Financial Review of the Global Oil and Natural Gas Industry 2014

Markets and Financial Analysis Team
May, 2015
Overview

• This analysis focuses on the financial and operating trends of 75 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 Evaluate Energy (a data service) 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, ExxonMobil and XTO’s individual numbers were kept through 2009.

• Cash flow statements list various sources and uses of cash; this analysis focuses on three main sources (operations, net debt, and net sales of assets) and three main uses (capital expenditure, dividends to shareholders, and net share issuance).

• Several charts show comparisons between these upstream companies and the U.S. manufacturing industry, collected from U.S. Census Bureau’s Quarterly Financial Report.
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.

• Asset impairments are when a company writes down the value of a property to reflect current market value, which may decline from loss of production potential or price declines.

• “Upstream” refers to crude oil exploration, production, and other operations prior to refining.
Key takeaways

• Price declines in the second half of 2014 contributed to reduced profitability for these companies compared to previous years.

• Free cash flow remained low compared to previous years. Share repurchases and dividends were met by increasing debt and sales of assets.

• Lower prices contributed to lower proved reserve additions compared to previous years.

• Some companies increased cash balances given the volatile price environment.

• First-quarter 2015 results could show significant reductions in profits, cash flow, and capital expenditure because of low oil prices.

• In refining, geographic differences in refining margins continued in 2014.
Geographic distribution of companies

Source: U.S. Energy Information Administration, Evaluate Energy
Liquids production distribution

Source: U.S. Energy Information Administration, Evaluate Energy
Oil and natural gas production for the combined companies

million barrels per day

Source: U.S. Energy Information Administration, Evaluate Energy

Note: boe=barrels of oil equivalent
Oil and natural gas proved reserves for the combined companies

billion barrels of oil equivalent

Source: U.S. Energy Information Administration, Evaluate Energy
Oil reserve additions in 2014 were the lowest since 2010

billion barrels of oil equivalent

Source: U.S. Energy Information Administration, Evaluate Energy
Reserve additions were above annual production for oil and gas

Reserve replacement rate

Source: U.S. Energy Information Administration, Evaluate Energy
The SEC requires companies to value proved reserves on an average of the prices on the first day of each month

Source: U.S. Energy Information Administration, based on Evaluate Energy, Bloomberg, L.P.

Note: SEC stands for the U.S. Securities and Exchange Commission. b=barrel
Finding costs increased in 2014 while lifting costs fell.

Source: U.S. Energy Information Administration, Evaluate Energy

Note: boe=barrels of oil equivalent
Exploration and development expenditures were more than 80% of total costs incurred for the third consecutive year.
Cash from operations was $16 billion above the 2013 level

Source: U.S. Energy Information Administration, Evaluate Energy
Cash from operations: non-cash adjustments and working capital movements offset the lowest income level since 2009

Source: U.S. Energy Information Administration, Evaluate Energy
Asset impairments as a share of revenue were the highest since 2009

Source: U.S. Energy Information Administration, Evaluate Energy
Capital expenditures, dividends, and net share repurchases were $110 billion higher than cash from operations in 2014.
Cash balances have increased as total sources of cash have grown faster than cash uses.

Source: U.S. Energy Information Administration, Evaluate Energy
Companies sold assets and increased debt to maintain dividends and share repurchases

Note: free cash flow = cash from operations less capital expenditures

Source: U.S. Energy Information Administration, Evaluate Energy
Changing sources and uses of cash

Source: U.S. Energy Information Administration, Evaluate Energy
Note: free cash flow = cash from operations less capital expenditures
Cash from operations made up less than 80% of cash sources for the third consecutive year

Source: U.S. Energy Information Administration, Evaluate Energy
Capital expenditure remained about 80% of uses of cash—fairly steady since 2010

Source: U.S. Energy Information Administration, Evaluate Energy
Energy companies’ long-term debt to shareholders’ equity ratio increased four percentage points from the 2013 level.

Source: U.S. Energy Information Administration, Evaluate Energy, U.S. Census Bureau
U.S. manufacturing companies and the energy companies increased dividends as a share of revenue in recent years.
Four dollars of new debt paid for a proved reserve barrel, on average, in 2012-14

Source: U.S. Energy Information Administration, Evaluate Energy
Note: boe=barrels of oil equivalent
The energy companies had $2.80 of long-term debt for every barrel of proved reserves to end 2014.
Returns to shareholders were the lowest since 2007

Source: U.S. Energy Information Administration, Evaluate Energy, U.S. Census Bureau
Liabilities due within one year as a share of total liabilities fell ten percentage points since 2007 for the energy companies.

Source: U.S. Energy Information Administration, Evaluate Energy, U.S. Census Bureau
The energy companies increased liquid assets to 28 cents for every dollar of liabilities due within a year.

Source: U.S. Energy Information Administration, Evaluate Energy
Market capitalization compared to net income increased as profits fell faster than share prices.

**Ratio of market capitalization to net income**

Source: U.S. Energy Information Administration, Evaluate Energy
## Appendix: list of companies

<table>
<thead>
<tr>
<th>Company Name</th>
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</thead>
<tbody>
<tr>
<td>Anadarko Petroleum Corp.</td>
<td>EOG Resources</td>
<td>Parsley Energy Inc.</td>
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<tr>
<td>Apache Corporation</td>
<td>EPL Oil &amp; Gas Inc</td>
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<td>Apco Oil and Gas International Inc</td>
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<td>ConocoPhillips</td>
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<td>YPF Sociedad Anonima</td>
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<td>ENI</td>
<td>Pacific Rubiales Energy Corp.</td>
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Source: U.S. Energy Information Administration, Evaluate Energy
Note: Some companies exist that merged or split before 2014. A total of 75 companies existed for 2014
Refining
Distillation capacity decreased, and utilization increased.

- Distillation capacity decreased from 39.0 million barrels per day in 2007 to 36.0 million barrels per day in 2014.
- Capacity utilization increased from 82% in 2007 to 94% in 2014.

Source: U.S. Energy Information Administration, Evaluate Energy
Note: This chart includes 25 companies.
Refiners with assets around the globe had the largest reduction in distillation capacity

Source: U.S. Energy Information Administration, Evaluate Energy

Note: A global refiner is a company with refining assets in different regions. This chart includes 25 companies
North American refiners had the highest utilization for the third straight year.
Refining capital expenditures declined, although they increased as a share of total capital expenditures.
Refining earnings fell to the lowest since 2007

Ratio of refining earnings per barrel processed

Source: U.S. Energy Information Administration, Evaluate Energy
Note: This chart includes 31 companies
North American refiners outperformed refiners focused in other regions as well as globally diversified refiners since 2011.

2014 $/b

Ratio of refining earnings per barrel processed

Emerging Market refiners

North American refiners

Global refiners

European refiners

Source: U.S. Energy Information Administration, Evaluate Energy
Note: This chart includes 31 companies
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<td>OMV</td>
<td>TNK-BP International Ltd</td>
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<td>ExxonMobil</td>
<td>Petrobras (IFRS US$)</td>
<td>Total</td>
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<td>Grupa Lotos</td>
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<td>TUPRAS</td>
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<td>Imperial Oil Limited</td>
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<td>Western Refining</td>
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