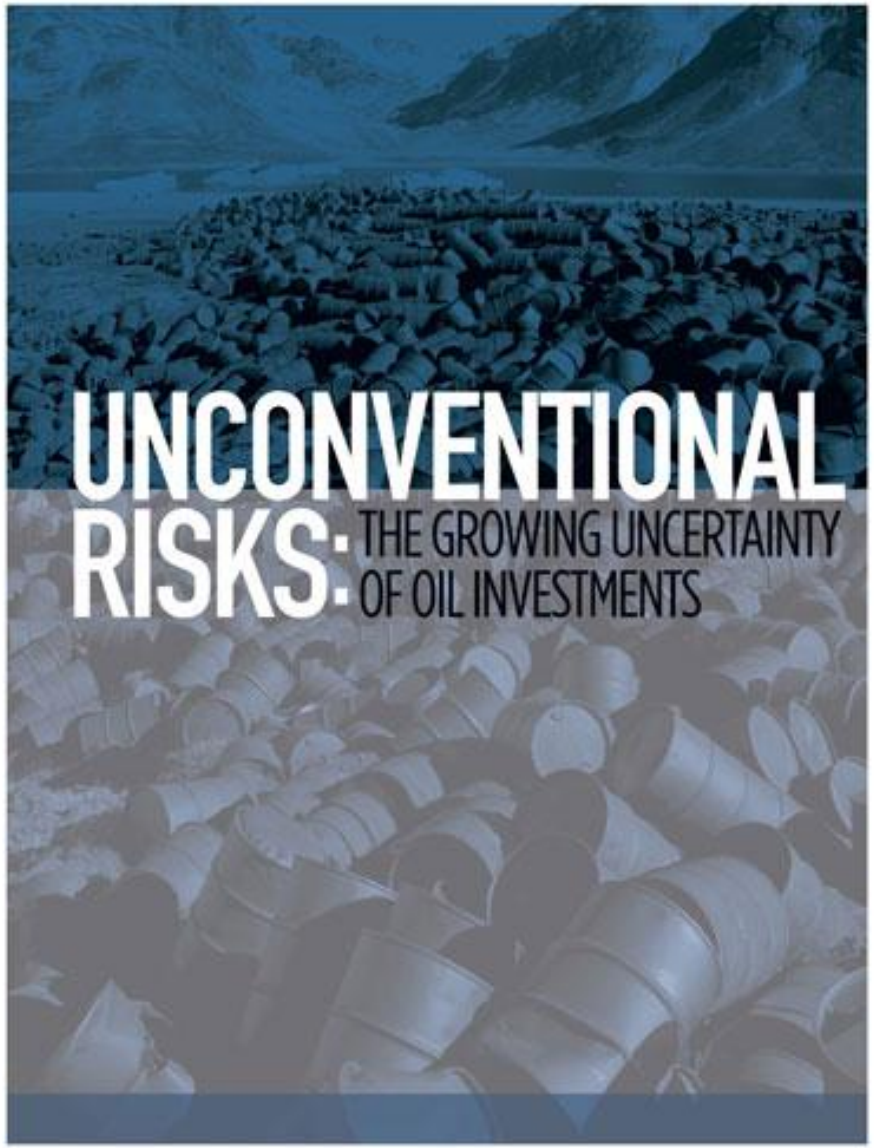

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Featured Panelists

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President and
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As You Sow

Lou Allstadt,
Former Executive
Vice President of
Mobil Oil

Amelia Timbers,
Energy Program
Manager of
As You Sow

Tom Sanzillo,
Director of Finance of
Institute for Energy
Economics and
Financial Analysis

General Information

- For technical support call (866) 229-3239
- Use the Q&A window to send us your questions
- You will receive an email with a link to the recording within 24 hours
- Report will be available for download after the webinar

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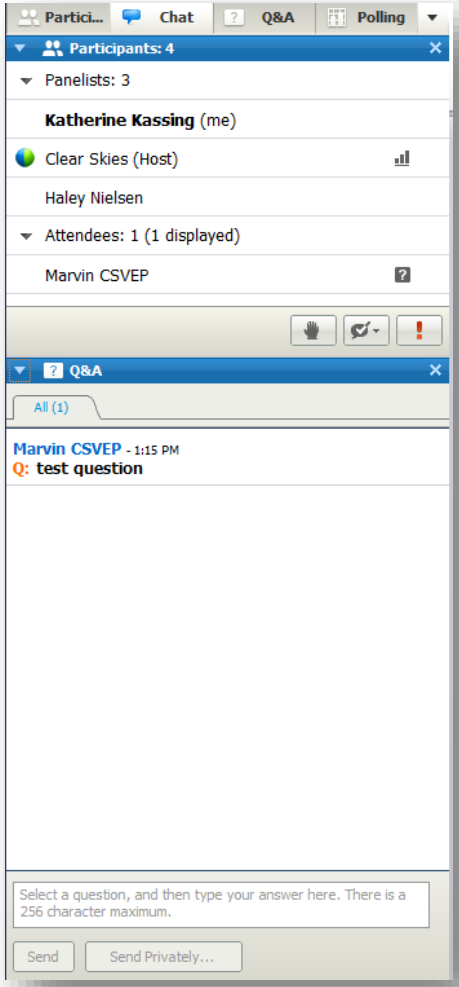
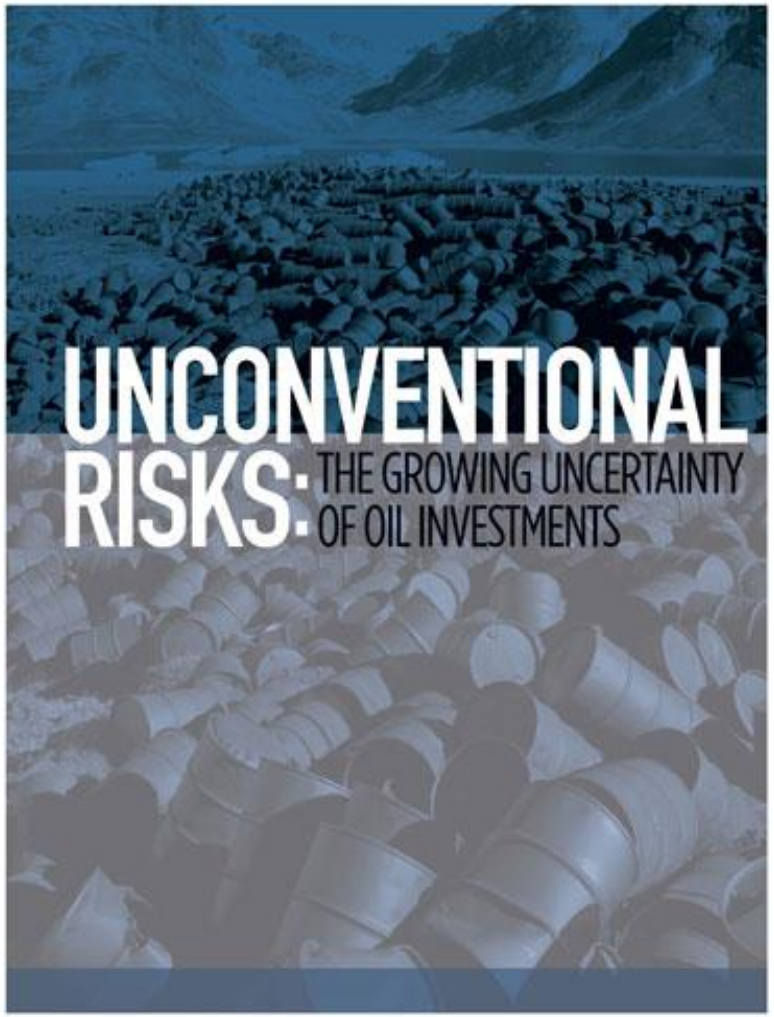
Q&A Window



Danielle Fugere



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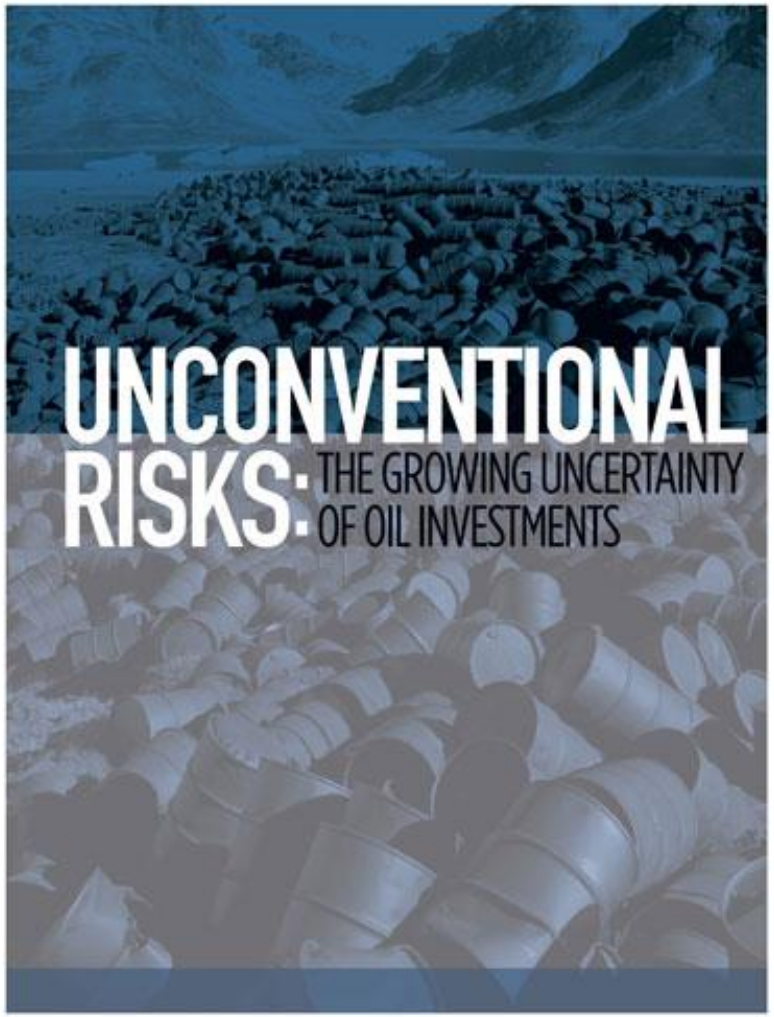
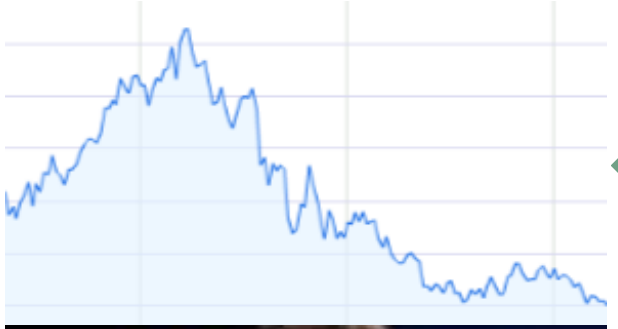


Amelia Timbers,
Energy Program
Manager of
As You Sow

Critical Risks Facing the Majors

Balance Sheet

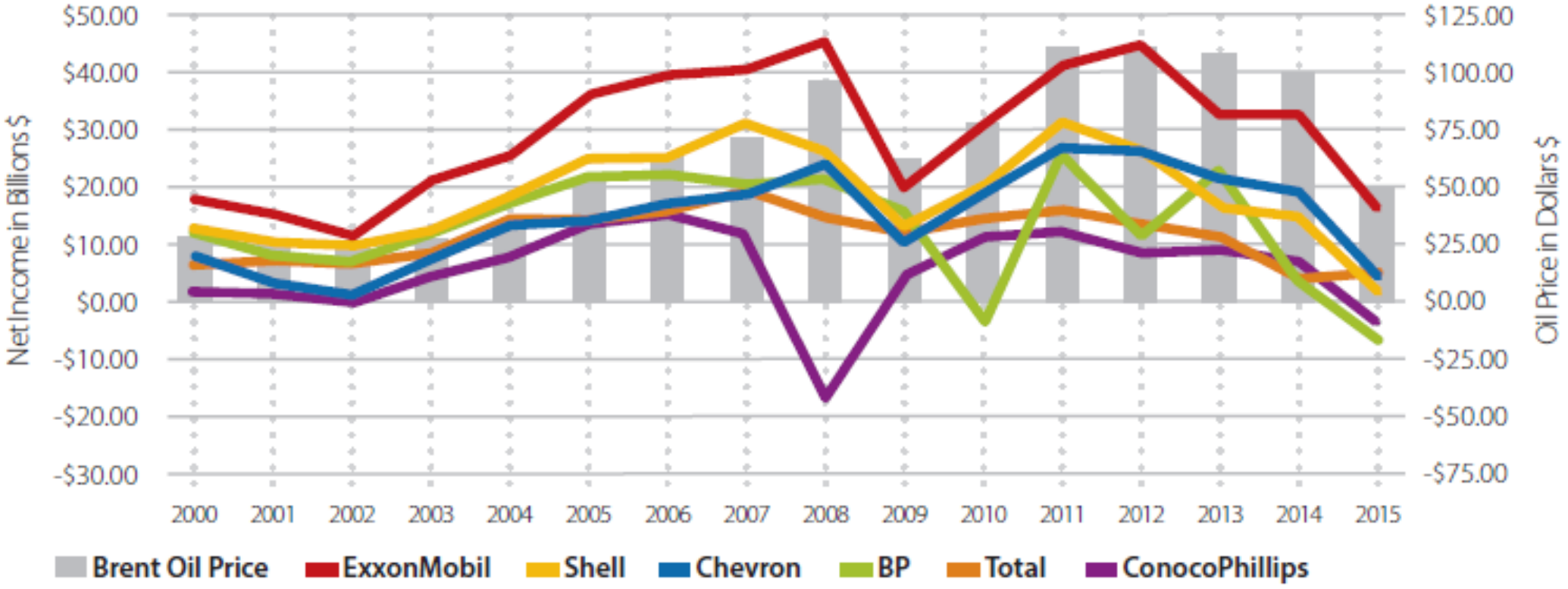


Demand Uncertainty

Competition

Financial Issues Predate 2014 Oil Price Decline

Figure 6: Net Income and Oil Price



Balance Sheet Issues

- Diminished cash
- Debt at highest levels in company histories
- Growth in total capital expenditures outpaced oil price growth
- Profit margins declining
- Return on equity 2005 peak

Figure 3: Avg. Capital Expenditure Growth vs. Oil Price Growth: April 2011 to April 2016

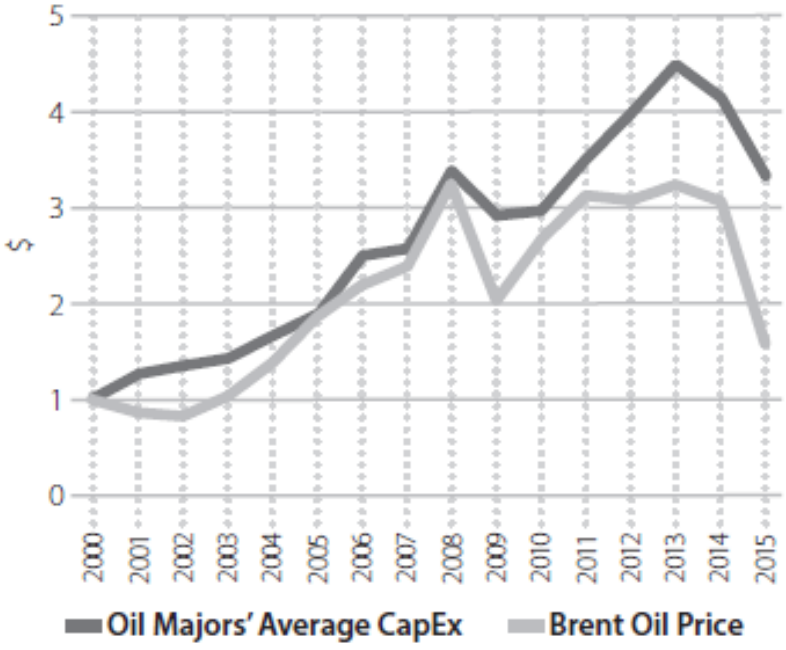
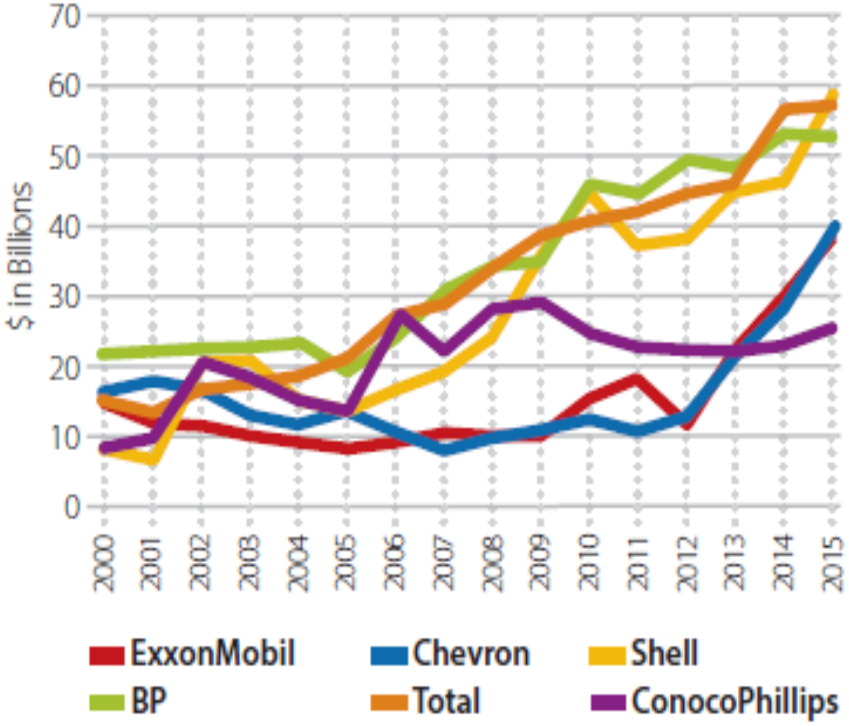
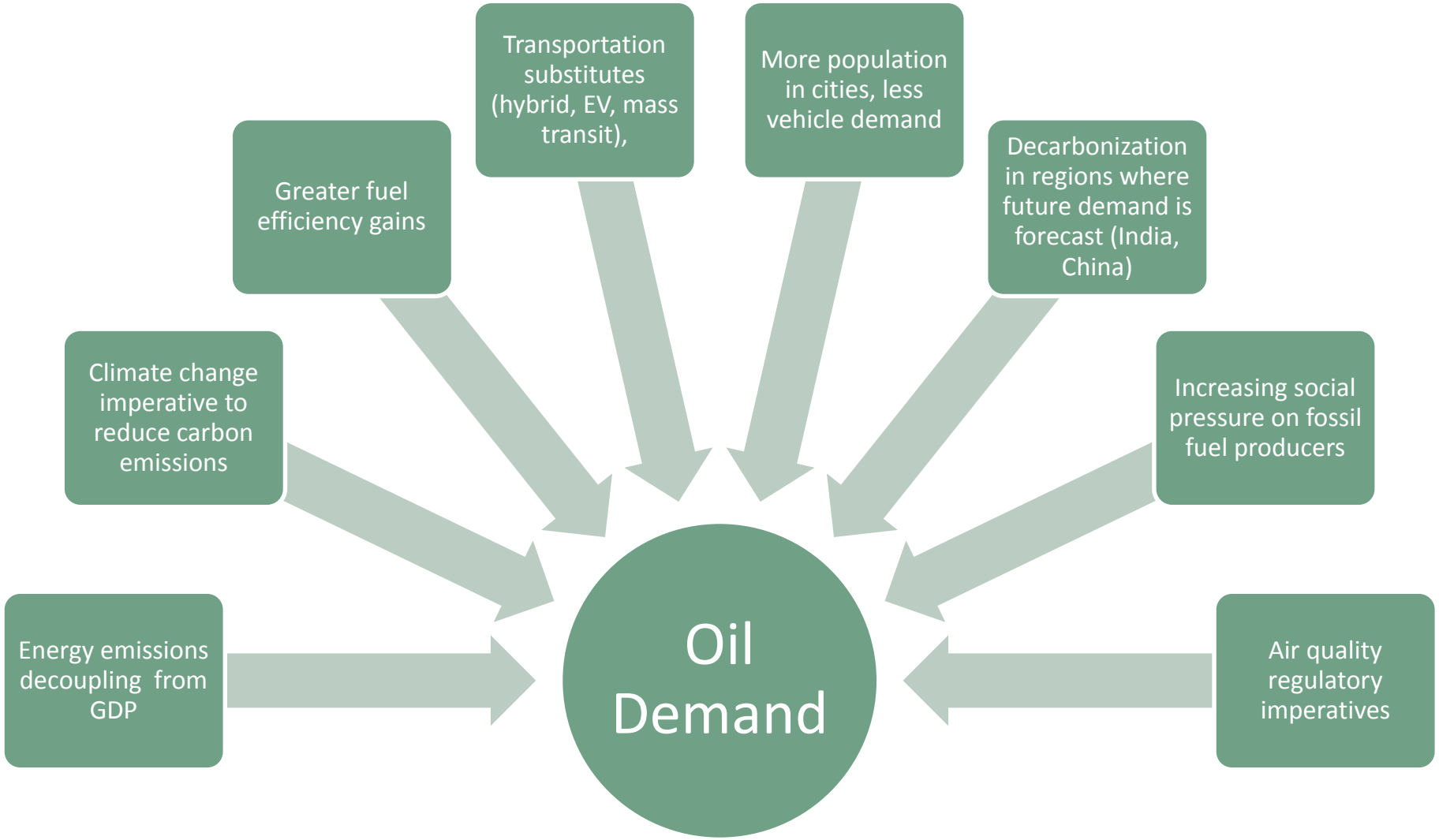


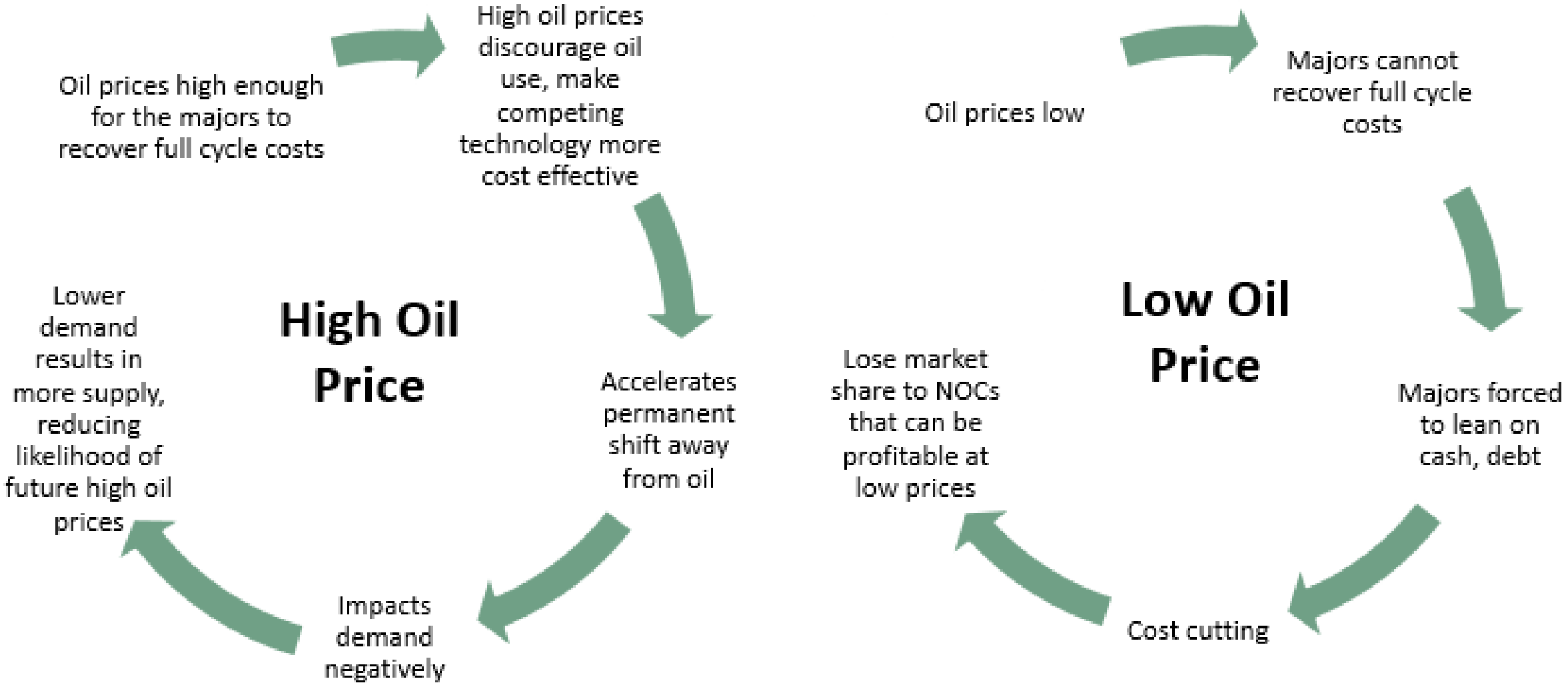
Figure 7: Total Debt



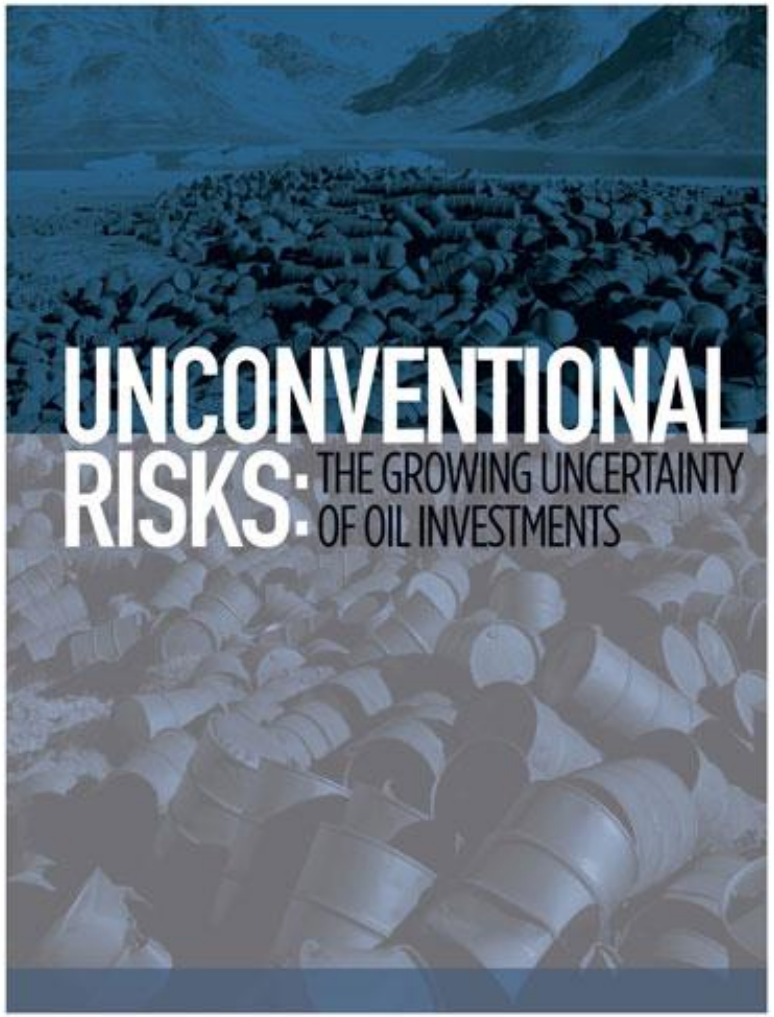
Multiple Pressures on Demand



Both Low & High Oil Price are Problematic



Lou Allstadt



Lou Allstadt,
Former Executive
Vice President of
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Issues for Investor-Owned Oil and Gas

- Limited Access to Reserves
  - US, Canada, Norway, Brazil
  - Rest of world reserves controlled by NOCs
- Few new conventional reserves are available have high costs and/or difficult operating conditions
  - Arctic, deep water, tight formations, tars sands
  - Few new unconventional reserves available
- Reduced financial capacity in recent years
  - Exacerbated by excessive borrowing and weak prices
- Increasing pressure to reduce greenhouse gasses
  - Regulations
  - Carbon pricing
- Increasing competition from renewables/ efficiency

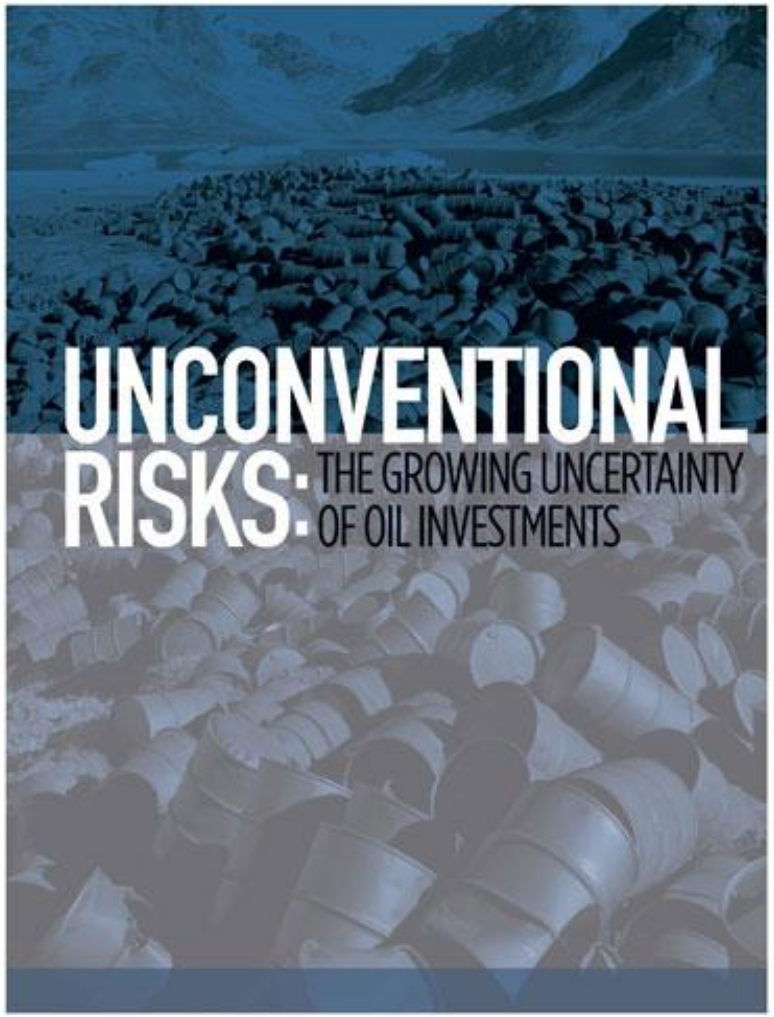
Issues for Investor-Owned Oil and Gas

- Industry has reduced drilling programs due to low prices and weak financial capacity
  - Currently drilling best locations in best plays
  - Many on existing pads and tied into existing infrastructure
  - Using best rigs and best crews at reduced rates from service companies
- Additional production will be at higher costs
  - In less productive areas with higher infrastructure costs
  - With less efficient rigs, less experienced crews, and higher costs from service companies
  - Higher prices create more competition from renewables/ efficiency
    - Destroys demand for fossil fuels

What is Different Now

- Examples of very high cost failures
  - Shell Arctic
  - BP Gulf of Mexico
- Recent reminder of OPEC (Saudi) influence
- Unprecedented governmental actions
  - China carbon pricing
  - India coal tax and solar projects
  - Increasing regulation
- Companies starting to use internal C02 prices
- Decreasing costs of alternative energy
- Increasing mainstream media coverage
- Increasing institutional shareholder concern

Tom Sanzillo



Tom Sanzillo,
Director of Finance of Institute for Energy Economics and Financial Analysis

The Oil and Gas Trajectory

- 1980's – seven of ten top companies in Standard and Poor's 500 were oil and gas.
- Today – only one – ExxonMobil
- Critical for institutional investors
  - O & G dominated markets for decades
  - 1990's to 2014 still lead market, but not dominant
  - Today, industry lags the market – Exxon last 8 qtrs.

Oil and Gas: Will it crash like coal?

- **Very Different**
  - Oil and Gas more broadly used in economy.
  - Oil and Gas more significant part of institutional investment portfolio.
    - Loss of 100% of coal easily shrugged off. Coal never in top ten
  - Oil and Gas replacement in transportation not so clear
    - Coal (electricity) is being replaced by natural gas/wind and solar energy.

Oil and Gas: Will it crash like coal?

- **Real Similarities**
  - Oversupply and Low Prices
  - Disorganized Market: No Discipline
  - Low Price environment leads to capex reductions
  - Bankruptcies are frequent
  - Innovation not working out financially
    - Oil Sands, Fracking
    - Exports, CCS
  - No plan to manage shrinking markets

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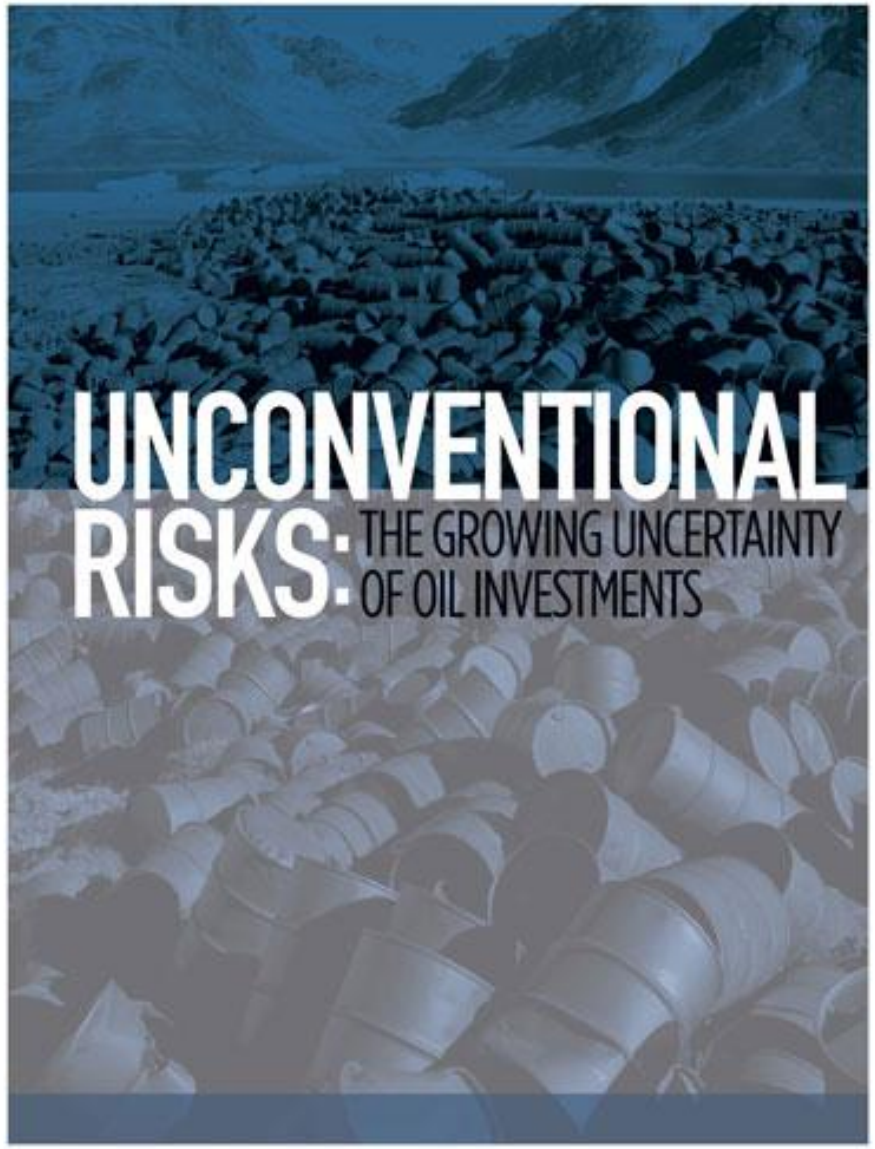

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