

*PwC Energy Executive  
Webcast Series presents:*

*Fit for \$50 oil: Is your  
company in shape?*

November 2014

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## ***Before We Get Started***

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- **To download a PDF of today's presentation**, click on green “resources” widget at the bottom of the screen
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# *Agenda*

Section one: Introduction

Section two: Pricing Dynamics

Section three: The Stress Test- Are you Fit for \$50

Section four: Building Efficiency and Agility

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## ***Poll question #1***

**In your opinion, what is the most likely PRICE FLOOR for WTI (in \$/bbl)?**

- 80s
- 70s
- 60s
- 50s
- 40s
- Below 40

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# *Introduction*

- The recent decline in oil prices has reinforced two realities: commodity prices change and the energy industry is a cyclical business.
- When prices go down, companies are faced with different challenges and opportunities than the often preferred \$90+/bbl environment presents.
- When considering a sub-\$80/bbl outlook, many organizations evaluate their readiness and preparedness for even lower prices.

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# *The Fit for \$50 Concept*

What it is NOT:

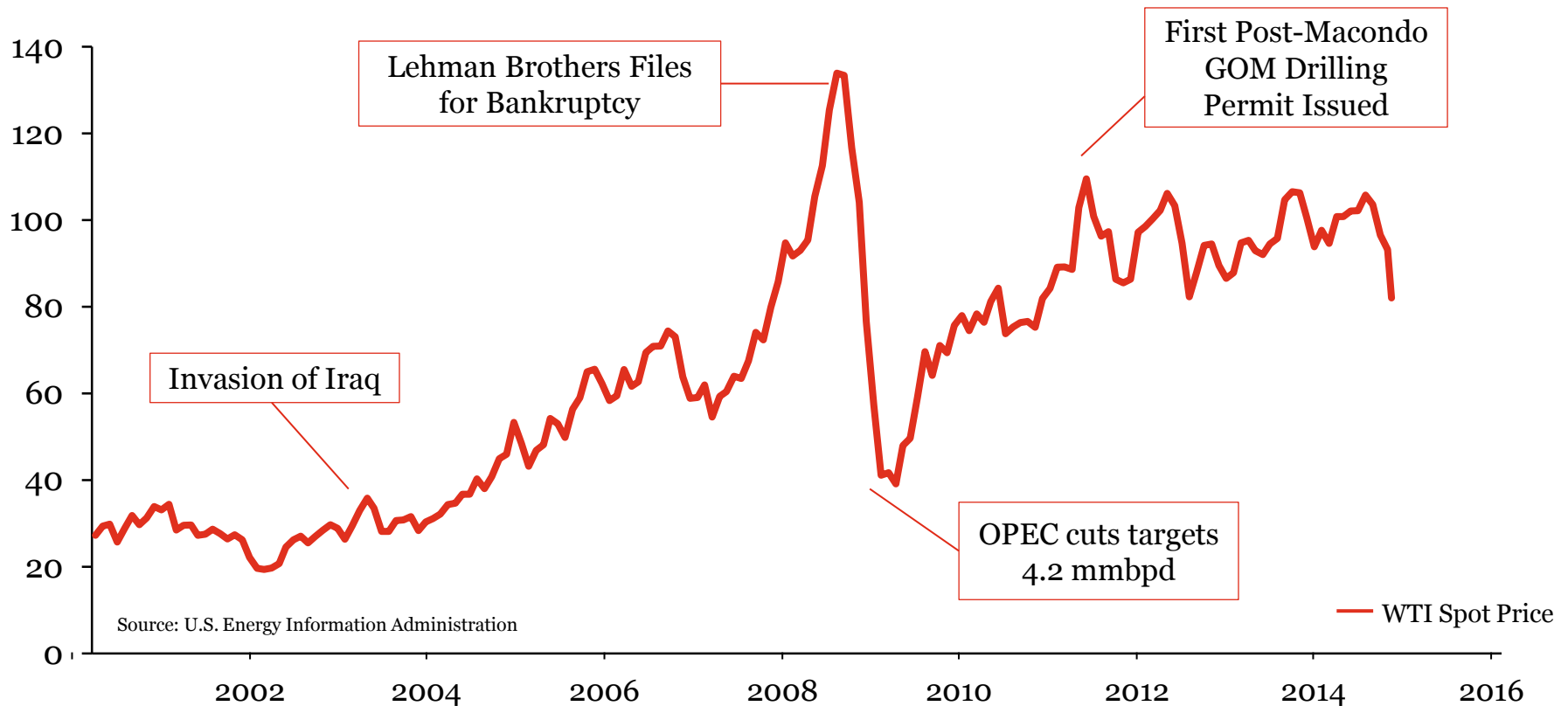
- The goal of the Fit for \$50 concept is not to suggest that oil prices will hit \$50/ bbl.

What it IS:

- The Fit for \$50 concept focuses on how energy companies should prepare for and act in weak hydrocarbon pricing environment. The focus is on the market drivers, key company metrics, and the target operating model that can help companies navigate the down-cycles and be positioned for the up-cycle.
  1. *The \$50 Scenarios* – A summary and analysis of the major drivers for the historic shifts on oil prices, including the supply and demand fundamentals, as well as the scenarios that could lead to \$50/bbl oil prices
  2. *The Stress Test* - A framework for developing relevant indicators to determine level of “stress”, or exposure and sensitivity to weak hydrocarbons pricing environment . The frameworks evaluates financial, operational, commercial, portfolio, and talent factors to reveal the indicators that signal the ability of a company to withstand a period of sustained low prices.
  3. *Building Efficiency and Agility*- A strategic approach that is aimed at helping companies identify the must have capabilities and core competencies in order to remain successful even in a low oil price environment.

# Oil Price Volatility is Part of the Industry

Oil price volatility results from complex interactions between supply and demand and reacts significantly to world and economic events.





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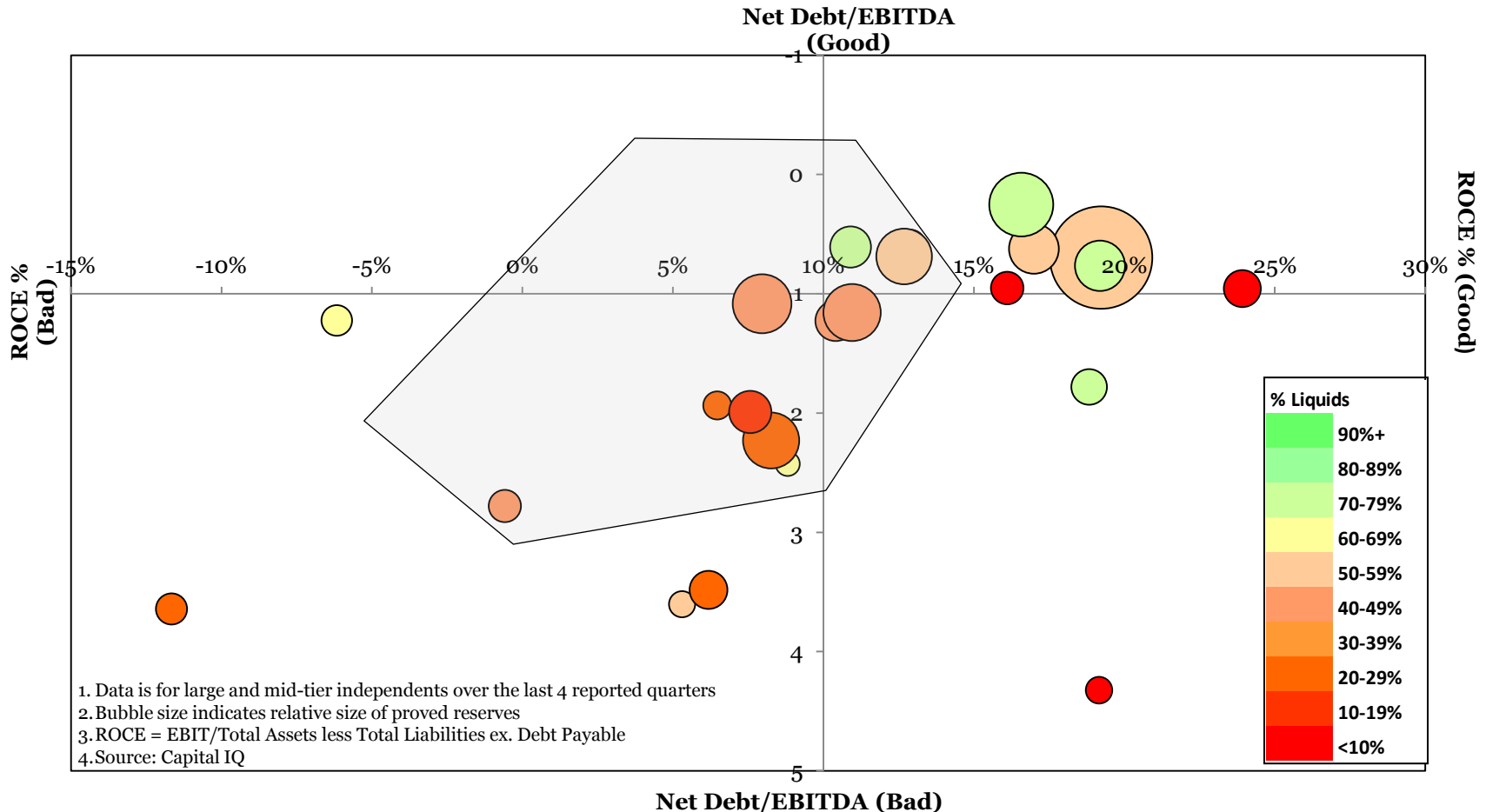
## ***Poll question #2***

**What is the most likely TIME HORIZON (in months) for the oil PRICE FLOOR?**

- 0- 3 months
- 4- 6 months
- 7- 9 months
- 10- 12 months
- 12- 18 months
- 19 months or more

# Who's facing the greatest risk?

Companies with high lifting costs, low operational and capital efficiency, undiversified portfolios, and high debt loads are most sensitive to low oil prices.



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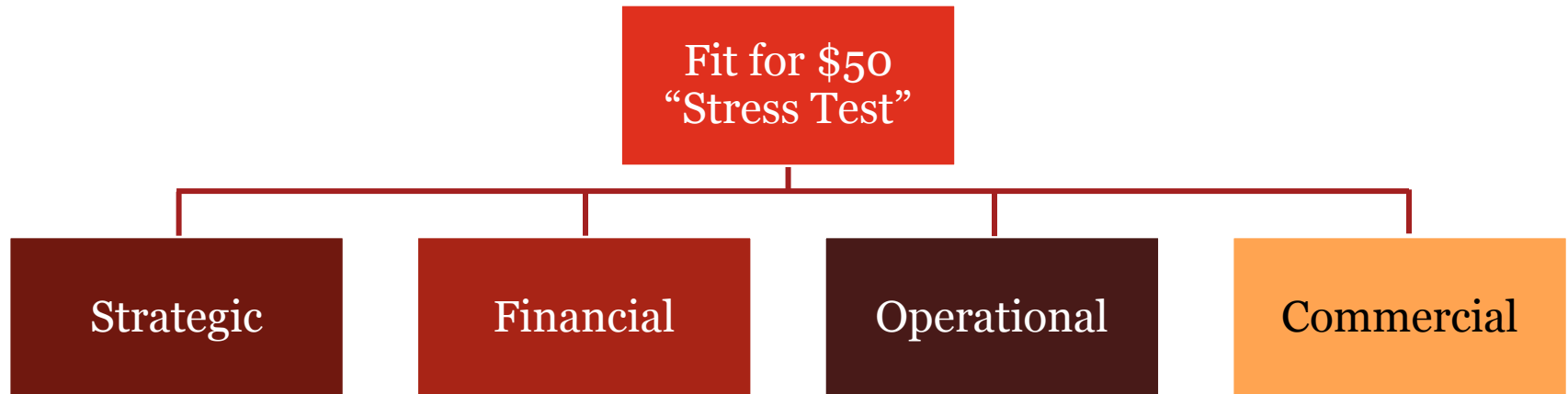
## ***How to Prepare***

Preparation for the new normal begins with a self evaluation, which informs the development of strategies that drive changes in planning and execution.

1. Stress Test Your Asset Base
  - Consider strategic, financial, operational, and commercial aspects
  - Drive the analysis to differentiate assets into classes
  
2. Develop Strategies by Asset Classes
  - Divide the asset base into classes by margin profiles
  - Define strategies for each class and link it to planning and execution

# ***What is a Stress Test?***

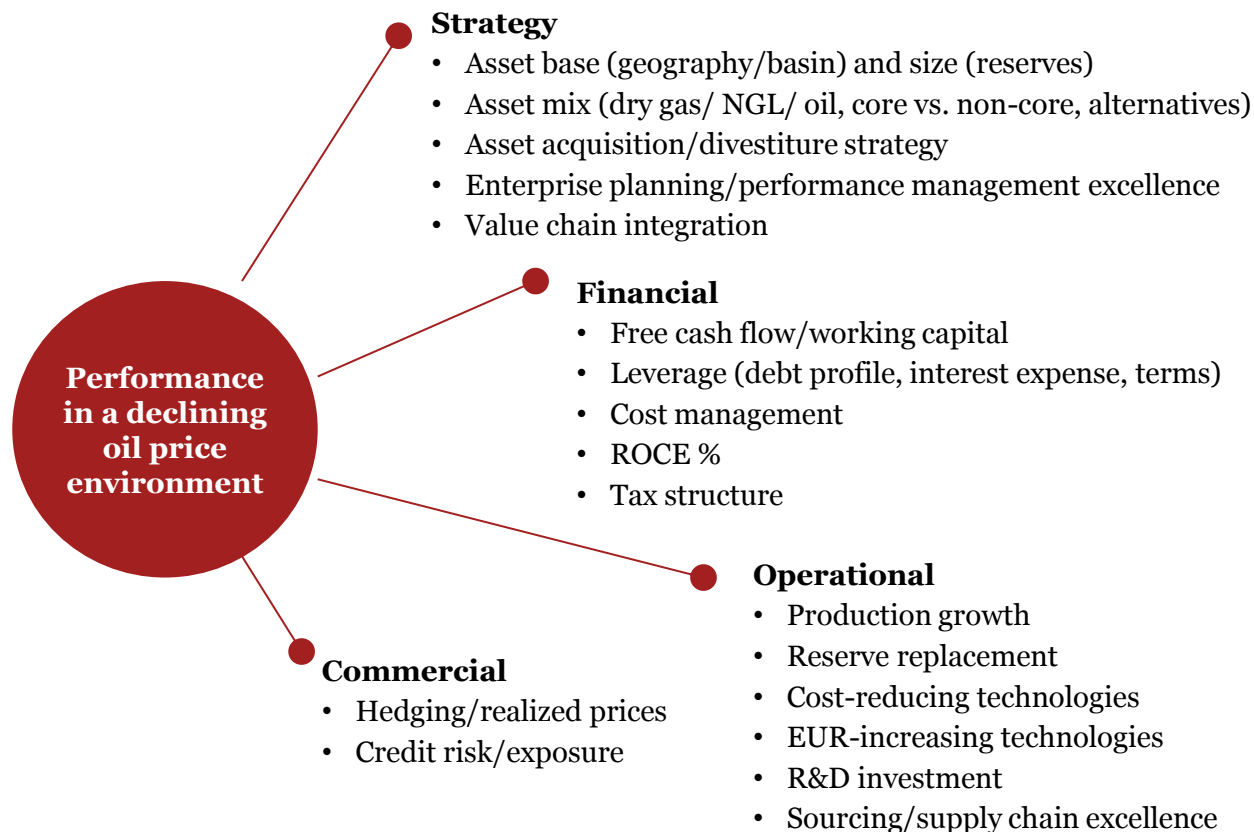
The Stress Test is a framework for developing relevant indicators to determine level of “stress”, or exposure and sensitivity of a company to weak hydrocarbons pricing environment



# Indicators of Health at \$50/barrel

## **To understand success or failure in a \$50/bbl setting...**

*...requires an understanding of the strategic, financial, operational and commercial related indicators that are critical to the health of an oil and gas company in a break even price environment.*



# Targeting Costs vs Broad Sweeping Cost Reduction Programs

Companies need to understand what specific costs are, how they compare to peers and what reductions are truly possible.

## Framework to Scope the Opportunity

1. Identify Cost Focus Areas
2. Distinguish Subcategories for Cost Focus Areas
3. Determine Addressable and Non-Addressable Areas
4. Apply Cost Savings Levers to Addressable Areas



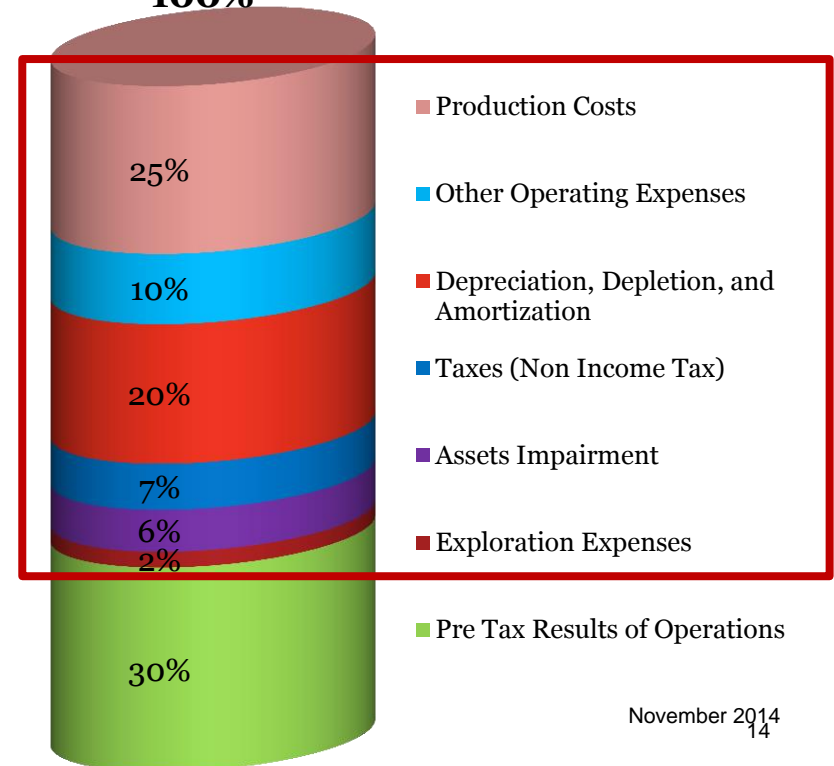
### Identify Cost Focus Areas

#### Example BOE Economics

(% of Cost Per BOE)

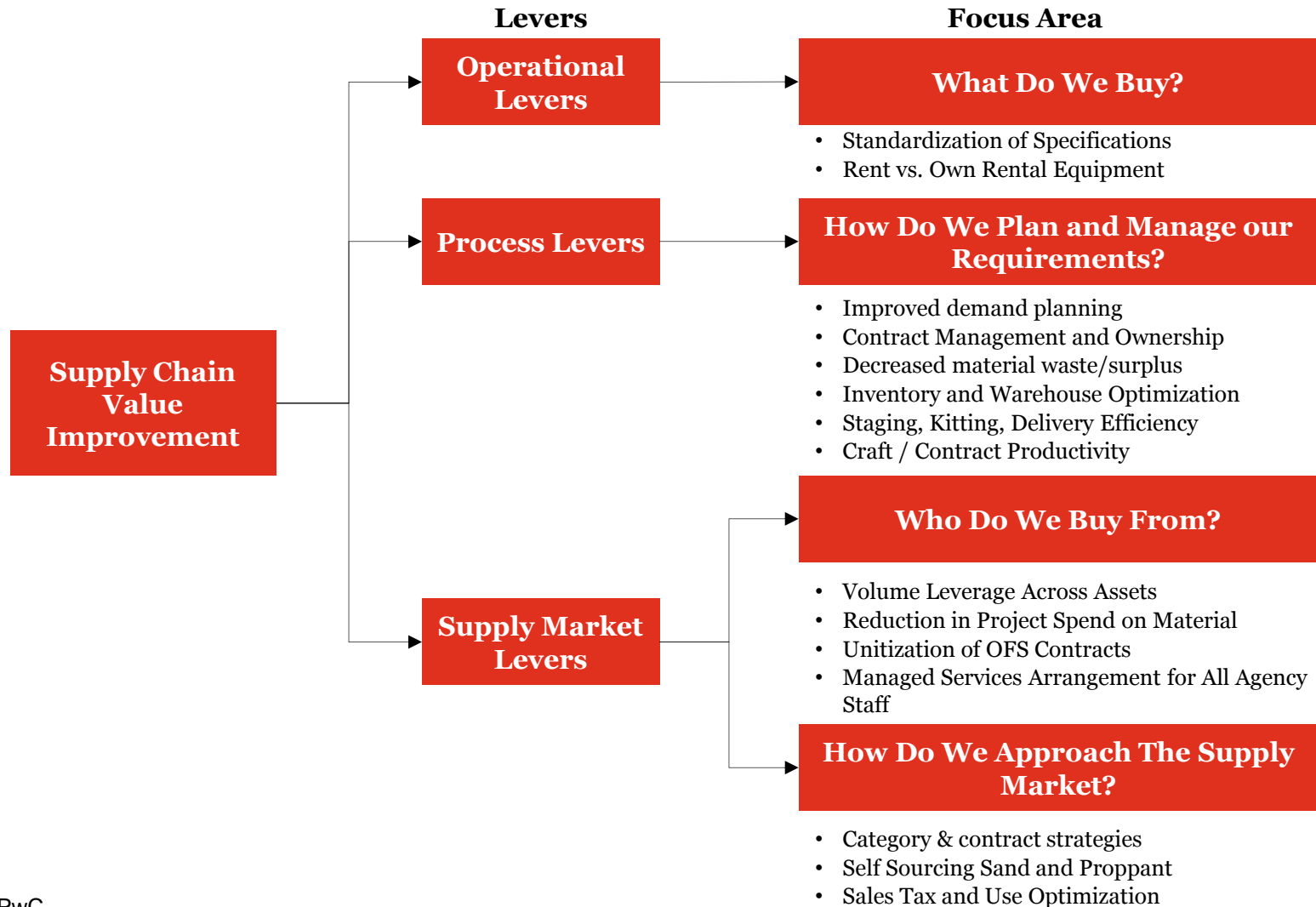
Revenue

100%



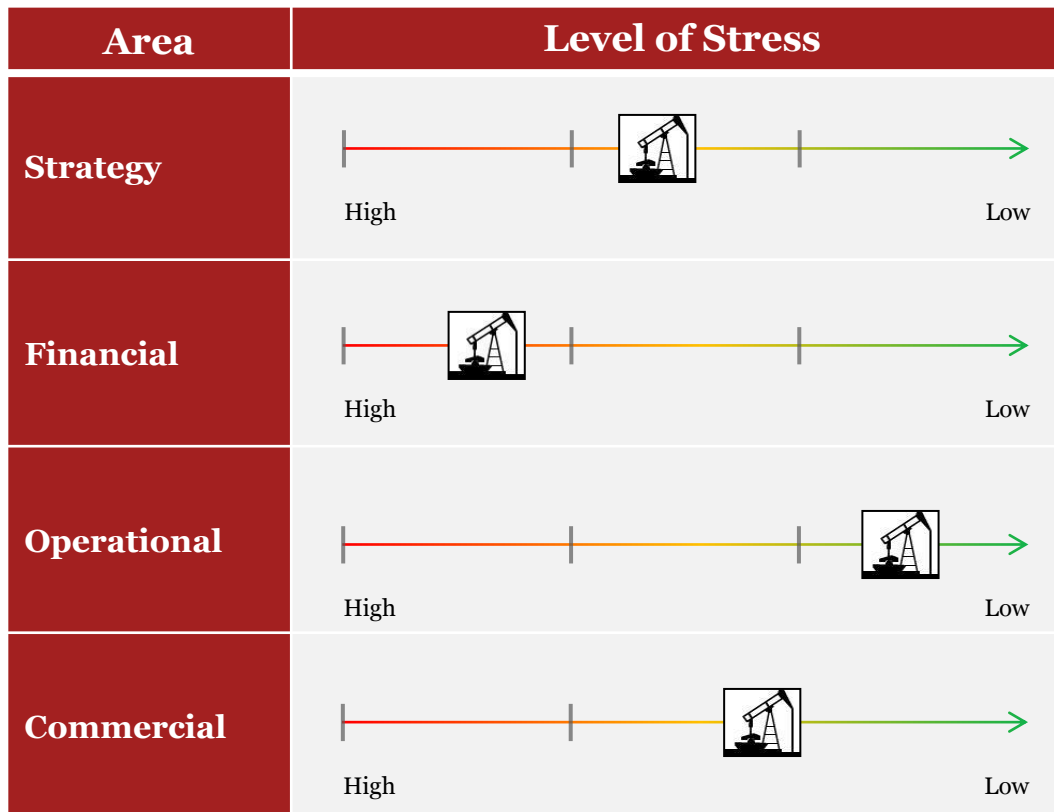
# Example value levers...supply chain

## Supply Chain Value Levers



# Health Check Scorecard

Companies need visibility into their assets across each element of the stress test to understand how to optimize their portfolio in a new price regime.



Current level of stress



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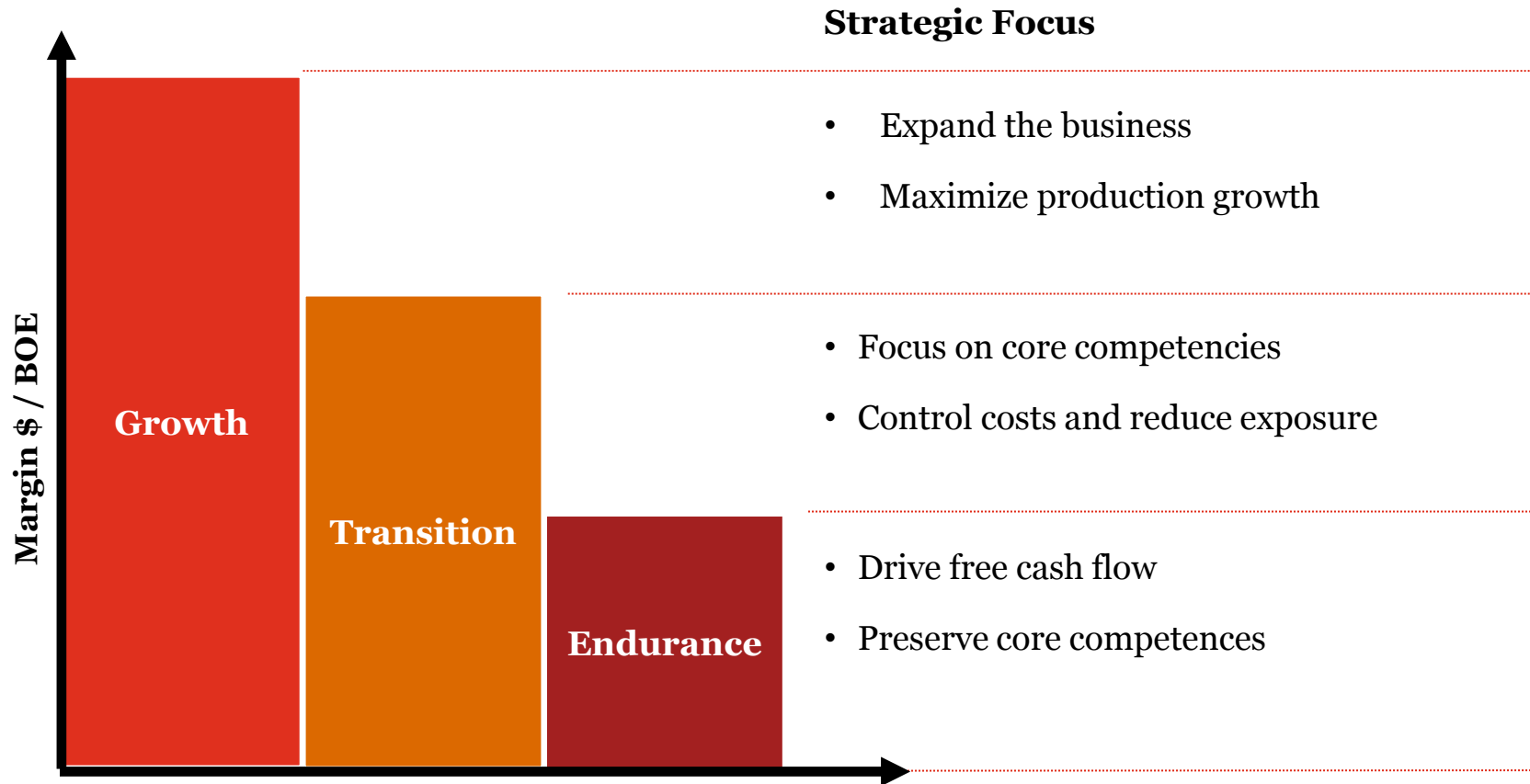
## ***Poll question #3***

**What is the most likely TIME HORIZON (in months) for the REBOUND (WTI > \$90/bbl) in oil prices?**

- 0- 3 months
- 4- 6 months
- 7- 9 months
- 10- 12 months
- 12- 18 months
- 19 months or more

# ***Strategy Changes with the Margin Environment***

As the margins erode companies must move from a growth strategy to a flexible position that will support the return to a growth strategy or enable an position to endure a downturn.



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## ***Poll question #4***

**In your opinion, which category of drivers are likely to have the greatest impact on oil prices?**

- Demand
- Supply
- Geopolitical stability
- Financial stability and institutional investors

# *Questions and answers*

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# *Thank You for Joining Today's Webcast*

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# *Contact Information*



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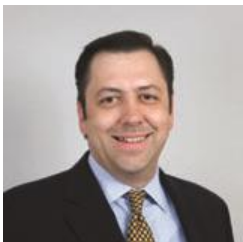
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