

Financial Review: Second-quarter 2015



Markets and Financial Analysis Team

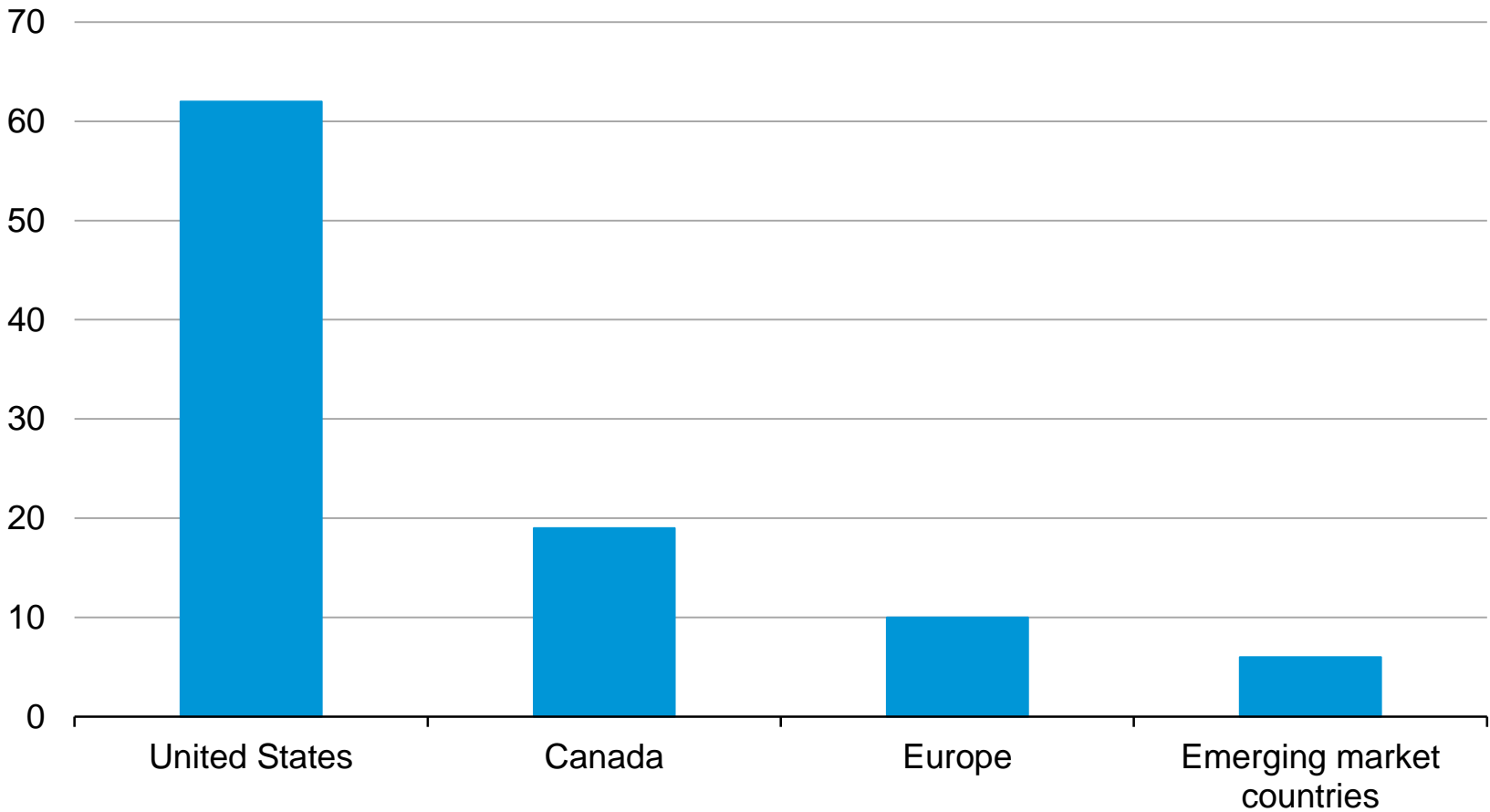
September 22, 2015

Key findings for second-quarter 2015

- Although crude oil prices increased in the second quarter over the first quarter, they remained well below the same period of last year.
- Although companies reduced investment spending, declines in operating cash flow were greater, contributing to a decline in cash balances.
- Many companies raised funds from debt or equity markets, although less than in the first quarter.
- The global oil and natural gas companies were less profitable than the U.S. manufacturing sector, which also showed declining profitability.
- Third-quarter 2015 results could show continued declines in profits, cash flow, and capital expenditure if crude oil prices continue to decline.

Geographic distribution of global oil and natural gas companies, second-quarter 2015

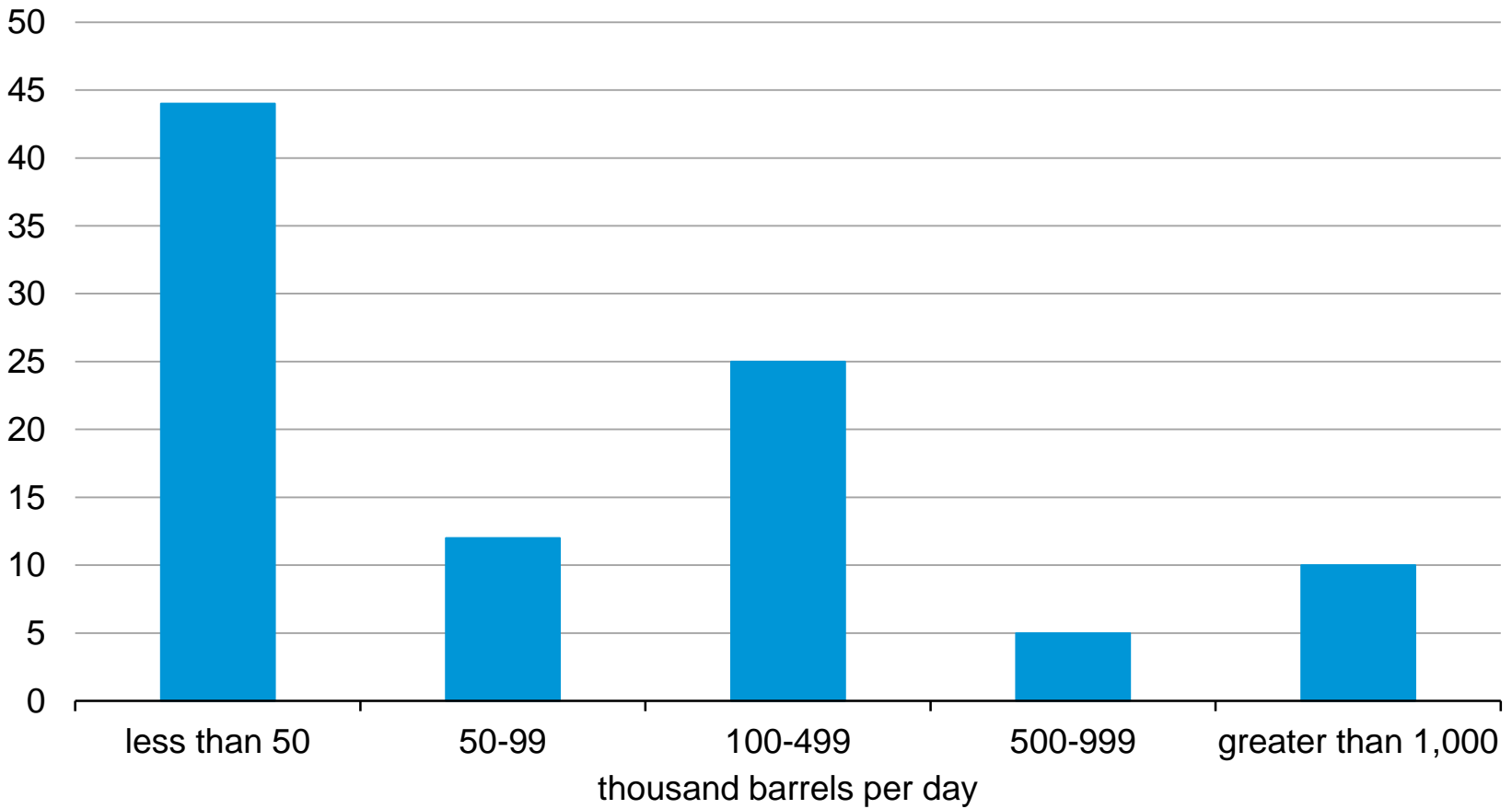
number of companies



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

Production of oil and other liquids, second-quarter 2015

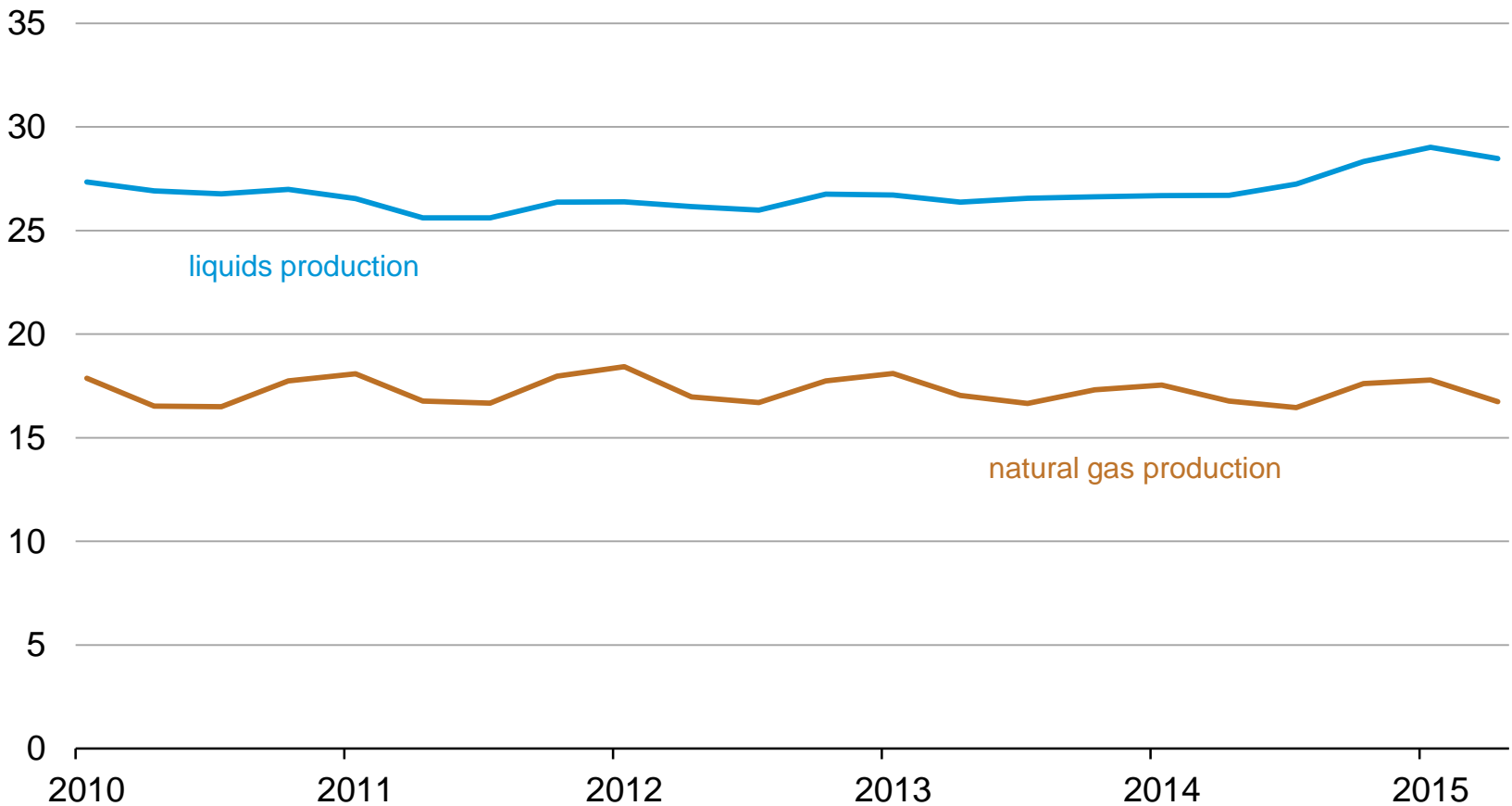
number of companies



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

Oil and natural gas production for the combined companies

million barrels of oil equivalent per day

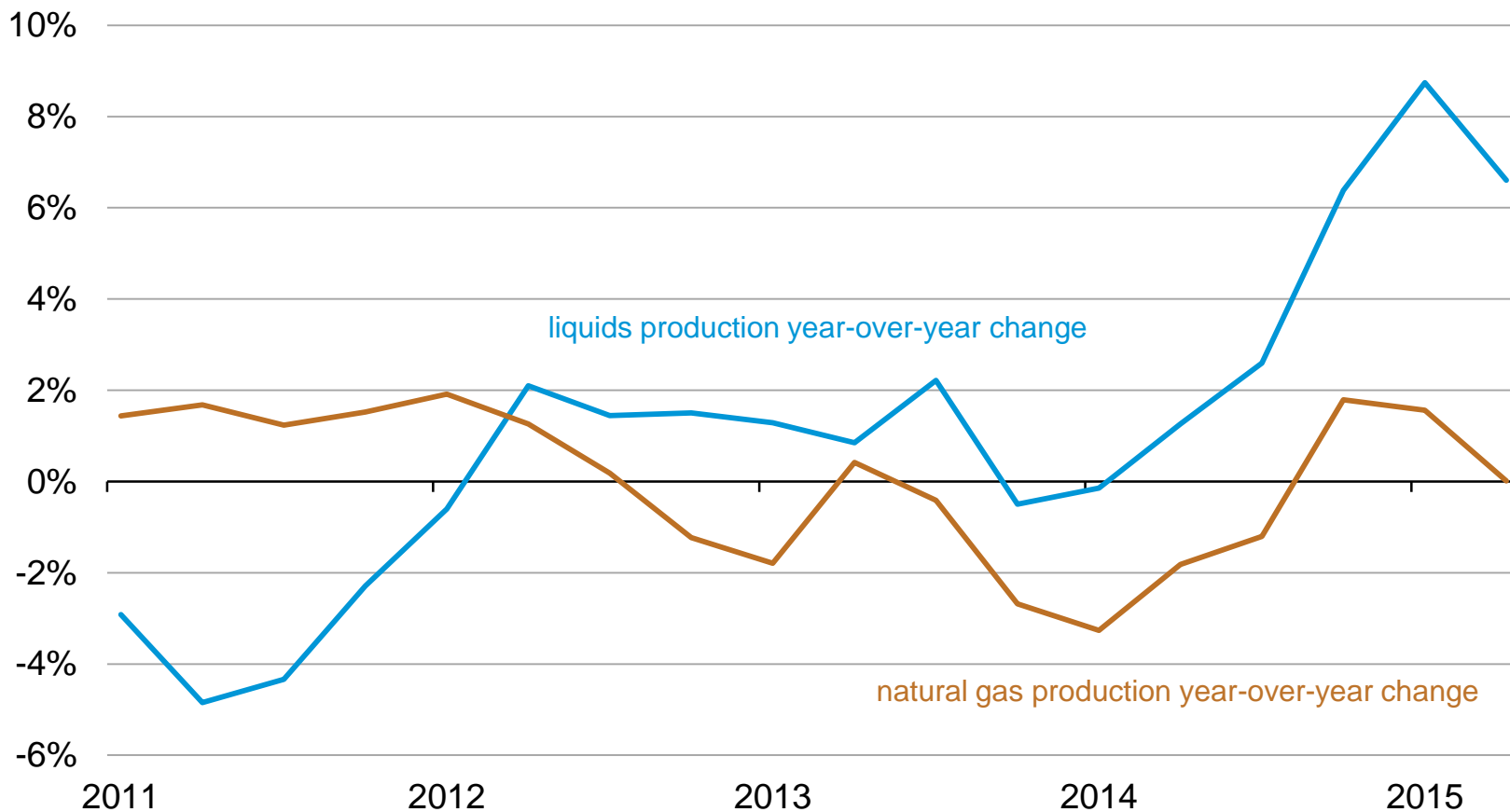


Source: U.S. Energy Information Administration, Evaluate Energy

Note: liquids includes crude oil and hydrocarbon gas liquids

Second-quarter 2015 production levels of liquids and natural gas were 7% and 0%, respectively, above second-quarter 2014

year-over-year change

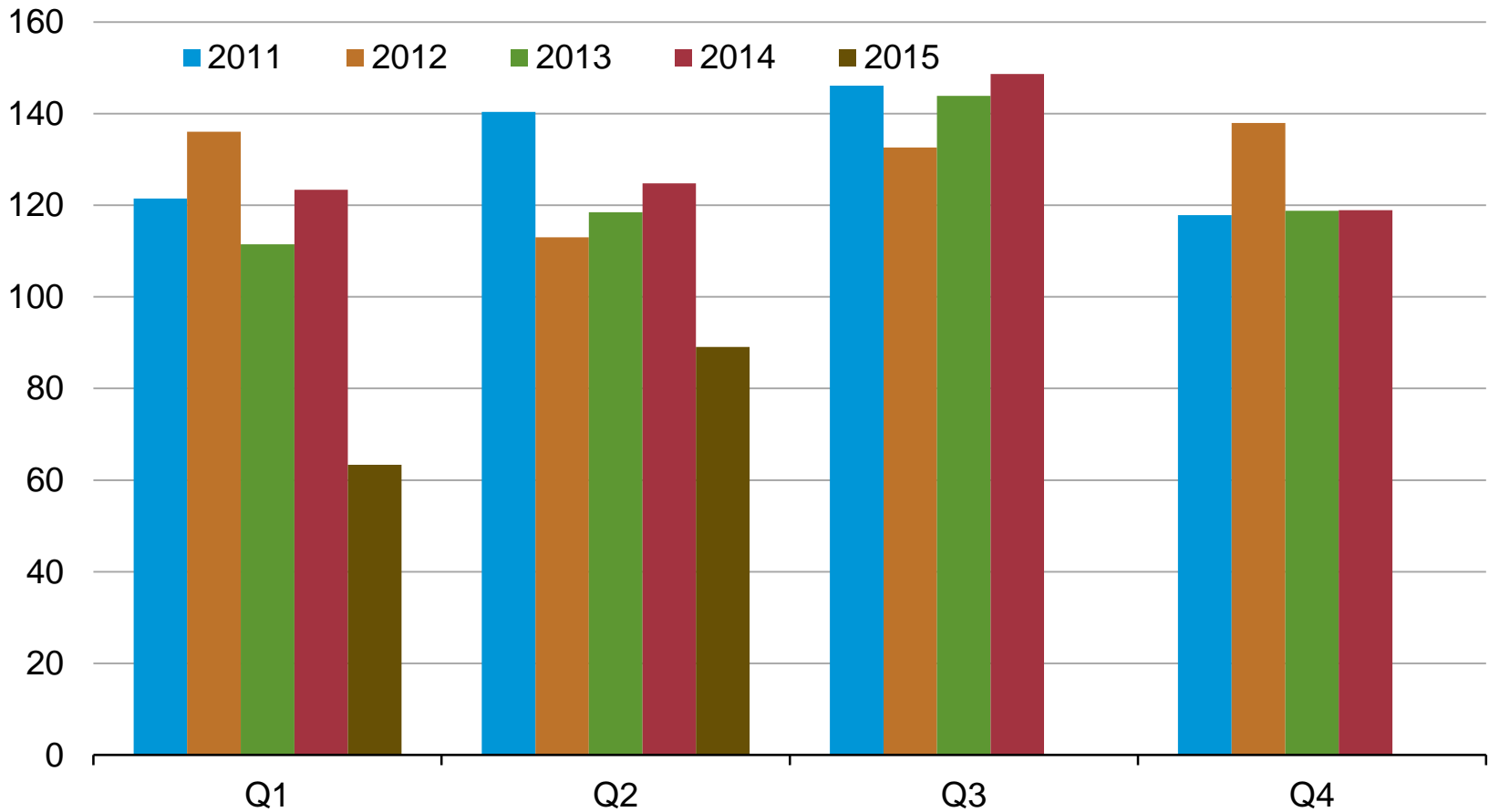


Source: U.S. Energy Information Administration, Evaluate Energy

Note: liquids include crude oil and hydrocarbon gas liquids

Operating cash flow in second-quarter 2015 increased \$26 billion over first-quarter

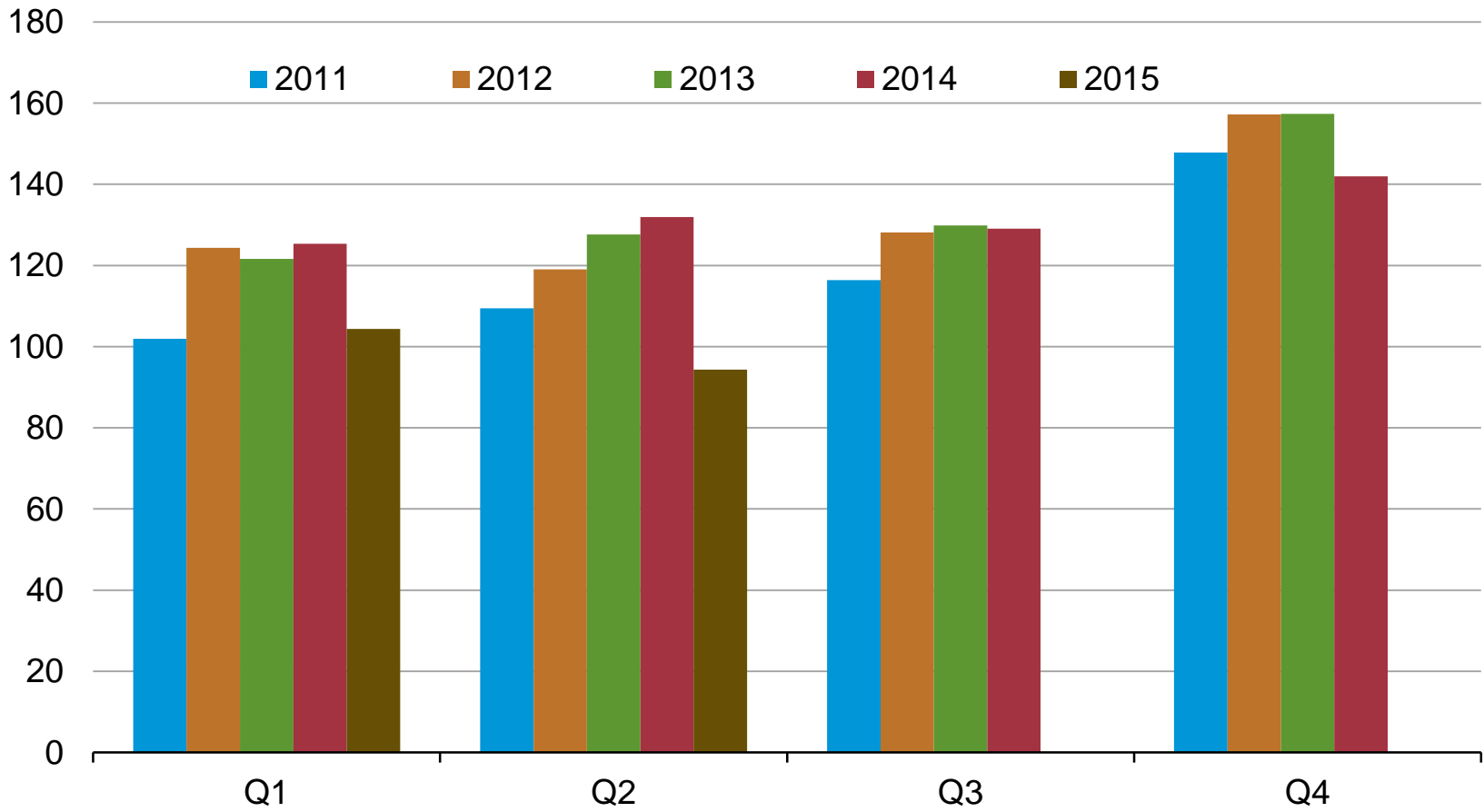
cash from operations
billion 2015\$



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

Companies reduced capital expenditure by \$38 billion over second-quarter of 2014

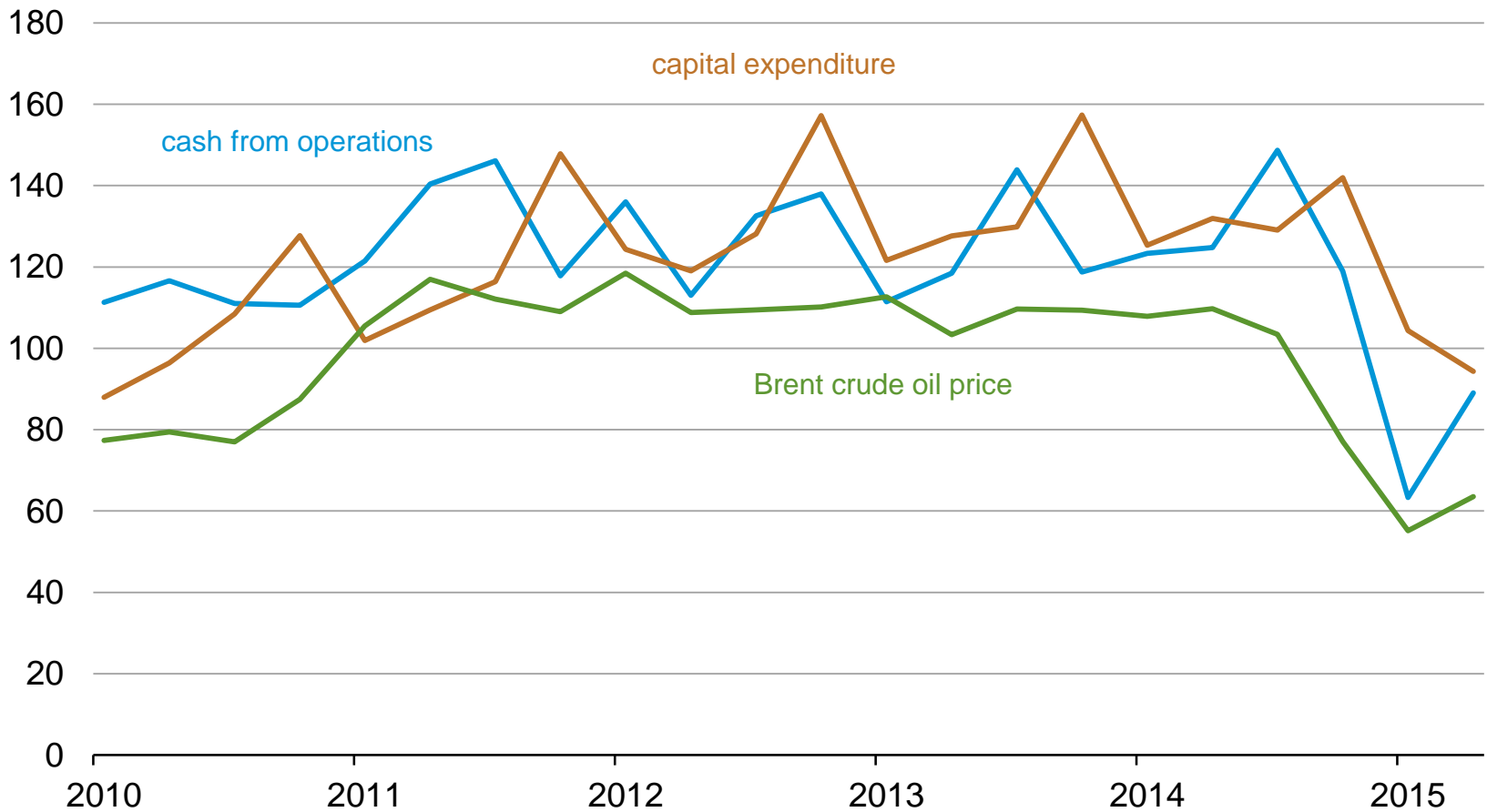
capital expenditure
billion 2015\$



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

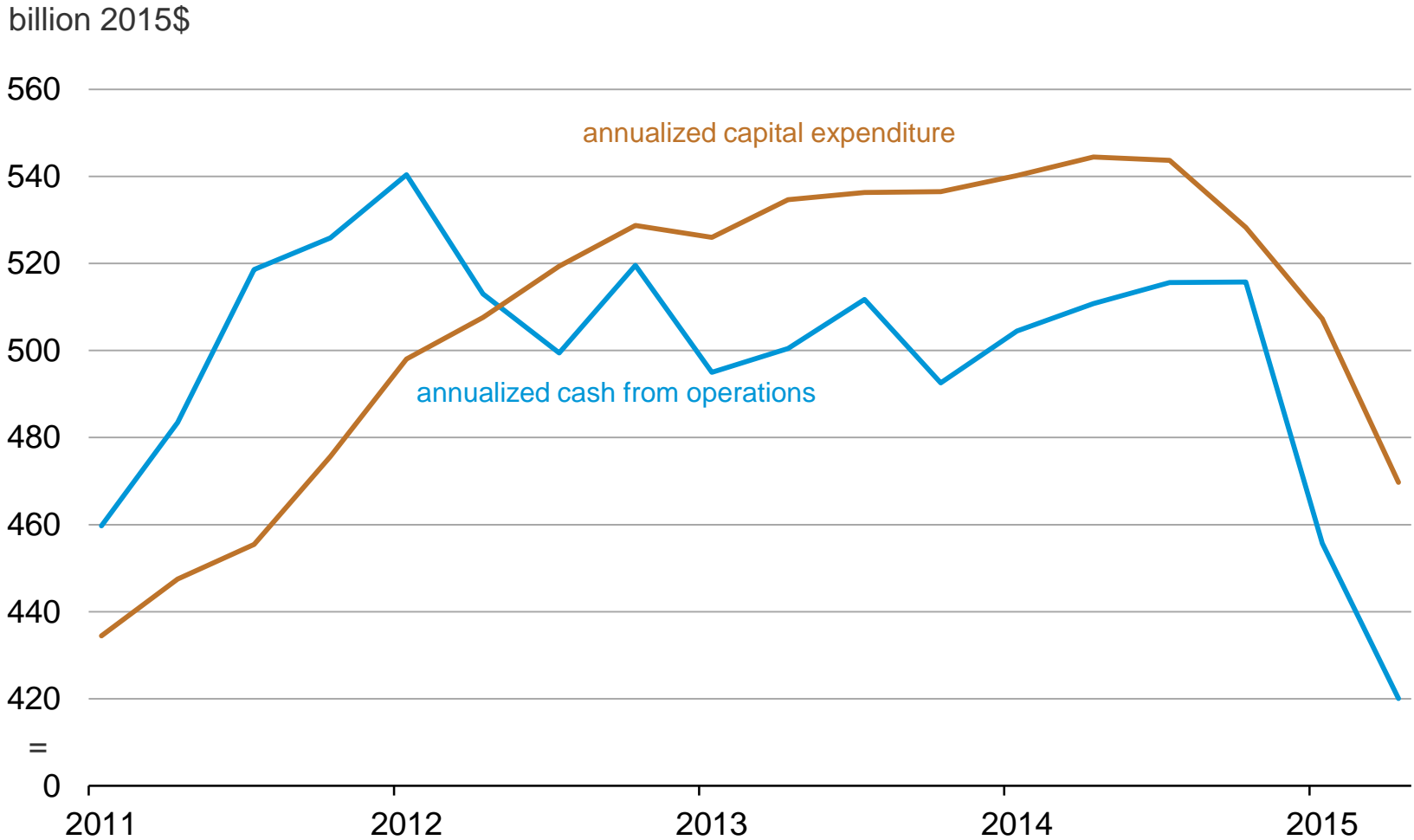
The difference between cash from operations and capital expenditure was almost zero in second-quarter 2015

billion 2015\$; Brent in 2015\$/barrel



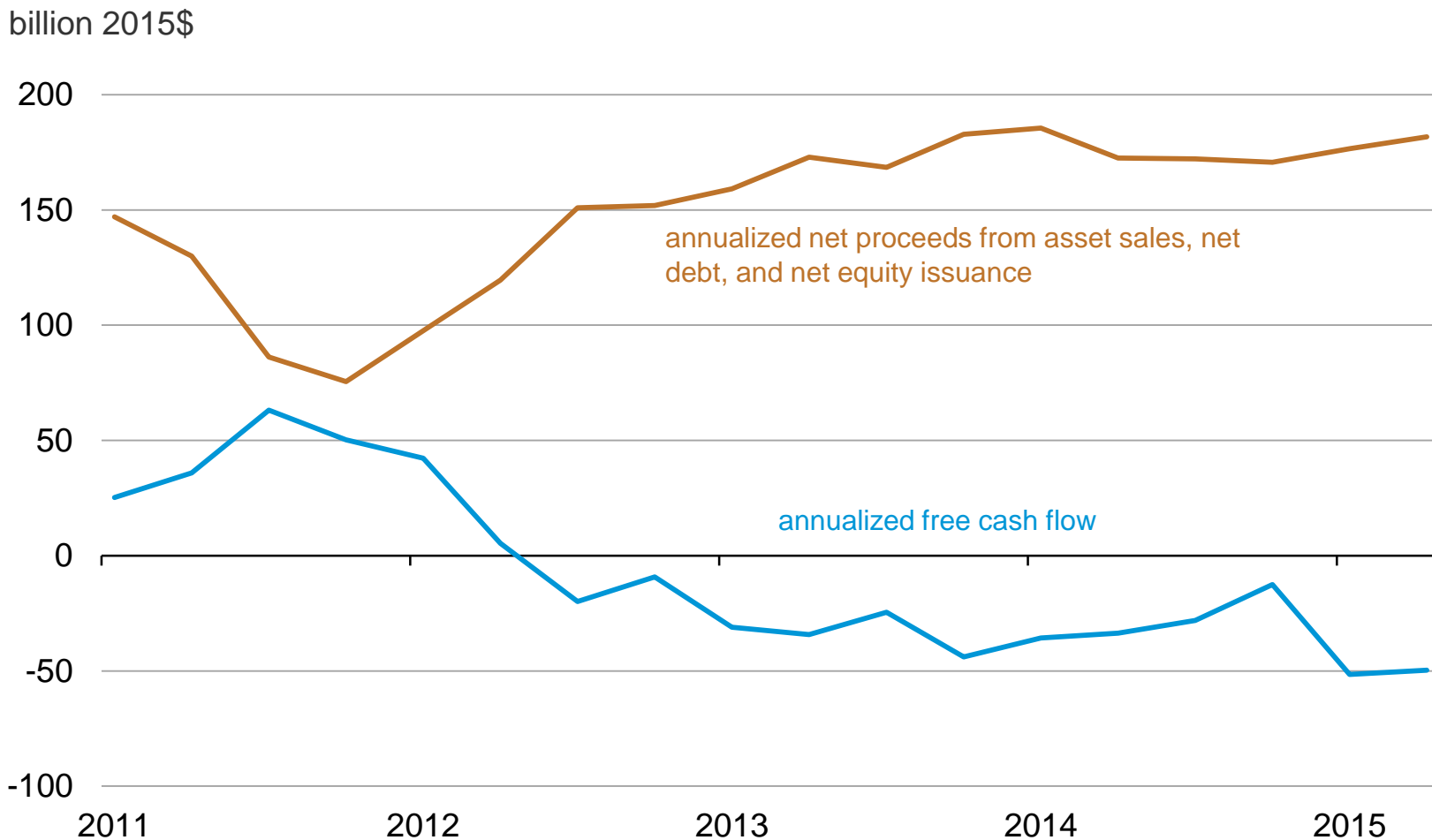
Source: U.S. Energy Information Administration, Evaluate Energy, Bloomberg

Annualized, however, the energy companies still have a wide deficit of operating cash to capital expenditure



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

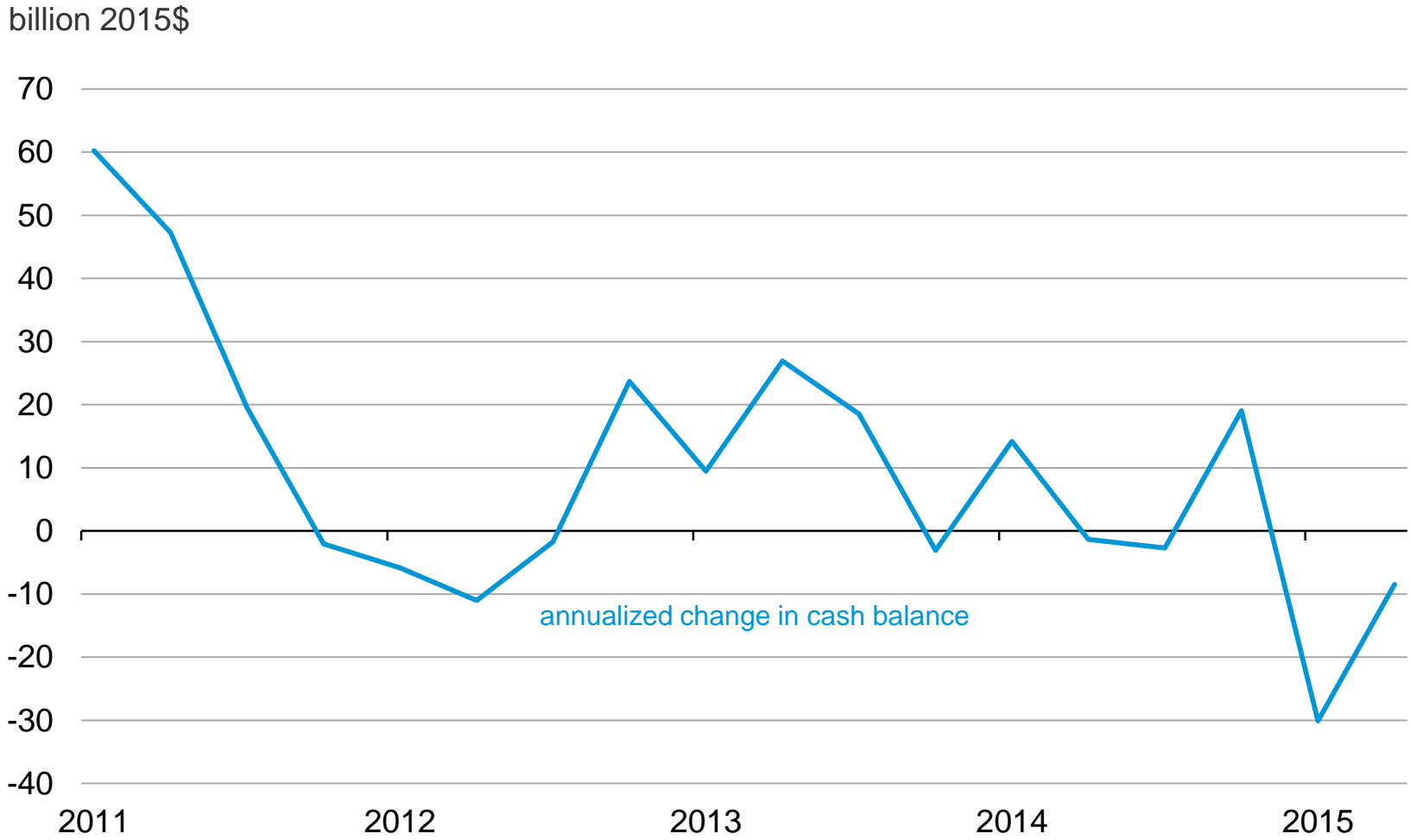
This operating deficit continues to be funded from asset sales, debt issuance, and equity issuance



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

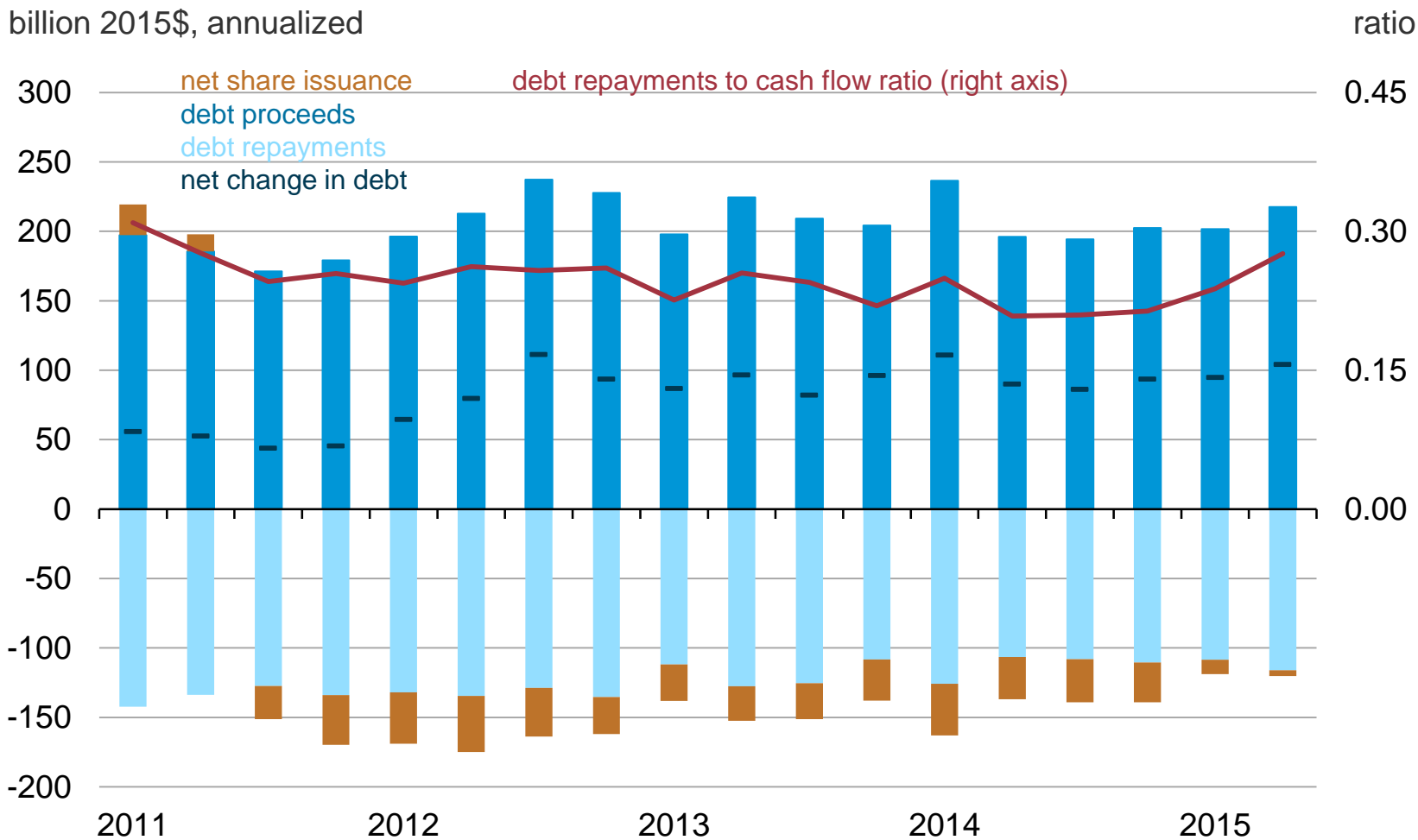
Note: free cash flow=cash from operations minus capital expenditure

Cash balances declined more than \$8 billion for the four quarters ending June 30, 2015



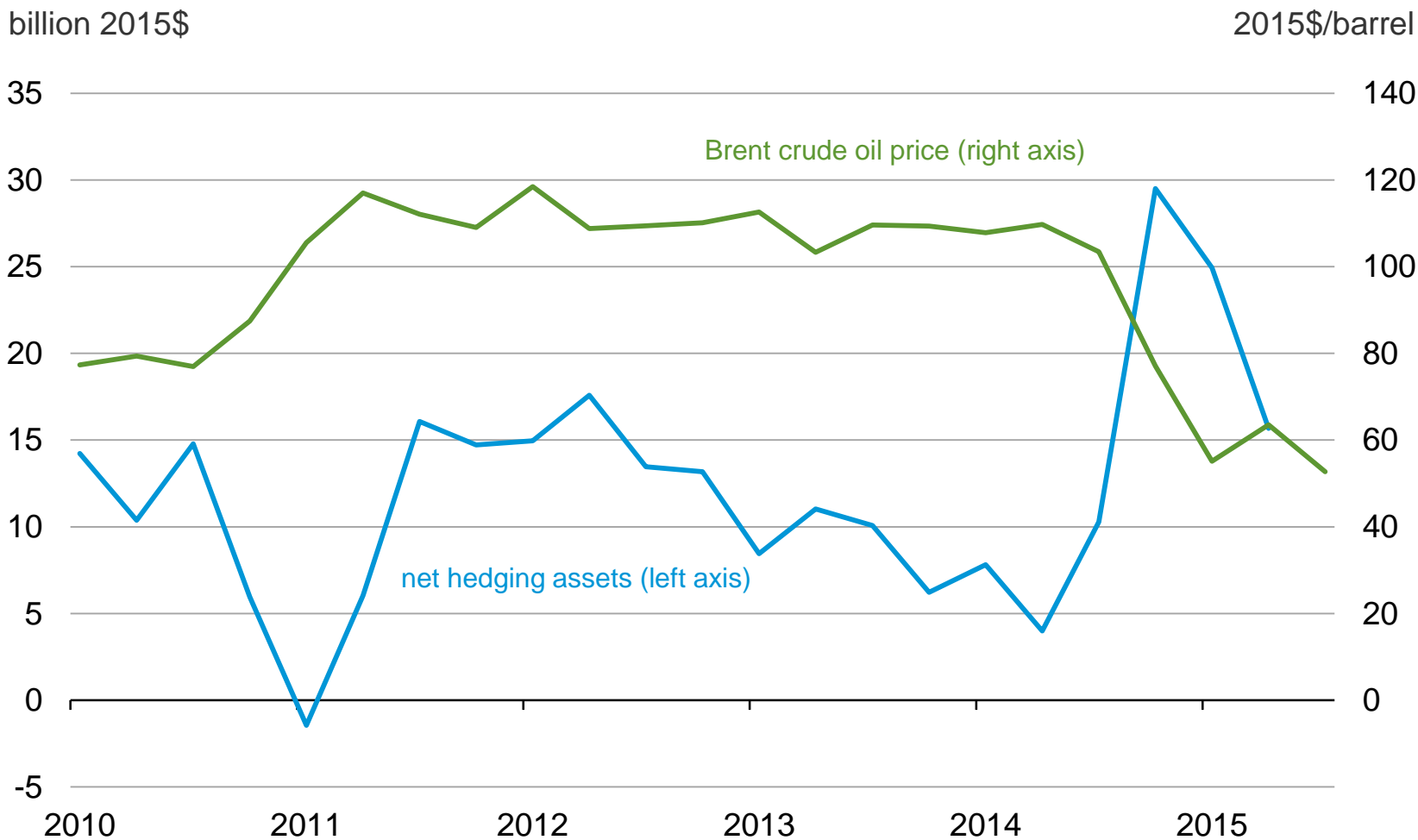
Source: U.S. Energy Information Administration, Evaluate Energy

Companies refinanced debt and increased share issuance, but fixed debt payments took a higher share of operating cash flow



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

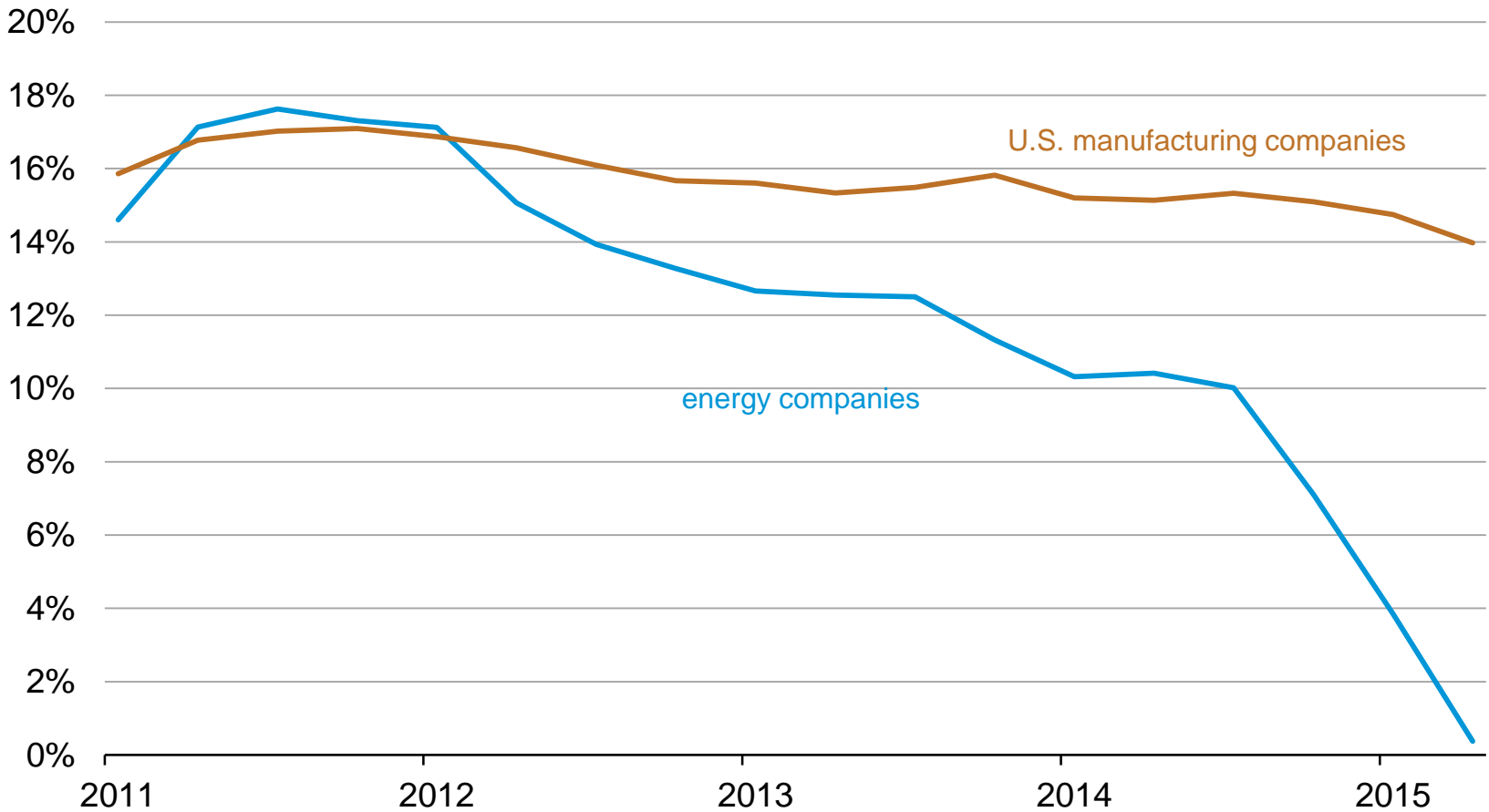
Net hedging assets, which provide downside price protection, declined \$9 billion since the first quarter



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

Profitability fell to almost zero for the energy companies

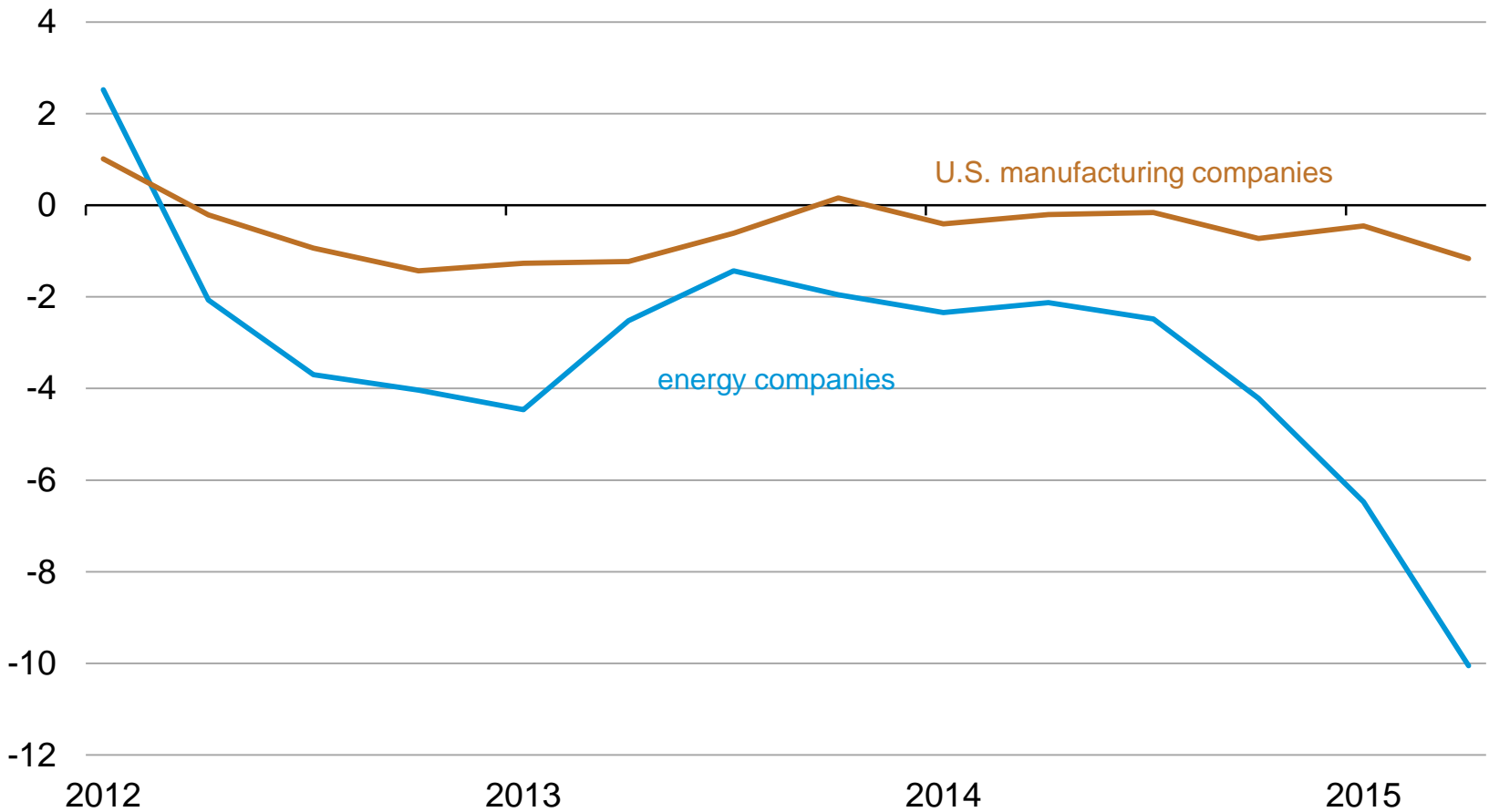
Annualized return on equity



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

Although both sectors had falling profitability for several quarters, energy companies' decreases were larger

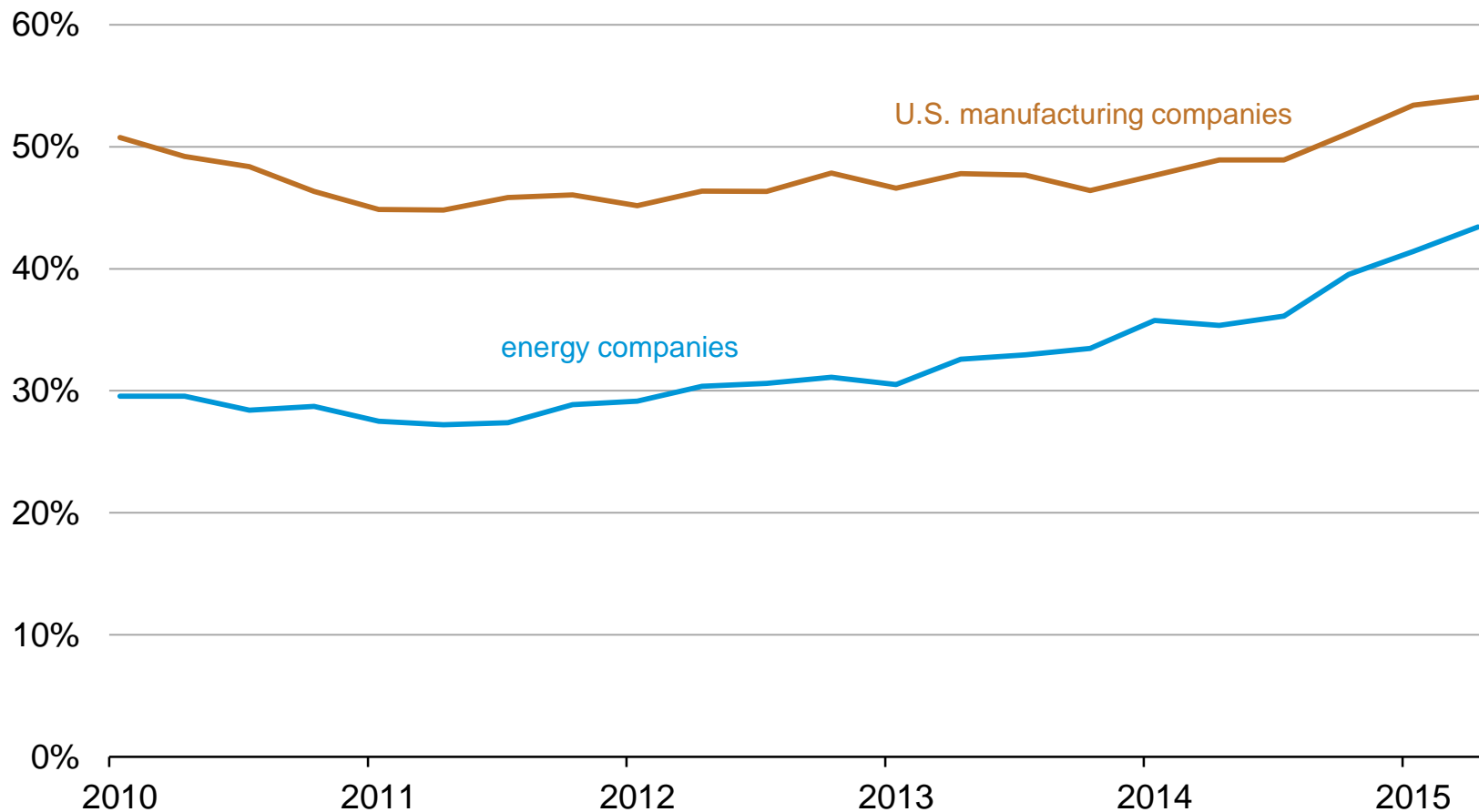
Annualized return on equity yearly change
percentage points



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

Both sectors had the highest debt-to-equity ratios since 2010 in the second quarter

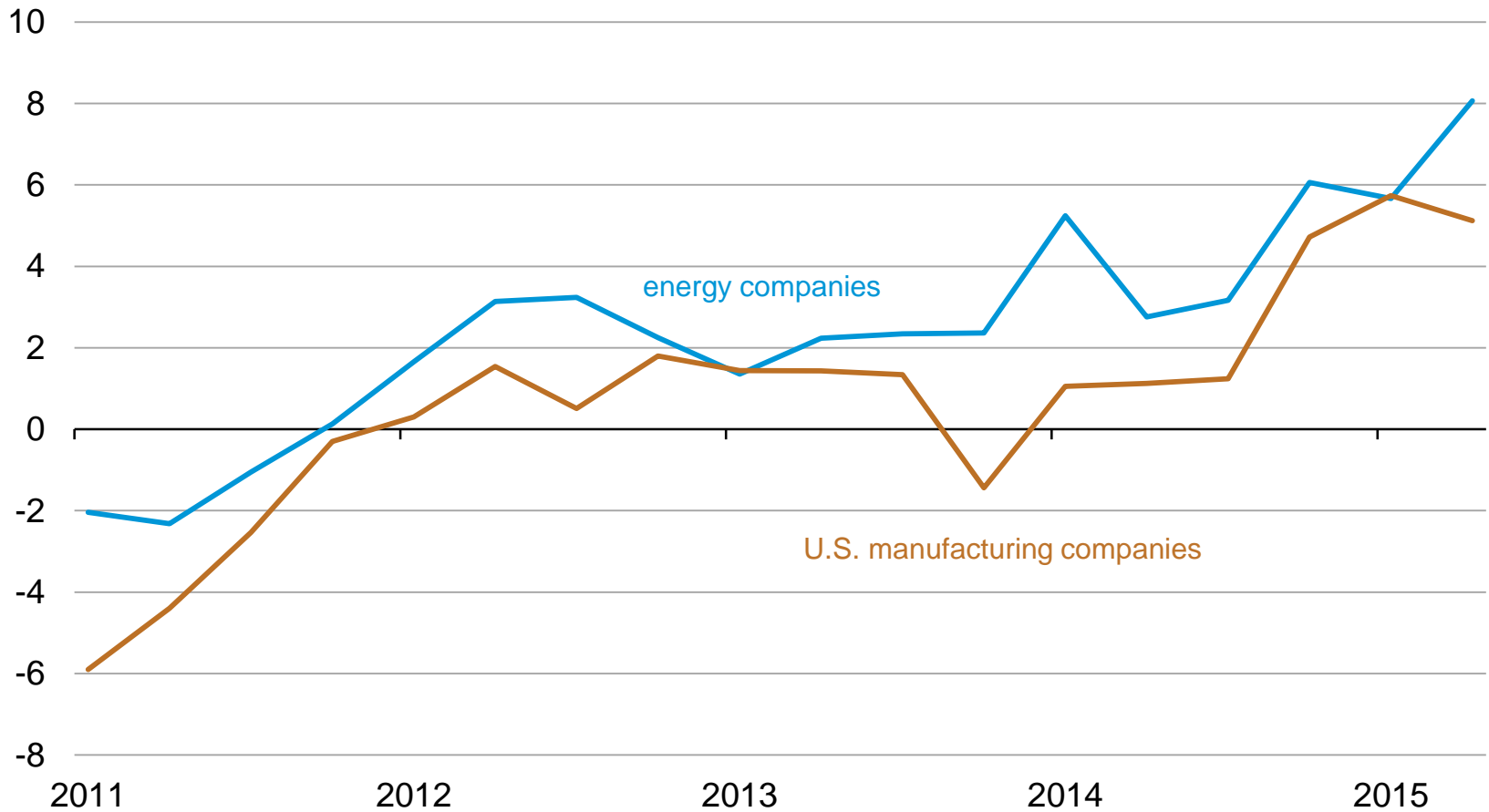
Long-term debt-to-equity



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

Financial leverage accelerated in recent quarters

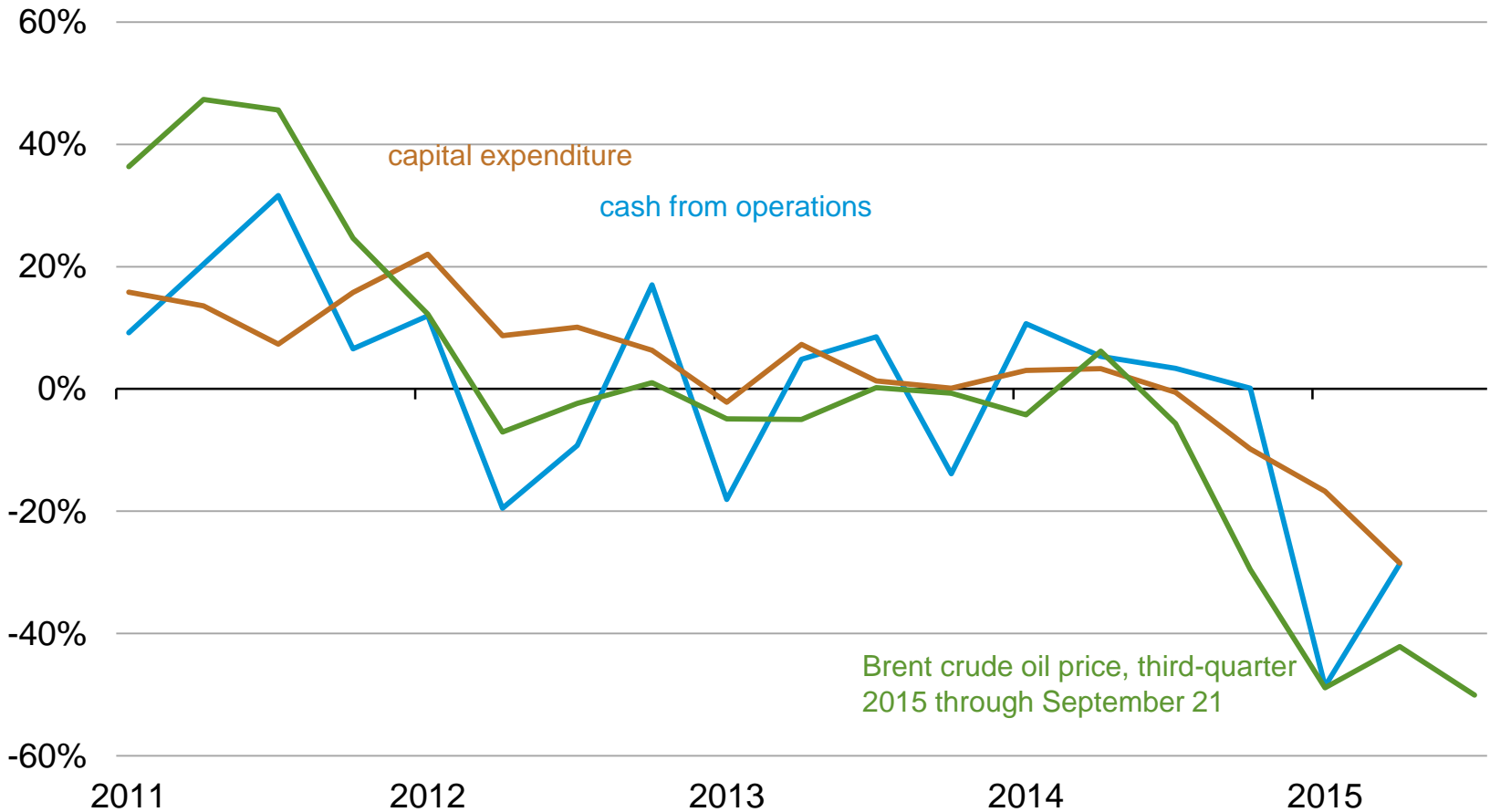
Long-term debt-to-equity year-over-year change
percentage points



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

In third-quarter 2015, Brent crude oil prices continue to decline, which will likely pressure companies' cash flow and investment

year-over-year change



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

Appendix: List of companies

Anadarko Petroleum Corp.	Carrizo Oil & Gas, Inc	ENI	Lukoil (US GAAP)	Petrobras (IFRS US\$ Current)	Stone Energy
Antrim Energy Inc.	Cenovus Energy Inc.	EOG Resources	Lundin Petroleum	PetroChina	Suncor Energy Inc.
Apache Corporation	Chesapeake Energy Corp.	EP Energy Corporation	Magnum Hunter Resources	Petrolifera Petroleum Ltd.	Swift Energy Co
Approach Resources Inc	Chevron Corporation	EPL Oil & Gas Inc	Marathon Oil Corp.	PetroMagdalena Energy Corp.	Synergy Resources Corporation
Athlon Energy Inc.	Cimarex Energy Co.	ExxonMobil	Mariner Energy	Petrominerales Ltd.	Talisman Energy Inc.
ATP Oil & Gas Corp.	Clayton Williams Energy	Forest Oil Corporation	MDU Resources Group	PetroQuest Energy, Inc	Thunderbird Resources Equity Inc.
Bankers Petroleum Ltd	Comstock Resources	Gazprom Neft	Memorial Production Partners LP	Pioneer Natural Resources Company	Total
Baytex Energy Corp.	Concho Resources Inc	Goodrich Petroleum Corp	Murphy Oil Corporation	QEP Resources Inc	TransAtlantic Petroleum Ltd.
Berry Petroleum Co.	ConocoPhillips	Gran Tierra Energy Inc.	Newfield Exploration Company	Range Resources Corp	TransGlobe Energy Corporation
BG Group	Continental Resources	Gulfport Energy Corporation	Noble Energy	Repsol	Triangle Petroleum Corporation
Bill Barrett Corporation	Denbury Resources Inc.	Halcon Resources Corporation	Northern Oil & Gas, Inc	Rosetta Resources Inc.	Unit Corp
Black Hills Corp	Det Norske	Hess Corp	Oasis Petroleum Inc.	Royal Dutch Shell	Vaalco Energy Inc
BP Plc.	Devon Energy Corporation	Husky Energy Inc.	Occidental Petroleum Corporation	Sabine Oil & Gas Corporation	Vermilion Energy Inc.
BPZ Resources Inc	Ecopetrol	Imperial Oil Limited	OMV	Sanchez Energy Corp	W & T Offshore
Breitburn Energy Partners	Encana Corporation	Ithaca Energy Inc.	Pacific Exploration and Production Corporation	SandRidge Energy	Whiting Petroleum Corporation
Brigham Exploration Company	Endeavour International Corp	Jones Energy, Inc.	Parsley Energy Inc.	Sherritt International Corp	WPX Energy
Callon Petroleum	Energen Corp	Kodiak Oil & Gas Corp.	PDC Energy	SM Energy Company	XTO
Canacol Energy Ltd.	Energy XXI	Laredo Petroleum	Penn Virginia	Sonde Resources Corp.	YPF Sociedad Anonima
Canadian Natural Resources Limited	Enerplus Corporation	Linn Energy	Penn West Petroleum Ltd.	Statoil ASA	

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

Note: Some companies exist that merged or split before 2015. A total of 97 companies existed in 2015

Background

- This analysis focuses on the financial and operating trends of 97 global oil and natural gas companies (called the *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 acquired by another company in the group after first-quarter 2010 were kept in the prior year data.
- Several charts compare these upstream companies with the U.S. manufacturing industry, published in U.S. the Census Bureau's *Quarterly Financial Report*.
- Totals shown on an annualized basis are the sum of the four quarters ending for that time period. The purpose of this method is to smooth volatility and seasonality.

Brief description of terms

- Cash from operations is a measure of income.
- Capital expenditure represents cash used for property, plant, and equipment.
- 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 (earnings) represents profit after taxes and depreciation.
- Asset impairments are when a company lowers the estimated value of a property to reflect current market value, which may decline from loss of production potential or from oil price declines.
- The term upstream refers to crude oil exploration, production, and other operations prior to refining. The term downstream refers to refinery operations, product sales, and marketing.