a few figures.

In 1999, Anadarko's annual production was about 49mm energy equivalent barrels. For this year, it will increase four-fold to 200mm EEB, or more than 500,000 EEB per day. Now I know that is still not as big as SONATRACH, but we're trying!

I mentioned earlier that Anadarko's revenues in 1999 were about \$700mm USD. Based on realistic prices for this year, our revenues in 2001 should approach \$5 billion USD. This is about a seven-fold increase!

In 1999 Anadarko's investment budget was about \$680mm USD which was well in excess of cash flow for the year. While we haven't yet announced the official budget for 2001, I expect it will be about \$2.5 billion USD. And the company should have surplus cash flow available for additional projects.

And finally, I'll note that at the end of 1999 the company, whose shares are traded in the financial market on Wall Street, was valued at \$4.3 billion

USD. One year later, at the end of 2000, Wall Street valued Anadarko at over \$17 billion USD. By that measure, we are now the 12<sup>th</sup> largest publicly traded oil and gas company, larger than companies like Phillips and Conoco. But again, we're still not quite as big as SONATRACH.

Now our strategy at Anadarko has been to use our growing revenues and cash flow to increase our investments in exploration and development of new oil and gas resources. And that will continue to be our key strategy.

We are confident we can continue to achieve our goals with continued focus on exploration, development, and production. That is what we are good at.

The new, larger Anadarko has core activities onshore and offshore in the United States, Canada, Alaska, Latin America and of course right here in Algeria. We also have important exploration programs in Tunisia, offshore West Africa, (in Gabon and the Congo), in the Black Sea offshore Georgia, offshore southern Australia, and in the North Atlantic offshore the United Kingdom and Faeroe Islands.

We will clearly continue with our long-term strategy. But to continue our growth we will also do new things in new areas. We will use our increased

revenues and cash flow to expand our exploration and production efforts worldwide. And we now have more people and stronger financial capability with which to accomplish this work.

Certainly, Algeria is one place we will increase our investment and consider new opportunities. We have been working with SONATRACH now for over 14 years. We have made major investments here and have much more work to complete. We expect to be an important partner to SONATRACH and to Algeria for many years. And, we hope to carry out some new and important projects in Algeria in the future.

Before, I talk about future possibilities, I want to update you on our work here in Algeria with SONATRACH over the past year. We're making great progress and are excited about the future here in Algeria.

As I noted at the previous CWC conference in Geneva, we've been drilling here continuously since 1991, and we have found 12 fields with total reserves of more than 2 billion barrels of oil. The successful exploration phase of our program ended a couple of years ago.

So, for the past couple of years, our focus has been on the development of these discoveries. We're constructing our central production facility in the northern part of Block 404 in phases, which enables us to pursue an aggressive development schedule while minimizing development and operating costs. As many of you know, in May 1998 we began oil production from Stage 1 of the giant Hassi Berkine South, or HBNS, field. Last year, that field averaged nearly 70,000 barrels a day, and recently has even done better than that! This will increase by another 75,000 barrels a day with completion of the production train for Stage II expected in August of this year. Then in February of 2002, we expect to start up an additional production train for the Hassi Berkine, or HBN, field that will raise our production total to 210,000 barrels per day. The HBN field is unitized with ENI, and is being developed in combination with the HBNS field. Development drilling for these fields has been ongoing, and will increase over the next few months as additional rigs come to work.

Also early this year, we'll start development drilling on four satellite fields that are close to HBNS. Construction of the production facilities for these fields began last summer, and will be completed next year. This will add

another 75,000 barrels of daily production capacity in the second half of 2002.

Field development is also now moving full-speed ahead at the giant ORD field, which is unitized with CEPSA and Burlington Resources. Positive development drilling results continue to show this to be a huge field. During 2000, an EPC contract was signed with JGC Corporation for the development of this field, and development drilling will continue this year. With a little good luck and a lot of hard work, production should begin from ORD in a little less than two years from now. Full production from ORD will be 230,000 BOPD in early 2003.

It is important to understand that all of the development and construction work I just mentioned is committed, contracted, in progress and on schedule! And it will lead to combined new production of more than 500,000 BOPD from these key fields.

In addition to these fields, which are clustered in Block 404, we have four additional large discoveries in Block 208 a little farther south. We are working with SONATRACH to finalize the development plans and

strategies for these important fields. We hope that serious engineering work will begin this year. When fully developed, these fields could produce another 150,000 – 200,000 barrels per day of oil and condensate.

In addition, to the field development progress, several important events occurred in the past year. We were especially pleased in September when the SONATRACH/Anadarko joint operating organization, known as “Groupement Berkine” became officially and legally formed. Our people have actually been working in that organization informally for almost three years, and they are doing a great job with development, management, and operation of the fields. We are committed to putting top people into Groupement Berkine so it will be successful. I really enjoyed an opportunity late last year to see first hand the quality technical work being done by that organization. They are doing world-class 3-D seismic interpretation, real-time drilling data integration, sophisticated reservoir modeling and management right there in Hassi Messaoud. And of course, the Groupement Berkine is also managing the drilling, construction, and production operations.

We are also involved and closely interested in the joint organization formed among all the companies for the ORD field development. This organization is responsible for development and operations of one of the largest oilfield projects underway anywhere in the world. This group is also doing good work, and we are confident they too will be very effective.

I should also mention the important progress SONATRACH has made on the regional development. This includes progress on the Berkine Power Station, and recent contract awards to expand the oil pipeline capacity from the region all the way to the port terminals. Successful completion of these projects is very important to the overall development of the Berkine Basin. We congratulate SONATRACH on this progress!

As I noted earlier, in Geneva, in October 1999, I talked a little about some problems and differences at that time between Anadarko and SONATRACH. I noted that the problems were frustrating, but the differences weren't surprising given the different history, strategies, and roles of the two companies. I also noted that SONATRACH and Anadarko had many things in common: things like technical competence, commitment, ambitions for the future, and above all, our shared partnership in the Berkine

Basin. And in Geneva, I expressed confidence that our companies would find a way to resolve any problems we may have.

I am pleased to say today that my confidence has proven true, and that we are making good progress in resolving some important differences. I expect these discussions will be completed very soon. That is good news for Anadarko, SONATRACH, and the people of Algeria. These shared discussions will finally pave the way for full development of all our discoveries in the Berkine Basin.

At the same time, I am pleased to say we have also been talking about future projects together inside Algeria and out of Algeria. I am hopeful, maybe I can even say optimistic, that we can reach agreement soon on new projects. We certainly think it makes good sense to expand our partnership in Algeria, not only for additional oil exploration but also perhaps for exploration and development of gas projects. While gas projects are often more complex, Anadarko today has the skills, the experience, the people, and certainly the financial power to carry out a major gas development project. And, I don't have to tell you that Algeria has vast untapped potential for gas, with a great geographical position and the infrastructure base to supply the growing

markets of Western Europe, North America, – and indeed the growing global gas market.

Also, we've been pleased to discuss projects with SONATRACH outside of Algeria – for example in the Gulf of Mexico where Anadarko has important exploration programs underway in the complex “Sub Salt” areas and also in the high potential deep water areas.

Since I have talked about changes in the industry, changes at Anadarko, our business here with SONATRACH, I should also comment about changes here in Algeria and with SONATRACH. But I know that many of the distinguished speakers at this conference are discussing these very changes clearly and in detail, with great insight and expertise. So I will make a few general observations.

Since Anadarko began our discussions with SONATRACH in 1986, we have witnessed tremendous and progressive change in many areas from the very top of the Government to the daily life of people we work with here. I could mention many specific examples, but in the interest of time I won't.

I can simply say that Anadarko continues to be encouraged by the many changes that have occurred and that are underway in Algeria. We ARE ENCOURAGED and optimistic about Algeria's future. But I can also say there is a question perhaps more important than whether Anadarko is encouraged. And that is whether the people of Algeria are encouraged about the changes ... optimistic about the future.

In my opinion, the people of Algeria can be encouraged about the future. President Bouteflika, the leaders of his administration, and the many industrial leaders are working energetically and tirelessly to continue and accelerate Algeria's notable progress. We hope that in some way, Anadarko's work here is making a contribution to that progress.

So I've talked about changes. Changes in our industry, changes at Anadarko, changes in our business with SONATRACH here, and changes in Algeria. Without question, a lot has changed over this past year or two.

I would like to close by looking briefly at the future. We believe that the global economy will continue its long-term growth, and will continue to call for increased exploration, development and production of oil and gas. We

certainly believe the earth still holds significant undiscovered and unimagined resources of oil and gas. And we believe that long term oil and gas prices will (in fact must) remain at levels that will encourage new and continued exploration and development of oil and gas.

We believe our partnership with SONATRACH can continue to grow and provide benefits to both Anadarko and SONATRACH, indeed to the people of Algeria. We hope it can expand to new projects inside and outside of Algeria.

Finally, I believe we will continue to experience great change. Change in our industry, change at Anadarko, and change in Algeria. That change will provide the opportunities of the future. At Anadarko we are excited about the future for our industry, for our company, and for Algeria.

Again, I appreciate the opportunity to be here today, and I thank you for your attention.

