

# Talisman energy



## **1.0 EXECUTIVE SUMMARY**

The following report outline research that will evaluate the goals and objective within organization. In doing so a series of interview with the relevant personal of Talisman (M) Sdn Bhd is done. Talisman Energy (Talisman) is an independent international upstream oil and gas company undertaking exploration, development, production, transportation, and marketing of crude oil, natural gas, and natural gas liquids (NGLs). Talisman was establish in 1992. The company primarily operates in North America, the North Sea, and Southeast Asia. It is headquartered in Alberta, Canada and employs over 2, 600 people. The Malaysia branch is located at Menara Citibank Kuala Lumpur. Refer to appendix 1 for location and subsidiaries.

Talisman is listed on the Toronto and New York stock exchanges under the symbol TLM. Talisman is also part of the S&P/TSX 60 Index. At year end, the company value was over \$16 billion with 1, 1019 million shares outstanding

## **2.0 INTRODUCTION**

The history of Talisman Energy (Talisman) dates back to 1953, when the company was established as BP Canada. It later became an independent company, in 1992. In the same year, Talisman Energy discontinued its mining operations in order to focus on its core areas. Talisman Energy (Talisman) is one of the largest independent oil and gas producers in Canada. Its main business activities include exploration, development, production, transportation, and marketing of crude oil, natural gas, and natural gas liquids (NGLs). It has about seven operating subsidiaries.

Talisman has ongoing production, development, and exploration operations

in North America, the North Sea, Southeast Asia and Australia, North Africa, and Trinidad and Tobago.

Talisman's operations are conducted principally in five geographic segments: North America, UK, Scandinavia, Southeast Asia, and other. The company produced over 430, 000 boe/d in 2008, approximately 50% oil and 50% natural gas.

The North America segment includes operations in Canada and the US. The UK segment includes operations in the UK and the Netherlands. The Scandinavia segment includes operations in Norway and Denmark. The Southeast Asia segment includes operations in Indonesia, Malaysia, Vietnam, Australia, and Papua New Guinea. The other segment includes operations in North Africa, Trinidad and Tobago, Colombia, Peru, and Qatar as well as other international exploration areas.

### **3. 0 ANALYSIS AND FINDING OF THE SUMMARY SCENARIO**

#### **3. 1 Company Goal and objective**

In any planning process, objectives and goals must be carefully established. Starting from the proposed objectives and goals, the strategies to reach them will be outlined

The lack of clarity of the proposed objectives can compromise the whole sequence. According to Oliveira (2002), the objectives serve the following company purposes:

1. provide to people the feeling of a specific and adequate role in the company

2. give consistency to decision making among a large number of different executives;
3. encourage dedication and fulfillment based on expected results; and
4. supply a base for corrective actions and control.

In charting direction of the company Talisman Energy (Talisman) has set three priorities objectives. Refer Table 1

Developing long-term growth opportunities

Building high impact exploration

Continue focusing on current portfolio

### **Table 1 – Goal & Strategy**

The main elements of Talisman's objective are:

- To establish sustainable, profitable growth from its unconventional gas business in North America, as well as Southeast Asia, and Norway.
- To create an exploration portfolio, which contributes to renewal by finding material hydrocarbons over time.
- And to underpin this with sustainable sources of cash from mature areas, as well as focusing the portfolio.

Two main reasons the objective was introduced were to lower finding and development (F&D) costs, and to increase the reserve life index over time.

F&D costs will be brought down in several ways:

- The unconventional business model has structurally lower F&D costs than the conventional gas business model.
- Talisman is looking to expand activity in Southeast Asia, where F&D costs are generally lower.
- If the exploration shift to larger prospects is successful, F&D costs will fall.

### **3. 2 SWOT Analysis**

#### **Strengths**

#### **Weaknesses**

Strong market position

Diversified geographical presence

Lack of scale

High debt

#### **Opportunities**

#### **Threats**

Acquisitions and agreements

New oil and gas production

Economic slowdown in the US and Euro zone

Environmental regulations

Saturation of resources

**Table 2 – Swot Analysis Table****Strengths****Strong market position**

Talisman Energy is an independent, international upstream oil and gas company whose main business activities include exploration, development, production, transportation, and marketing of crude oil, natural gas and natural gas liquids (NGLs). The company's three core areas are North America, the North Sea, and Southeast Asia. In North America, Talisman is a leading deep gas explorer and has significant unconventional natural gas potential. In the North Sea, the company operates more than 40 oilfields and has extensive exploration acreage in Norway. In Southeast Asia, Talisman has substantial long-life natural gas reserves and highly prospective exploration acreage.

Opportunity : A strong market position helps the company to leverage its market share.

**Diversified geographical presence**

Talisman Energy has ongoing production, development, and exploration operations in North America, the North Sea, Southeast Asia and Australia, North Africa, and Trinidad and Tobago. The company's operations are conducted principally in five geographic segments: North America, UK, Scandinavia, Southeast Asia, and others (comprising North Africa, Trinidad and Tobago, Colombia, Peru, and Qatar).

Talisman's aggregate production for the year ended December 31, 2008 was approximately 452, 000 barrels of oil equivalent per day (boe/d), consisting of approximately 189, 000 boe/d from North America, 117, 000 boe/d from

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the UK segment, 33, 000 boe/d from the Scandinavia segment, 92, 000 boe/d from Southeast Asia, and 21, 000 boe/d from the rest of the world.

Opportunity : A diversified geographical presence enables the company to reduce business risks arising in a particular geography.

## **Weaknesses**

### **Lack of scale**

The company lacks the desired scale to compete with large players in the industry. Many of the company's competitors are much larger in size in terms of revenue generated, number of employees, and their presence in Europe and other developing market. One of its key competitors, British Petroleum (BP), generated revenues of about \$288, 951 million and employed about 97, 600 people worldwide for the financial year ended December 2007 (FY2007). Another key competitor of the company Exxon Mobil Corporation (Exxon Mobil) generated revenues of about \$390, 328 million and employed 81, 000 people as on FY2007. However, Talisman generated revenues of about C\$7, 919 million during the FY2008, and employed about 2, 600 people worldwide as of FY2008.

Problem : Owing to its relatively small scale of operations, the company could find it difficult to face competition.

### **High debt**

The company has a significant amount of debt. For the FY2008, the company has an outstanding debt of C\$3, 949 million. Even though it is a decrease of 9% from FY2007 which stood at CAD\$4, 341 million, this figure is still high especially during the credit crunch. The company's substantial debt could

limit its ability to obtain additional financing to operate its business. Further, it would make it difficult for the company to satisfy its obligations including making interest payments on debt obligations.

## **Opportunities**

### **Acquisitions and agreements**

The company has been expanding its geographic reach through acquisitions and agreements. In January 2008, Talisman announced that one of its subsidiaries have acquired all the shares of CNOOC Wiriagar Overseas from a subsidiary of CNOOC for a consideration of \$212.5 million. CNOOC Wiriagar Overseas holds a 3.06% interest in the Tangguh LNG Project. The Tangguh LNG Project, located in West Papua, Indonesia, consists of a number of offshore gas wells, production facilities, pipelines, and LNG plant facilities with a nameplate capacity of 7.6 million tons per year.

In June 2008, two wholly-owned subsidiaries of Talisman Energy entered into agreements with the Kurdistan Regional Government (KRG) within Iraq for interests in Blocks K44 and K39 respectively. In the same month, Talisman Energy announced that its wholly-owned limited partnership FEI Shale (Fortuna) reached agreement to earn up to a one-third working interest in US properties owned by Hallwood Energy (Hallwood). Upon completion of the capital program, Fortuna will have earned a one-third interest in substantially all of Hallwood's assets, including properties in Texas, Arkansas, and Louisiana, for a total of 108,000 acres (net to Fortuna).

These agreements and acquisitions would provide Talisman with growth opportunities and drive its revenue growth.



**New oil and gas production**

New oil and gas production Talisman Energy has considerably increased its oil and gas production in recent times. In December 2008, Talisman (Vietnam 46/02), a wholly-owned subsidiary of Talisman, announced first oil production from the Song Doc field in Block 46/02 offshore Vietnam. Gross production from five pre-drilled wells is expected to reach approximately 25,000 bbls/d by early 2009. An additional three development wells are currently being drilled. Talisman's share of proved and probable reserves in the Song Doc field is estimated at six million barrels (mmbbls), with proved reserves of three mmbbls.

Talisman Energy announced first gas production from the Rev Field in Norway, in January 2009. The field is expected to produce at a plateau rate of 100 mmcf/d of gas and 6,000 bbls/d of condensate and natural gas liquids from two subsea wells. A third producer, the Rev East well, is expected to be brought on-stream later in 2009. Talisman's share of proved and probable reserves in the Rev Field at year end 2007 is estimated at 26 million boe, with proved reserves of 16 million boe. Talisman Energy Norge, a wholly-owned subsidiary of Talisman, has a 70% interest in the Field, with Petoro holding the remaining 30%. Production is transported via a nine kilometer pipeline to the Armada platform in the UK, operated by BG International (CNS), for processing and final export to the UK.

The new oil and gas production would increase the company's output which in turn increases its revenues.

## **Threats**

### **Economic slowdown in the US and Eurozone**

The US and European Union are the two key markets for Talisman. According to International Monetary Fund's (IMF) World Economic Outlook, January 2009, the US and Eurozone economies could face slowdown in 2009. The GDP growth rate in the US has decreased from 2% in 2007 to 1.1% in 2008 and is projected to record a negative growth of 1.6% in 2009. The GDP growth rate in the Eurozone has declined from 2.6% in 2007 to 1% in 2008 and is projected to record a negative growth of 2% in 2009.

A weak economic outlook for Eurozone and the US would put pressure on the revenues of the company. Economic slow down in the US and Eurozone could impact industrial development, which could adversely affect demand for Talisman's products.

### **Environmental regulations**

As a result of the Oil Pollution Act of 1990 and the worldwide Port State Control initiative, stringent new regulations have been enacted. These regulations pose the possibility of unlimited financial liability for pollution damages. Companies operating in the oil and gas industry are subject to strict environmental regulations. Distribution and storage houses need to strictly comply with environmental regulations which keep changing frequently. Compliance with these regulations forces distributors, such as Talisman, to incur high costs. These factors can have a potential negative impact on the company's margins.

**Saturation of resources**

The maturity of the North America basin reserve continues to give rise to increases in both replacement costs and operating costs. Larger companies are finding it increasingly difficult to increase their North American production as conventional production is declining in these more mature basins. Furthermore, output from proven natural gas reserves in Canada has been declining significantly. Although the development of Mackenzie Valley reserves would boost gas reserves to some extent, decreasing output is a long-term threat for Canadian oil and gas companies such as Talisman. In addition, offshore exploration space and the existing reserves are maturing and are slowly being saturated. There has been a succession of dry holes being drilled in the region in the last two years. The saturation of reserves in North America would severely impact the company's operations.

**3.3 Current Year Performance**

Talisman generated a record \$3.5 billion in net income in 2008, benefiting from high commodity prices during the year. Net income included a \$1.7 billion recorded gain on held-for-trading financial instruments, primarily commodity contracts. Talisman entered into these contracts to protect 2009 cash flow and their capital program against a significant drop in prices.

They also set a new record for cash flow of \$6.2 billion, an increase of 42% over the previous year. Production from continuing operations averaged 419,000 boe/d for the year, 3% above 2007. Including non-core assets that were sold or are scheduled for sale, production was down 4%.

Talisman used this record cash flow to strengthen the balance sheet, reducing long-term net debt to \$3.9 billion, down from \$4.3 billion a year earlier. In total, they paid down approximately \$900 million in debt.

The Company also spent a record \$5.1 billion on exploration and development. North America accounted for 48% of spending, North Sea development projects 25%, Southeast Asia development 9% and international exploration 17%.

Talisman replaced 75% of its production with proved reserves from drilling and non-price revisions in 2008. Refer to table 3 for further details

**(millions of C\$ unless otherwise stated)**

2008

2007

2006

Cash flow<sup>1</sup>

6,163

4,327

4,748

Net income

3,519

2,078

2, 005

Earnings from continuing operations<sup>1, 2</sup>

2, 544

952

1, 424

Per common share

Cash flow (\$) <sup>1</sup>

6. 06

4. 19

4. 35

Net income (\$)

3. 46

2. 01

1. 84

Earnings from continuing operations (\$) <sup>1, 2</sup>

2. 5

0. 92

1. 3

Oil production (mbbls/d) 3

224

241

262

Gas production (mmcf/d) 3

1, 247

1, 265

1, 342

Total production (mboe/d) 3, 4

432

452

485

Total production from continuing operations (mboe/d) 2, 4

419

405

410

Average sales price (\$/boe)

76.03

59.57

57.45

Exploration and development spending

5,106

4,449

4,578

Net debt<sup>1</sup>

3,949

4,341

4,496

### **Table 3 – Current Year Performance**

#### **3.4 Recommended Strategies**

From the SWOT we found a few problems arising from the analysis below are the few strategies recommended in order to ensure the efficiency of the performance

#### **Weakness**

High Debt – In order to reduce the high debt the company should emphasize on the strategic areas and exiting the non strategic areas. By selling of the

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non strategic area could increase the cash flow and therefore the company could drastically reduce greater amount of debt.

Lack of scale – In order to gain competitive advantages against the large scale companies such as BP (British Petroleum). The company should using the differentiate strategy. According to Micheal Porter differentiation advantage occurs when a firm delivers greater services for the same price of its competitors. They are collectively known as positional advantages because they denote the firm’s position in its industry as a leader in either superior services or cost. A firm possesses a sustainable competitive advantage when its value-creating processes and position have not been able to be duplicated or imitated by other firms

### **Threat**

Economic slowdown in the US and Euro zone -This issue based on global issue the best way to mitigate the impact of economic slowdown is by improving the efficiency. During economic crisis the company must focus on their bottom line. Productivity, energy usage, etc. all must be made more effective.

Environmental regulations – Due to stringent and frequently change of oil pollution act the company might incurred high cost on compliance to the act. The best strategy for the company is to setup a team on monitoring closely on the compliance process. This is to avoid sudden change or adhoc changing process. Any sudden changes without a proper planning definitely incurred a very high cost.



Saturation of resources – Saturation of resources could have an impact on the company operation. The best way to deal with it is through Focusing on portfolio strategy. By focusing on high impact exploration area and exiting on depleting area or countries

### **3. 4 Action programme**

The following action programme express on how Talisman could aligns with the goals and objectives of many diverse sites

#### **1. Focus the Portfolio (core asset)**

Exit non strategic areas

- Potential non-core asset sales of 35, 000-45, 000 boe/d, with expected proceeds of \$1. 5-2. 0 billion by the end of 2009.
- Exit some countries (i. e., the Netherlands, Denmark, Trinidad & Tobago).
- Additional non-core asset sales in the UK and North America.

#### **2. Grow Existing Base**

Maintain existing assets as firm base

- Size the UK to produce 80, 000-100, 000 boe/d through at least 2013 from existing assets.
- Continue to invest in core conventional North America natural gas areas with a view to keeping conventional production relatively flat.
- Southeast Asia production has doubled in the past five years and has the potential to double again in the next five (e. g. increasing Corridor volumes, Northern Fields development, Song Doc).

### **3. Findings on new Growth Opportunities**

Determine unconventional potential

- Talisman has built a large (2. 5 million net acre) unconventional land base.
- The Company plans to spend \$800-900 million on unconventional development projects over the next 18 months.
- An additional \$300-400 million is planned for unconventional pilots over the same period.
- A total of 240-290 wells could be drilled as part of these program.

Potential Future Growth in North Africa, South America

- Talisman has been active in Algeria since 1994. This is a very prolific hydrocarbon basin.
- The Company plans to drill up to eight exploration wells in Colombia and Peru through the end of 2009.

### **4. Optimize Global Exploration**

Support core area growth in the short term

- The Company will maintain active exploration programs in its core areas.
- Exploration spending is expected to average \$700 million per year through 2010.

Increase focus toward larger pool sizes

- Future focus areas include the Barents Sea (Norway), the central North Sea (UK), Colombia and Peru.
- The Company plans to drill up to 28 key exploration wells over the next 18 months.

### **3.4 Implementation & Control**

Developing an effective company goals and objective is only “ half the battle.” Getting it implemented is the other, and generally it is the tougher half. The most important part of implementation is monitoring – taking a periodic look at “ how it’s going.” Monitoring the implementation of objective is important for a number of reasons. First, it helps to assure that the efforts conform to the plan. Meaning the company is “ on track.”

Second, to make sure the results achieved align with objectives. Monitoring allows for corrective action and making the necessary changes along the way. To “ fine tune,” not only strategies, but planning process as well. And since monitoring is part of a control process, it encourages improved performance. Knowing they’ll be measured stimulates employees to do a better job.

Finally, and most importantly, monitoring provides the essential link between the written plan and the day-to-day operation of your business. It demonstrates to all that the company are really managing the business according to plan.

A significant benefit of the monitoring process is that it serves as your “early warning system.” It gives Talisman the opportunity to communicate how they are doing.

For example, In Focus the Portfolio action program, the company may run into a technical problem such as delay on bidding process – and slip its schedule by six weeks. The management needs to know about it. Through such feedback, the company can improve the implementation and reinforce the spirit of cooperation within organization.

But let’s be realistic. The company will run into implementation problems. Every company does. Some of the strategies may prove ineffective or strategies won’t work as intended. The company can take one of four corrective actions. First, the company can change the schedule – slipping in due date. Second, they can change the tactics in performing to implement the strategy. Third, by changing the strategy. Finally, as a last resort, the organisation can compromise the objective. Each of these corrective actions is applicable under specific circumstances

#### **4.0 Conclusion**

Goals serve as a stimulus for effort by giving company something to strive for, the most important things must know where they are heading so they can effectively plan to get there. Goal setting, when supported by careful planning, provides a sense of direction to keep company focused on the most important activities. For Talisman they emphasize on three main objectives which are developing long-term growth opportunities, building high impact exploration and continue focusing on current portfolio.

From the research we can conclude that goals serve as filters to eliminate extraneous demands. Over a period time, goals can bring to life order, meaning, and purpose that will sustain interest of stakeholder and motivation. By setting goals, an individual expresses their desire to achieve, to improve life, and to be more effective, more productive, and more successful tomorrow than today. Being a successful organization does not come by accident. It depends on following a practice of goal-setting and continuous growth (kaizen), as well as seeking predetermined goals. We could say then “ Success is the progressive realization of worthwhile, predetermined goals.”

### **Abbreviation & Definitions**

bbl barrel

bbls/d barrels per day

bcfe/d billion cubic feet of gas equivalent per day

boe barrels of oil equivalent

boe/d barrels of oil equivalent per day

C\$ Canadian dollar

LNG Liquefied Natural Gas

mmbbls/d thousand barrels per day

mboe/d thousand barrels of oil equivalent per day

mcf thousand cubic feet

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mcfe/d thousands of cubic feet of gas equivalent per day

mmboe million barrels of oil equivalent

mmcf/d million cubic feet per day

mmcfe/d million cubic feet of gas equivalent per day

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### **Appendix**

Appendix 1 : Location and Subsidiaries