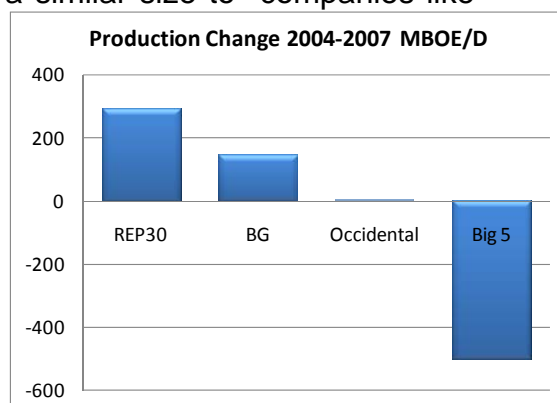


Smaller oil companies have been increasing production faster than their larger counterparts, says a new report by independent oil and gas analysts Richmond Energy Partners.

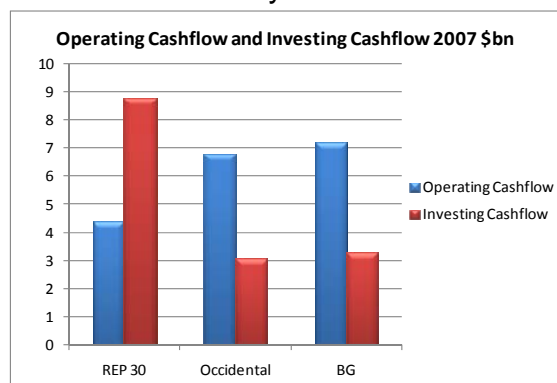
'We combined 30 smaller international exploration companies, which we call the REP30, into a single oil company and compared its performance with equivalent sized oil companies. The REP30 turned out to be a similar size to companies like BG and Occidental.' said Keith Myers, a partner at Richmond Energy

The REP30 increased production by nearly 300 thousand barrels of oil equivalent per day (mboed) from 2004 to 2007 compared to increases of 146mboed and 3mboed for BG and Occidental and combined production decline of 500mboed by the five Supermajor oil companies. 'This production increase is real as we estimate 70% of is from organic growth' said Dr Myers.



Richmond Energy reports that growth was achieved by investing \$20bn over four years, half of which was provided from new debt and equity issues. The REP30 invested twice as much as they made from operations in 2007 mainly in projects either below the radar screen or beyond the risk appetite of the larger companies. BG and Occidental reinvested only 50% of their operating cash flow and the Supermajors on average, only 45% in 2007, choosing to spend their excess cash on buying back their own shares.

It's not all rosy for the hypothetical REP30 oil company though. Profitability is significantly lower than their larger peers due to lower revenues per barrel, and a higher cost base, particularly capital costs and overheads. This makes them especially vulnerable to any downturn in oil prices or a credit crunch, and ripe for consolidation.



What is puzzling, is that at a time of unprecedented high oil prices and rising concerns over the World's oil supply, the Supermajors have not invested in enough opportunities even to sustain themselves unlike the smaller companies. Instead they have been content buy back their own shares complaining they are shut out of new opportunities.

The Supermajors' inability to foresee the demand growth that has forced up prices and adapt their business models accordingly, means they have lost their leadership role and have set themselves on a slow, if highly profitable, decline. The question is can any of them break the mould and learn from the smaller companies who have delivered growth and, for the most part, rewarded their shareholders handsomely.

For the smaller companies, the question is who can sustain growth and profitability, who will be the consolidator or who will be consolidated.

