



New reality.
New complexities.
Financial accounting advisory services
for the oil and gas industry

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The global economy is emerging from crisis. In its wake, business leaders around the world face a new economic reality. Against this backdrop, oil and gas companies continue to face volatility and geopolitical uncertainty; companies are struggling to gain access to reserves; companies continue to face a host of environmental concerns; and the industry is facing a renewed and expanded regulatory focus on safety and risk preparedness and mitigation. The historical pricing relationship between oil and gas has shifted, with oil prices rising and natural gas prices languishing. Many companies are re-evaluating their business mix based on long-term strategic bets. Tough decisions lie ahead.

As the leader of your company's finance function, you're expected to be a strategic advisor to the business – and to help position your company for this new reality.

How does today's oil and gas company best deliver value, and demonstrate that value? How to grow revenue? How to put assets – including cash reserves – to their best use? Where do you invest in reserves or infrastructure? Who do you partner with for joint ventures? How will environmental concerns affect the business?

As supply-and-demand trends change, and as their operating environment evolves, oil and gas companies are becoming more active with acquisitions, divestitures, restructuring or other transformational initiatives. At the same time, these companies face ongoing changes in accounting guidance and regulatory practices across the globe.

So it's important to recognize how changes to accounting guidance affect strategic decisions, and vice versa. Strategic opportunities. New internal processes, controls and systems. Regulatory changes. Whatever decisions you make about improving your prospects for growth and realizing value, you need to understand the practical accounting implications.

As you review your strategic opportunities – and their attendant challenges, you must also consider the accounting implications. We can help.

New reality. New practices.

[F]or most CFOs... [t]he top job now involves helping the CEO and business heads find new opportunities and assess their strategic and financial merits and risks.... [T]he chief of finance has stepped up to become the CEO's partner....

Harvard Business Review

Every day, finance leaders of oil and gas companies are asking:

- ▶ “Am I helping our business to set its strategy – and achieve our objectives?”
- ▶ “How should we deploy capital to support our strategic goals?”
- ▶ “Are our business decisions based on sound financial information?”
- ▶ “How can we measure and report on progress in realizing our strategic objectives?”
- ▶ “How do I drive efficiency in the finance function and add value?”

The oil and gas industry is no stranger to volatility and change, and it must constantly adapt to the evolving regulatory environment. The forward thinking company is acting now to prepare and understand how decisions made today could have unexpected consequences tomorrow. And that responsibility falls squarely on the finance function.

Today's oil and gas companies need help understanding and keeping up with the pace of change in accounting standards. Some of the proposed changes to accounting standards, if implemented, would have a profound impact on oil and gas companies. Meeting these challenges requires not only technical resources, but advisors who understand the issues you face and have the experience to identify practical, effective alternatives.

Changes to accounting standards aren't the only challenge for today's heads of finance. Complex business decisions arise as a result of your entity's capital agenda, with transactions such as mergers, spin-offs, and JVs all dictating changes to entities' financial statements.

We help oil and gas companies understand the impact of strategic initiatives on their finance and accounting function, allowing them to make informed decisions.



Financial Accounting Advisory Services

Ernst & Young understands the imperatives you face. Our Financial Accounting Advisory Services practice assists finance leaders in addressing the strategic accounting challenges facing their businesses and the finance function, including assisting with business transformations and accounting convergence.

We can assist you in reviewing and assessing complex accounting decisions, evaluating potential impacts, understanding your options and implementing sustainable change in accordance with industry leading practices. We can:

- ▶ Identify potential accounting issues prospectively, helping you evaluate alternatives and develop approaches
- ▶ Manage complex accounting decisions, including those relating to changes to U.S. GAAP, IFRS and financial statement reporting
- ▶ Assist you with accounting for transactions, including for acquisitions, IPOs, private offerings and carve-outs
- ▶ Provide accounting process and controls support, including assisting with new business processes in line with evolving guidance
- ▶ Provide insight on how peer companies are dealing with similar challenges

Ernst & Young's Financial Accounting Advisory Services professionals are deeply experienced in managing mandated accounting change. We offer up-to-date insight into regulatory developments, along with deep experience in the oil and gas industry – including subject matter resources in treasury accounting, hedging, accounting for commodity trading and derivatives and other key areas. To assist you in receiving the market, technical and regulatory insights you need, we coordinate teams of highly qualified resources from across our global organization in assurance, tax, transactions and advisory services.

Up-to-date insight into regulatory developments. Deep experience across industry. And qualified resources from across our global organization.



CFOs of the future will operate around the globe... and will regularly partner with non-financial areas of the business on growth initiatives and international expansion.

Harvard Business Review

Our services

The professionals in our Financial Accounting Advisory Services practice are attuned to the needs of today's finance leaders and CEOs – and are prepared to help oil and gas companies realize their objectives for the finance function.

By assisting with specific technical accounting challenges, we allow management to focus on its own strategic agenda. We also contribute meaningful, practical insights into industry leading practices and ideas for process and policy improvements.

Reporting and GAAP advisory

- ▶ Challenged to address unusual or complex accounting issues?
- ▶ Struggling to keep up to date with changes to accounting standards?
- ▶ Need practical insights on U.S. GAAP or IFRS conversion?

The recent financial crisis only increased the pressure on regulators and governments to implement a single global set of standards as part of a robust regulatory framework – lest the interconnectedness of global markets again result in a similar catastrophic loss of value. And International Financial Reporting Standards have now been widely adopted.

But even without a near-term move to IFRS in the US, accounting guidance is forecast to undergo unprecedented change in the next few years. The FASB and the IASB are converging standards in critical areas, including leasing, revenue recognition, financial instruments and fair value measurement.

All these changes affect accounting decisions for oil and gas companies with multiple operating subsidiaries or divisions in different jurisdictions. They alter financial statement reporting and dictate changes to internal systems and processes. This will also have an impact on contractual relationships.

Companies need to understand the potential impact now. We offer business-oriented approaches, including technical accounting support, GAAP and IFRS conversions and implementation support and training.



Transaction accounting and financial reporting

- ▶ Struggling with requirements for historical financial information for an IPO?
- ▶ Trying to present financial information quickly to facilitate a proposed divestiture?
- ▶ Need to know how different accounting policies impact future earnings for an acquisition?
- ▶ Addressing purchase accounting and want assistance with the issues?

Private equity investors have seen the climate markedly improve in the last year. IPOs are accelerating, sell-side transactions are increasing as general partners seek to close-out older funds and prepare to fund-raise and compelling valuations are prompting new acquisitions. Larger corporations are increasingly focused on core activities and are divesting non-core businesses including carve-outs.

But regulators have increased oversight of capital markets transactions, and are amending accounting and financial reporting requirements. Changes to fair value accounting might impact perceptions of value on the part of rating agencies. Investors in acquisitions, private-to-public transactions, recapitalizations and strategic divestitures must comply with these changing standards, ensuring that the complex financial structures in their transactions comply.

The FAAS practice provides accounting and financial advice throughout the investment life-cycle. And, we can help structure complex domestic or international deals, including IPOs, mergers or acquisitions, carve-outs and other capital markets transactions. We also assist with post-bankruptcy workouts and “fresh-start” accounting.

Accounting and financial processes and controls

- ▶ Facing large-scale transformation of finance and business processes and IT systems?
- ▶ Struggling with consolidation or meeting statutory reporting or tax filing deadlines?
- ▶ Required to submit XBRL exhibits to the SEC?

Larger oil and gas companies are facing statutory accounting policy changes and strategic business decisions that have an impact on their financial accounting and reporting. Operational areas such as IT systems, tax planning and change management are all affected by these requirements. In-process ERP implementations or planned upgrades to software and processes need to factor in these new requirements during the planning stages to avoid costly rework in the future.

In addition, SEC registrants are now facing XBRL filing requirements, which many struggle with and which may require assistance from an advisor.

We help clients understand how complex financial and accounting issues can affect their business and operations, and develop sustainable underlying processes and controls, including:

- ▶ Finance transformations and ERP implementations
- ▶ Control account remediation and addressing materials weaknesses
- ▶ Treasury and commodities trading
- ▶ XBRL implementation
- ▶ Statutory reporting process assessment



Change. Complexity. That is your reality.

The impacts of accounting change on your business

Multiple projects are ongoing to converge accounting guidance between U.S. GAAP and IFRS and regulations across jurisdictions and geography are ever more complex. Even without large-scale mandates for change such as IFRS, the pace of regulatory changes will only continue.

This suggests major changes to your accounting practice, with ramifications for IT systems, processes and controls. Depending on your organization, internal accounting policies and controls may need revision – and your strategic agenda will also affect accounting decisions:

Achieving top-line growth – How should you plan to address new rules for revenue recognition – a key performance metric and one that could be impacted by deferred revenues?

Managing costs – What early planning can reduce costs and promote efficiencies in updating systems and improving processes?

Reporting and investor relations – As key performance metrics evolve, what measures are in place for communicating to investors, analysts and others? How to ensure transparency?

Improving forecasting and strategic planning – As standards and performance measures evolve, can you model the effects on budgeting, forecasting and reporting? How to alter success measures – and behavior – internally?

Strengthening internal control and risk management – What organizational risks are inherent in an evolving regulatory environment?

Measuring progress – What milestones for effecting change are in place? How to report achievement against your strategic objectives?



From principles to practice

Applying our technical knowledge to practical business challenges

National oil company

A national oil company preparing to move to IFRS was planning an 18-month conversion period, and asked Ernst & Young to propose on the project. The company selected the firm based on our deep knowledge of the oil and gas industry, and also cited our experience in deep IFRS conversions, our references, our technical accounting prowess, and our choice of the right third-party IT provider. Ernst & Young's team included professionals from three countries, and included members of our Financial Accounting Advisory Services practice and our Advisory practice.

Oilfield service company

For an oilfield service company preparing to merge, Ernst & Young's Financial Accounting Advisory Services practice identified and pulled together a team of skilled individuals in two days. The team was brought on to prepare an S-4, one week after the filing of the company's 10-K. The Ernst & Young team assisted the client with its S-4 filing in preparation for the acquisition. Our services included helping to draft the purchase price memorandum, guiding the client through complex accounting and reporting matters, such as accounting for complicated proposed structured debt agreements and accounting for stock options issued to former employees, and supporting the purchase price allocation process.

Commodity trading company

Ernst & Young was engaged by a major commodity trading company to assist with a comprehensive commodity trading organization infrastructure transformation project that included the assessment of the existing operating model and organizational design to support commercial operations, including the risk management framework and governance model. Ernst & Young dedicated a core global team to assist the company in establishing a comprehensive framework for setting up standardized processes and controls across the front, middle and back office operations using industry leading practices and design principles in order to achieve appropriate support for significant commercial growth, achieve operating efficiencies and optimize the commodity business model.



Our oil and gas industry leadership

Our focus on the oil and gas sector is a major part of our commitment to the energy industry as a whole. Hundreds of energy audit, tax, transaction, risk and financial performance professionals in our Houston-based Oil & Gas Center are dedicated to the energy industry. From this think tank environment, our team can communicate with our worldwide Oil & Gas practice, which is comprised of more than 8,300 professionals.

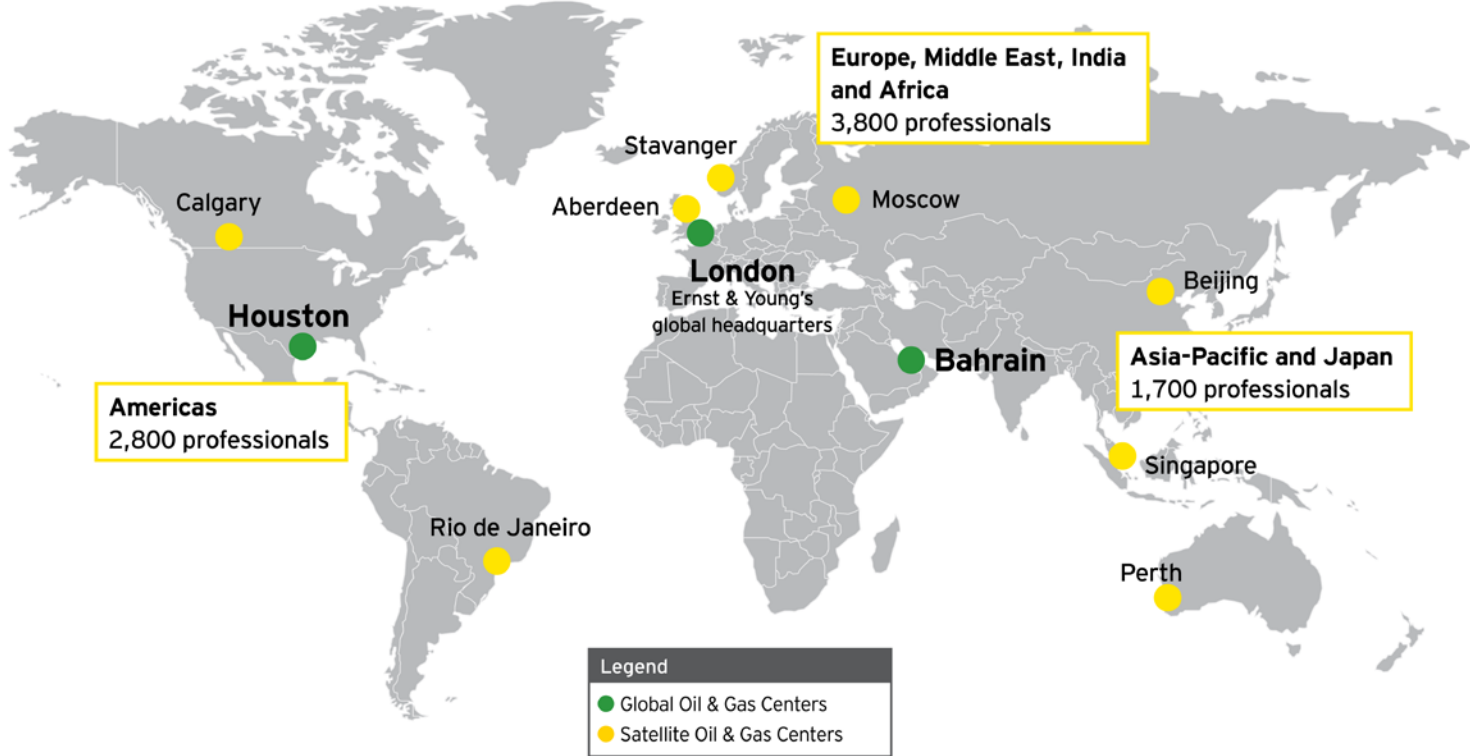
We are proud of the many oil and gas clients we serve globally in the exploration and production, midstream and downstream, chemicals, oilfield services, merchant energy and utilities sectors. We bring to these clients:

- ▶ A deep bench strength of energy professionals serving a large body of clients globally
- ▶ An in-depth understanding of industry issues
- ▶ Experienced, client-focused and committed professionals who truly understand your operating environment and network with each other to share leading practices.

Ernst & Young's global oil and gas network

The professionals in our global Oil & Gas practice, are strategically located in areas that allow us to serve the needs of the oil and gas industry. In addition to our Houston center, we have centers in London and Bahrain and we have several satellite centers located around the globe, including Calgary, Rio de Janeiro, Aberdeen, Moscow, Stavanger, Beijing, Singapore and Perth.

Global energy reach



To learn more about how our Financial Accounting Advisory Services team can assist companies in the oil and gas industry, please contact:

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