



Schlumberger Information Solutions is pleased to invite you and your colleagues to a

## Free Lunch & Learn Seminar

When: March 4, 2004

Noon to 2:00 pm

Where: Schlumberger Information Solutions

2 East Poultry Avenue (West Market Building)

London EC1A 9PT

### **Real Options Analysis: What It Is, What It Isn't, and Why It Matters**

As a leading expert on cutting-edge techniques for real asset valuation in the petroleum industry, the Society of Petroleum Engineers (SPE) recently asked Dr. David Laughton\* to organise an applied technology workshop about the future of asset valuation in our industry.

In an effort to join our respective areas of expertise, we have asked Dr. Laughton to share his insights from that workshop. He will discuss the following topics:

- 1) a matrix detailing valuation methods the E&P industry has used historically and those it may use in the future
- 2) organisational, strategic and technical issues in the design of a superior valuation process
- 3) the conclusion by most workshop participants that their organisations should explore how to use
  - a) decision tree analysis throughout the asset life cycle
  - b) risk adjustment of specific underlying uncertainties to account for the effect of uncertainty on value
- 4) Suggested next steps for E&P companies and software, consulting and training providers

\* Please see the reverse side for a brief description of Dr. Laughton's background and some comments about his work. Visit [www.sis.slb.com/laughton\\_bio](http://www.sis.slb.com/laughton_bio) for more information.

#### **Registration is limited. RSVP today!**

For more information or to register, contact: Ms. Claire Gould

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## **Some Comments on David Laughton's Work on Asset Valuation Methods:**

### **From a Pre-Eminent Academic Financial Economist:**

“David Laughton has established himself as a leading researcher in the application of modern financial analysis methods to large-scale capital budgeting problems....He has a good sense of what within this area will be relevant for managerial needs.”

Robert C. Merton, Nobel Prize Winner in Economics 1997

### **From Executives and Managers in the Petroleum Industry:**

“We have spent a significant amount of time and money on investigating 'option pricing' because we believe that the use of this approach to evaluation may give us, in some significant circumstances, superior insights into the effects on asset value of risk and the possibilities for managing responses to uncertainty. Dr. Laughton's approach, and the materials he is using to explain it, are, in the opinion of many of my colleagues, the most useful that we have seen. Several times in the past we had tried to understand this field, and, for the first time, we appear, as result of Dr. Laughton's work, to be on a path to doing so. Moreover, for the first time, we think that we may be able to implement these ideas in our organisation.”

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“Recently, Dr. Laughton undertook some work for one of our internal teams investigating an investment opportunity. The data he gave to us presented the evaluation team with some new insights. What I found interesting about their reaction was that they 'recognised' and accepted the results. The common criticisms of derivative asset valuation [intrusive use of esoteric mathematics and poorly presented results] did not apply here as a result of the manner in which Dr. Laughton has 'packaged' the results.”

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“Thank you for your most thorough tutorial on modern asset pricing methods...The feedback I have had from participants put high value on the clarity of your examples. I found our working session very useful too, as it helped me to focus on what is likely to make a difference to our organisation. Your work helps provide a way forward to tackle difficulties posed by weak prices... I look forward to our next conversation on these issues.”

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“Dr. Laughton showed me the tools that he has developed to help a group of managers to discuss their models of oil price uncertainty and the current valuation of oil to be received in the future. We also went through the exercise together of building and using a model of the potential development of oil resources in a section of the Canadian Arctic. He has created a very interesting and very useful way of modeling the interaction between the uncertainty in oil price movements, the uncertainty in the oil reserves, possible patterns of resource delineation activities to reduce the reserve uncertainty, and the timing for the building of the pipeline and for the subsequent development of the resources.”