2014 Second-Quarter Financial Review

Markets and Financial Analysis Team
October 2, 2014
Overview

- This analysis focuses on the financial and operating trends of 124 oil and natural gas companies (“energy companies”).

- The data come from public financial statements each company submits to the U.S. Securities and Exchange Commission, which a data service, Evaluate Energy, aggregates for ease of data analysis.

- For consistency, companies that were later acquired by another company in the group were kept in the prior year data. For example, Frontier Oil and Holly Corporation’s individual numbers were kept through 2011, and afterwards became HollyFrontier Corporation.

- A slide that represents a figure on an annualized basis means it is the sum of the four quarters ending for that time period. The purpose of this is to smooth volatility and seasonality.

- Cash flow statements list various sources and uses of cash; this analysis focuses on three main sources (operations; net debt; and sales of property, plant, and equipment) and three main uses (capital expenditure, dividends to shareholders, and net share issuance).
Brief description of terms

- Cash from operations is a measure of income.

- Capital expenditures represent cash used for property, plant, and equipment (investing activities).

- Financing activities measure inflows/outflows in debt or equity markets including dividends, share issuance or repurchases, and debt issuance or repayments.

- Return on equity is a measure of the profit a company earns on money shareholders have invested.

- Market capitalization is the total value of all of a company’s publicly traded shares outstanding.

- Net income or earnings represent profit after taxes and depreciation.
Distribution of the 124 companies by type

number of companies

- independent upstream: 100
- integrated: 20
- independent refiner: 5

Source: U.S. Energy Information Administration, based on Evaluate Energy database
Most companies are based in North America

Source: U.S. Energy Information Administration, based on Evaluate Energy database
Liquids distribution for producing companies

Source: U.S. Energy Information Administration, based on Evaluate Energy database
The energy companies produced 30 million barrels per day of liquids in the second quarter.

Source: U.S. Energy Information Administration, based on Evaluate Energy database

Note: boe=barrels of oil equivalent
Second-quarter 2014 liquids and natural gas production increased slightly over second-quarter 2013

Source: U.S. Energy Information Administration, based on Evaluate Energy database
Cash from operations was 6.7% higher than the same quarter last year and the highest since 2011

second quarter cash from operations
billion 2014$

Source: U.S. Energy Information Administration, based on Evaluate Energy database
Second-quarter 2014 capital expenditure was comparable to second-quarter 2012 levels, at $129 billion

Source: U.S. Energy Information Administration, based on Evaluate Energy database
Cash from operations was in a $32 billion range since 2011, as crude prices ranged between $104-$122 per barrel.

Sources: Thomson Reuters; and U.S. Energy Information Administration, based on Evaluate Energy database.
As cash from operations outpaced capital expenditure in recent quarters, the energy companies’ free cash flow increased.

Source: U.S. Energy Information Administration, based on Evaluate Energy database

Note: Free cash flow = Cash from operations minus Capital expenditure
Proceeds from asset sales accounted for 12% of cash sources, the largest since 2010

Source: U.S. Energy Information Administration, based on Evaluate Energy database
Debt and asset sales accounted for 25.4% of cash since 2012 on average, up from the 2009-11 average of 19.8%.

Source: U.S. Energy Information Administration, based on Evaluate Energy database
Net share issuance served as a source of cash instead of a use of cash in the second quarter, the first time since 2010.

Source: U.S. Energy Information Administration, based on Evaluate Energy database
Expenditures increased $24 billion on average from 2009-11 to 2012-14. The share devoted to investment was constant at 82%.

A $3.4 billion and $1.3 billion share float outweighed many companies’ repurchases of common stock

**Source:** U.S. Energy Information Administration, based on Evaluate Energy database

*Positive numbers represent a net use of cash in repurchasing outstanding shares*
Dividend payouts stayed flat, but repurchases of common stock since 2013 increased dividends per share

annualized dividends per share

2014$

0.34

0.32

0.3

0.28

0.26

0.24

0.22

0.2

2010 2011 2012 2013 2014

Source: U.S. Energy Information Administration, based on Evaluate Energy database
Cash balance growth has fallen to less than $1 billion on an annualized basis

annualized net increase (decrease) in cash
billion 2014$

Source: U.S. Energy Information Administration, based on Evaluate Energy database
Annualized, debt and asset sales increased $166 billion per year to meet investment and financing activity expenditures.

Annualized major sources and uses of cash

Upstream capital expenditure increased 5.9% over 2013 in second-quarter 2014, while upstream earnings decreased 3.8%.

Since 2012, capital expenditure ranged between $24-$29/boe and earnings ranged between $15-$22/boe.

Source: U.S. Energy Information Administration, based on Evaluate Energy database

Note: boe=barrels of oil equivalent
In the downstream, earnings increased from 2013 level but remain below the 2009-12 average by more than $5 billion second quarter downstream capital expenditure and earnings billion 2014$

Source: U.S. Energy Information Administration, based on Evaluate Energy database
Since 2012, earnings in the downstream averaged $1.10 per barrel less than the 2009-11 average.

Operating expenses stabilized near 15% of revenue since the low point in 2011

Source: U.S. Energy Information Administration, based on Evaluate Energy database
The ratio of market capitalization to net income, a measure of share prices relative to earnings, increased since a 2011 low.
U.S. manufacturing companies were more profitable in aggregate than the energy companies for a third year.

Second quarter return on equity

U.S. petroleum and coal companies were more profitable than these global energy companies.
The energy companies were the only group that increased long-term debt to equity over second-quarter 2013.

Since 2012, all sectors display an increase in long-term debt to equity.

Third-quarter results will be released in November, 2014. In the third quarter, Brent prices averaged 9% lower than third-quarter 2013.
Appendix: List of companies included in this analysis

Petrobras (IFRS US$)  
Marathon Oil Corp.  
EOG Resources  
Murphy Oil Corporation  
Sheritt International Corp  
Continental Resources  
Lundin Petroleum  
HollyFrontier Corp  
Sojitz Corp  
Endeavour International Corp  
Oasis Petroleum Inc.  
Apco Oil and Gas International Inc  
Royal Dutch Shell  
Encana Corporation  
Suncor Energy Inc.  
Williams Companies  
Imperial Oil Limited  
Cimarex Energy Co.  
W & T Offshore  
Delek US Holdings  
Berry Petroleum Co.  
McMoRan Exploration Co.  
Cobalt International Energy, Inc.  
Kodiak Oil & Gas Corp.  
Chevron  
Lukoil (US GAAP)  
OMV  
Southwestern Energy Co.  
Forest Oil Corporation  
Mariner Energy  
Stone Energy  
Medco Energi International tbk PT  
Rosetta Resources Inc.  
Brigham Exploration Company  
Approach Resources Inc  
Bankers Petroleum Ltd  
PetroChina  
XTO  
El Paso Corp  
Petrohawk Energy Corp  
YPF Sociedad Anonima  
EXCO Resources  
Tesoros Petroleum Corp.  
Energy XXI  
Paramount Resources Ltd.  
EPL Oil & Gas Inc  
Gulfport Energy Corporation  
Petro Vista Energy Corp.  
BP  
Ecopetrol  
TNK-BP International Ltd  
Dong Energy  
Quicksilver Resources Inc  
Cabot Oil & Gas Corp.  
Energen Corp  
National Fuel Gas  
Alon USA Energy  
Gran Tierra Energy Inc.  
DNO International ASA  
Antrim Energy Inc.  
ExxonMobil  
Rosneft  
Valero Energy  
Plains Exploration & Production  
Range Resources Corp  
Pioneer Natural Resources Company  
Unit Corp  
Enerplus Corporation  
Clayton Williams Energy  
Petrolifera Petroleum Ltd.  
TransAtlantic Petroleum Ltd.  
CGX Energy Inc.  
ENI  
Repsol  
Hess Corp  
Kinder Morgan Energy Partners, L.P.  
PKN Orlen  
Penn West Petroleum Ltd.  
Niko Resources Ltd.  
PDC Energy  
Western Refining  
Callon Petroleum  
Ithaca Energy Inc.  
Canaco Energy Ltd.  
Total  
BG Group  
Talisman Energy Inc.  
Newfield Exploration Company  
ATP Oil & Gas Corp.  
MDU Resources Group  
Novatek  
Black Hills Corp  
Vaalco Energy Inc  
PT Energi Mega Persada Tbk  
Breitburn Energy Partners  
PetroMagdalena Energy Corp.  
ConocoPhillips  
Anadarko Petroleum Corp.  
Husky Energy Inc.  
Noble Energy  
Sunoco  
Penn Virginia  
Swift Energy Co  
Linn Energy  
Baytex Energy Corp.  
BPZ Resources Inc  
TransGlobe Energy Corporation  
Africa Oil Corp  
Statoil ASA  
Occidental  
Petro-Canada  
Questar  
Ultra Petroleum Corporation  
Bill Barrett Corporation  
Goodrich Petroleum Corp  
GMX Resources Inc  
Vermilion Energy Inc.  
PetroQuest Energy, Inc  
Northern Oil & Gas, Inc  
Dorchester Minerals LP  
Chesapeake Energy Corp.  
Apache Corporation  
Denbury Resources Inc.  
SandRidge Energy  
Whiting Petroleum Corporation  
SM Energy Company  
Comstock Resources  
Petrominerales Ltd.  
Det Norske  
Sonde Resources Corp.  
Calumet Specialty Products Partners  
Phillips 66  
Devon Energy Corporation  
Canadian Natural Resources Limited  
Cenovus Energy Inc.  
QEP Resources Inc  
EQT Corp  
Concho Resources Inc  
Pacific Rubiales Energy Corp.  
Carizzo Oil & Gas, Inc  
Frontier Oil Corp  
CVR Energy  
Magnum Hunter Resources  
Marathon Petroleum Corporation

Source: U.S. Energy Information Administration, based on Evaluate Energy database

Note: Certain companies appear that merged or were acquired by another company before second quarter 2014.