

Gaining ground
in volatile times
Oil and gas



Gaining ground in volatile times



Revenue

- Revenue assurance
- Pricing
- Fraud management/forensic review/litigation readiness
- Customer focused growth



Cost

- Cost Reduction
- Procurement/accounts payable
- Contract reviews
- Tax planning and optimization
- Supply chain
- Control rationalization
- Sustainability/waste management



Asset

- Operations Excellence
- Cash generation and conservation
- Fair value accounting/due diligence
- Treasury risk management
- Capital management
- Portfolio strategy and execution
- Asset Investment Planning (AIP)



Expectations

- Debt advisory and turnaround
- Supplier reviews
- Enterprise risk management
- Issue and crisis management
- Managing a profit downgrade
- Continuous disclosure in an uncertain economy



Foundations

- Scenario planning
- Cash flow business modelling
- Debt restructuring
- Board and executive reporting and board governance
- Workforce analytics, planning and optimization
- M&A strategy and execution
- Post transaction integration/separation
- Organizational restructuring
- Maximizing passion and productivity during organization uncertainty
- Analytics
- Information management

Revenue

<p>Revenue assurance</p>	<p>Ensure that all revenue & monies owed to the organization are identified, quantified, and collected</p>	<ul style="list-style-type: none"> • Anomalies arise when there are complex or changing pricing or royalty arrangements with customers • Organizations with data issues, non-integrated systems or outsourced collection of revenue are at more risk • Risk increases with the number of transactions, adjustments, and refunds
<p>Pricing</p>	<p>Profitability issues are rooted in a misalignment between strategy and operations.</p> <p>Lack of discipline in managing pricing and revenue generation has a deep impact on the end results</p>	<p>There are five profit levers:</p> <ul style="list-style-type: none"> • Cost-to-sell (sales effectiveness) • Cost-to-serve (offer, delivery) • Customer Mix (customer prioritization) • Pricing (pricing strategy, pricing discipline) • Product Mix (portfolio rationalization)
<p>Fraud management/ forensic review/ litigation readiness</p>	<p>Identify and respond to fraud, conflicts of interest, corporate code-of-conduct violations, regulatory non-compliance, business interruption, breach of contract, negligence, breach of duty, infringement of intellectual property, and other issues that can negatively affect earnings and drain productivity and company morale</p>	<ul style="list-style-type: none"> • Fraudulent behavior typically becomes apparent, and may increase, during challenging economic times • Quantitative and qualitative assessment isolates and analyzes alleged damages to provide clear understanding of impact on the organization • Review quantify real or potential losses, minimize risk of fraud and locate the resolution of commercial disputes and financial litigation



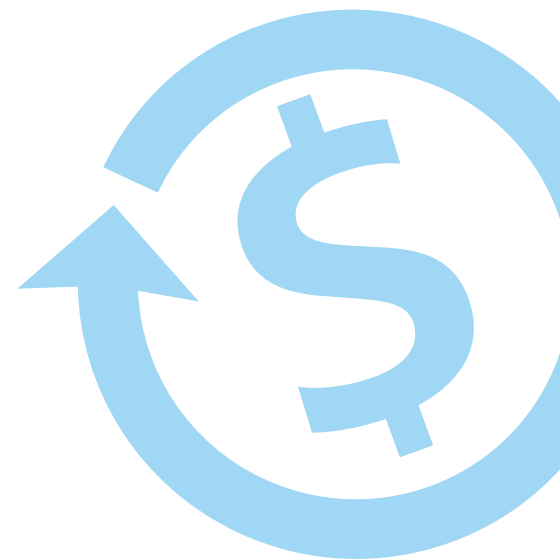
Customer focused growth

Customer-focused growth is built on four core capabilities:

- Customer strategy
- Customer-aligned operations
- Enabling technology
- Human capital alignment

These capabilities must work together to deliver customer - centric benefits

- Align your organizational governance, culture, and enterprise-wide customer processes to execute the value proposition in a coordinated manner
- Articulate your customer value proposition and use it to drive the design of the customer experience.
- Manage the customer experience across touch points, including multiple channels and functions.
- Understand customer needs and define customer segments based on multiple dimensions
- Use customer analytics and intelligence to refine the necessary customer capabilities in marketing and sales



Cost

<h2>Cost reduction</h2>	<p>Cost cutting initiatives often fail to deliver lasting results. Companies need to re-examine how they reduce and manage costs</p>	<p>Costs should be managed as a diverse portfolio of assets that support strategy, mitigate risks, enhance enterprise efficiency and run basic business services:</p> <ul style="list-style-type: none">• The activity would contribute to giving us a distinct advantage over competitors• The activity would help to identify, prevent or minimize risks• The activity would deliver lower costs or increase speed (of processes, of decision making, of transactions)• The activity would negatively impact the company if standardized
<h2>Procurement/ accounts payable</h2>	<p>Interrogate purchasing and accounts payable data to identify financial recoveries and opportunities to optimize spend</p>	<ul style="list-style-type: none">• Significant opportunities exist for organizations with high volumes of vendors, arrangements and transactions• Financial recoveries of 5-10 times fees and identification of procurement opportunities of 10-15 times fees are not unusual• Opportunity increases with the number of divisions, systems, internal teams and locations involved in procurement
<h2>Contract reviews</h2>	<p>Manage the risks of the extended enterprise to ensure you're only paying your business partners and suppliers what you have to</p>	<ul style="list-style-type: none">• Ensure distributors actually meet the criteria to earn the rebates they are claiming• Increase rigour in cost control• Systems and data management processes manage the complexity so you don't overpay suppliers
<h2>Tax planning and optimization</h2>	<p>Take advantage of a number of tax planning opportunities to effectively manage risk and to maximize shareholder value</p>	<ul style="list-style-type: none">• Adapt your tax strategies to the current business climate. Plan around internal debt restructuring, cross border planning and financing, interest rate determination, and claim all available research incentives• Organizations typically process a significant proportion of GST input tax credits later than necessary. Perpetual processing delays result in a permanent amount of GST 'on loan' to the tax authorities• Recover last year's payments by planning strategically around losses• Tax process efficiencies and automation



Supply chain

Improved supply chain strategy and execution across procurement, manufacturing and construction will cut costs, increase service levels and increase cash flow

- Complement the supply chain transformation by aligning and optimizing tax
- Improving the physical flow of goods reduces distribution and transportation costs
- Improved quality in orders and physical flows will improve cash flows by reducing mistakes and improving stock availability and service levels
- Order flow improvements remove bottle necks and minimize backorders, missed and delayed orders

Control rationalization

Focus the control program on “high risk” areas and reduce or eliminate controls over “low risk” areas

- Companies have an obligation to measure and manage risk
- Many companies have implemented controls in low risk areas which creates inefficiencies and adds to the cost of operating
- Reducing or eliminating these controls is a good way to reduce cost and increase efficiency
- Risks management is intended to reduce the probability of loss to a reasonable level

Sustainability/waste management

Sustainable business improvement, effective resourcing and waste management represents a significant operating cost for all organizations. Effective controls and processes can not only minimize risk, but also provide significant savings opportunities

- Business process information and data points for purchased/input materials and resulting waste volumes are essential components to an effective waste management strategy
- Companies can improve cost management through identification of strategic solutions to lower costs and improve environmental and social impacts



Asset

Operations Excellence

As markets shift, budgets shrink and expectations rise, organizations in all sectors are struggling to improve product and service delivery while reining in costs. Service and operational improvements can help address these challenges. In addition to delivering a competitive advantage, operational excellence can help organizations enhance process efficiency, reduce costs, improve customer service, accelerate response times and improve asset performance

- Asset management is a series of data driven activities that enable coordinating organizational activity in such a way, as to realize value from the organization's assets across their lifecycle and optimize the asset's entire life cycle, while taking into account: risk, financial performance and operational performance of the asset
- Field productivity is the pursuit of end-to-end process improvement efforts focused on increasing the effectiveness and efficiency of value-added activities as defined by the customers within any process, system, or value stream
- Operational Readiness is a series of activities that enable the successful delivery of an asset to achieve nameplate production as quickly and efficiently as possible, the reduction of construction errors, early establishment and understanding of operational requirements, with an integrated end-to-end perspective on inter-dependencies and responsibilities
- Operational Risk Management is a series of activities that enable managing risk to optimize operational performance
- Operations Technology encompasses the intersection of enterprise technology, field operations and big data, with the intent to improve performance by leveraging large data sources, and improve workforce productivity by giving workers access to the right information anywhere
- Operations Management Systems provide a systematic, structured approach to operations - to achieve operating strategies, optimize assets, and manage risks, people and stakeholders expectations
- Regulatory, Safety and Environment services help clients effectively manage and meet compliance expectations, in operational regulatory compliance, safety and environment
- Sustainability helps clients to manage external expectations by addressing environmental and social issues, disclosure and reporting, assurance, and external eholder engagement



Cash generation and conservation

Permanent improvement to cash flow through freeing up working capital and improving disciplines around cash management

- A disconnect between sales and marketing, and demand planning and procurement can drive working capital blowouts
- Cash-efficient organizations have a heavy weighting on cash management in management KPIs
- Tax analysis can also identify customs, provincial sales tax opportunities, recoveries, and duplicate payments to suppliers, which happen far more often than most expect
- A formal restructuring can enhance cash flow and compromise debt

Fair value accounting/due diligence

Determine fair value as it relates to goodwill impairment testing, financial instruments (interest rate swaps, derivative free debt instruments, embedded derivatives, employee stock options) and investments. Establish risk management policies around valuations and review the impact of changes to accounting standards

- Dynamic corporate operating model that shows overall cash flows for the business across pricing and development plan scenarios for strategic planning purposes
- Fair value policies in financial reporting process should give consideration to changes in accounting standards
- Process of determining fair value should be defensible and include corroborative valuation approaches, analysis of inputs, burden of proof to forego fundamental analysis, stress and sensitivity analysis and model testing
- Fair market value analysis helps understand the economic viability and market value of upstream properties in current and projected pricing environments. Sensitivity testing within the analysis helps react to potential changes in the pricing environment
- Relative market value of a company's portfolio of assets and the potential marketability of assets
- Valuations should be revisited due to current volatility in the capital markets

Asset

Treasury risk management

Review of risk management policy, financial instruments pricing and valuation, and treasury board reporting

- Boards want an understanding of how earnings may be impacted by market volatility and the impact of fair value accounting on the balance sheet
- Inadequate pricing models may result in companies being exposed to unintended risk
- Risk management policies should be retested in view of current financial market volatilities

Capital management

Develop approach to capital management which incorporates key risk areas including capital calculations, capital enhancements and enterprise risk management

- Increasing economic uncertainty and the complexity of financial instruments has increased the importance of capital management and heightened the need to gain a greater understanding of risk
- Risk management and associated regulatory requirements has created a need to quantify the elements of risk
- The amount of capital held and how these assets are structured and valued, is vital in preventing severe financial distress and failure

Portfolio strategy and execution

A portfolio should be designed to maximize synergies between assets and businesses to ensure that the aggregate value is greater than the sum of its individual parts

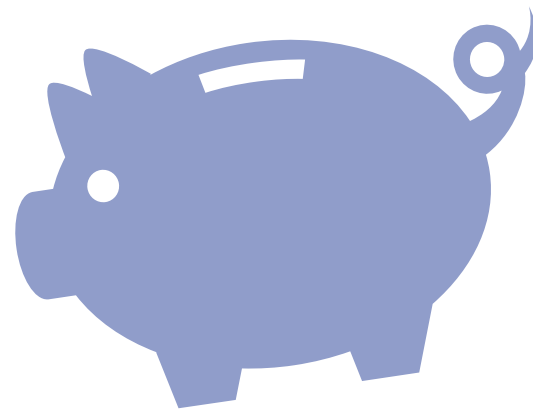
- A portfolio should make trade-offs across criteria to find the most compelling balance that is tailored to the specific goals and aspirations of the firm
- A portfolio should only contain businesses for which the company is the "natural owner", i.e. from which the company can extract more value than any other owner
- A portfolio will have an appropriate mix of businesses and investments, and therefore across time horizons
- A winning portfolio requires a strong weighting of competitive businesses in attractive markets
- To maximize sustainable risk-adjusted value, a portfolio needs to be strategically sound, value-creating and resilient



Asset Investment Planning (AIP)

With reductions to capital and operating budgets, AIP helps identify expenditures that can be reduced or eliminated without impacting operations

- AIP provide a rigorous process for quantifying the risk and value impact of capital and operating expenditures in order to help management optimize its spend
- Identifying these items is difficult as the budget process is very detailed and is often inconsistent and lacks fact-based information
- For many companies, AIP can unlock millions of dollars for higher value investments. Most companies have capital and operating budgets that contain items with high cost and low value



Expectations

Debt advisory and turnaround

Credible operational and financial restructuring plans can gain support of existing or new financiers. Presenting a restructuring plan to financiers before a covenant is breached is critical to maintain credibility

- The impact of market challenges on financial structures, including leverage levels, maturity schedules, fixed vs. floating rates, covenant compliance, etc.
- Being proactive and providing credible propositions allows the borrower to maintain control
- Deloitte can leverage relationships with special loan groups at the banks and investors to restructure failing financial relationships
- Formal versus informal balance sheet restructuring

Supplier reviews

Understand and mitigate against financial stress in your key suppliers to protect certainty of supply

- Financial failure of a key supplier can halt your supply chain – causing lost sales and tarnishing your reputation
- It's critical that key suppliers have capacity to grow with you through variations in your demand
- While many organizations do credit checks on customers, few understand the true financial health of key suppliers

Enterprise risk management

Enhance risk intelligence to efficiently and effectively manage risk, reduce the cost of risk management and improve strategic flexibility. Key risk areas include capital calculations, capital enhancements, and enterprise risk management

- How will your business manage the risks associated with increased market volatility to ensure maximum reward?
- Is your organization agile? Risk intelligence considers the ability to anticipate and react to a market opportunity at short notice
- Organizations who understand their "Risk IQ" are better placed to harness risk management to meet long and short terms goals



Issue and crisis management

Identify, understand, escalate and manage issues that arise within your organization

- Forensic computing assists in understanding how an issue is managed
- Investigations and dispute services ensure a healthy and safe work environment
- Legal discovery or readiness services, identify and understand the information available

Managing a profit downgrade

A profit downgrade has the potential to erode investor confidence. Corporate executives and the Board need to assess the potential downgrade and manage stakeholders

- Do you have a process that would quickly identify the need for a downgrade?
- An independent perspective will enhance the decision process for the Board
- Management of timely, credible and consistent communications to all stakeholders is critical

Continuous disclosure in an uncertain economy

Be prepared to respond to continuous disclosure triggers that are accentuated by the current environment

- Board and audit committees should understand parameters for continuous disclosure, trigger events, and associated timetables for going to market with a disclosure
- The credit crisis will impact some organizations ability to meet covenants or refinance debt – potentially triggering a disclosure event
- The current environment is impacting the market for certain assets and securities, potentially triggering disclosure events associated with asset carrying values



Foundations

Scenario planning

Most strategic decisions are made based on the conditions that an organization sees directly in front of it. However, the impact of many of these decisions may not be fully realized until a much longer time horizon has elapsed and conditions have changed — sometimes dramatically. Many decisions quickly become “legacy” choices. Scenario planning, in taking into account a longer term view, produces more sustainable decisions

- Scenario planning provides a means for ordering perceptions about how the future may play out and determining what strategic decisions today offer the best chance of success tomorrow
- Scenario planning challenges management to revisit its assumptions about its industry and consider a wider range of possibilities about where its industry may head in the future. This exploration results in a broader, more innovative view about future growth opportunities and risks.
- Scenarios form a framework that can be used to make sense of conflicting or ambiguous market signals more holistically, both today and as they appear over time

Cash flow business modelling

Model key business drivers and decisions to forecast cash flows and earnings and measure financial outcomes against accepted risk tolerance

- Monitoring of current and forecast cash positions within the business
- Quantifying the forecast range of cash earnings
- Scenario analysis assesses the impact of changing business drivers

Debt Restructuring

For those companies facing a financial crisis, engaging in a formal or informal process debt restructuring process may be required

- A formal restructuring can be done through a Division I proposal process pursuant to the Bankruptcy and Insolvency Act, or through the use of the Companies Creditors Arrangement Act, both of which provide a formal stay of proceedings to allow an entity the opportunity to complete a restructuring
- An informal restructuring process can be done through a variety of methods including a refinancing of existing debt or debt pay-downs pursuant to the sale of assets or factoring of receivables



Board and executive reporting and board governance

Assess the information the Board and senior management receive to ensure it is accurate, reliable, timely and actionable

- Are you comfortable with the information you are receiving in terms of timeliness, looking forward and quality?
- Ensure core KPI's change to meet market conditions and are aligned with incentives
- Ensure a good "line of sight" between board level reporting and the underlying systems
- Board governance structure can improve the effectiveness of anticipating and responding to market turbulence

Workforce analytics, planning and optimization

A low commodity price environment presents organizations with an opportunity to review their short term and long term workforce plans and achieve a better optimization of resources across different projects, business units and functions. This includes the development, revision and implementation of a comprehensive contingent workforce strategy

- Workforce analytics becomes increasingly more important when commodity prices are low, as a deeper analysis of corporate and HR data can help identify cost savings and efficiencies, especially in the areas of overtime pay, productivity and employee performance



Foundations

<h2>M&A strategy and execution</h2>	<p>Develop an M&A strategy to take advantage of market opportunities and build internal capability to execute on it</p>	<ul style="list-style-type: none">• Develop clear M&A objectives to enable strategic alignment and protect against poor decision making in volatile times• Link M&A strategy to corporate strategy and appropriately staff in house capability• Pursue an ongoing stream of M&A activity to create competitive advantage and exploit opportunistic transactions• Ensure tax efficiency in M&A activities
<h2>Post transaction integration/separation</h2>	<p>Whether integrating after a merger and acquisition or separation activities, use focused project management assesses, executes and monitors activities related to customers, operating costs, systems, asset efficiencies and align/redefine strategies</p>	<ul style="list-style-type: none">• A clear strategy and plan to accelerate value creation for shareholders is especially critical in this market• Aligning and optimizing tax function, structure and processes capitalizes on efficiencies and value• Mobilizing a well-structured and experienced team to drive integration in an efficient and effective manner achieves target state quickly• A clear communication and change management plan manages and ensures key talent retention
<h2>Organizational restructuring</h2>	<p>Making the right organization design decisions in support of restructuring due to downsizing, mergers or divestitures will help organizations be ready to bounce back when commodity prices rise again</p>	<ul style="list-style-type: none">• Change management, communication and HR support is crucial during these times to help organizations and people deal with possible job losses, changes in their roles as well as budgetary and project cuts
<h2>Maximizing passion and productivity during organization uncertainty</h2>	<p>Morale during a low commodity price environment can be significantly adversely affected</p>	<ul style="list-style-type: none">• Innovative engagement programs, revitalized internal communications, review and improvement of performance management systems are a few examples of areas that organizations can prioritize during such a period of uncertainty in order to maximize the passion and productivity of their employees



Analytics

You've got the big picture, but how can you derive key business insights from data to answer your critical questions?

- Finance analytics can be used to grow revenue and improve margins. In addition to core analytics activities like revenue management, tax analysis and investor relations, finance can bring cross functional information together to drive value for other business functions such as procurement, and IT. Moreover, finance can bring previously unrealized value and growth potential to the organization through "finance-owned" analytics activities such as model based forecasting, advanced fraud detection, and capital portfolio optimization
- New tools and disciplines now make it possible to drill deeper into supply chain data in search of savings. Our experience shows that companies can realize a margin improvement of 2% to 4% by applying more analysis to the data they already have
- Predictive project analytics (PPA) helps you avert challenges by leveraging algorithms to determine the likelihood of project success. No matter where you are in the project lifecycle, predictive analytics can improve capital efficiency, contain project costs and provide insights into your organization's level of manageable project complexity and risk given your current capabilities
- Risk Analytics is an effective tool for organizations looking to more clearly define, understand and manage their risk profile – to increase what we call their "Risk Intelligence." Risk analytics can give organizations visibility into many kinds of systemic risks, from credit risk and market risk to operational, reputational and cyber risk. It can help leaders deploy capital and manage their supply chain at a level that matches their risk tolerance. For organizations exposed to significant regulatory risk, it can be an important tool for helping to achieve compliance

Information management

Data is one of the most valuable assets of any organization. Understandably, organizations are keen to unlock big data's potential for its business value. Data analytics enables organizations to make connections, identify patterns, predict behavior and personalize interactions in ways never envisioned until now

- Many companies invest millions to set up an information management (IM) solution, but inadvertently leave its true value untapped. In some cases, they go live with an initial set of metrics, reports and dashboards, but fail to sustain the solution with technical, functional and industry-specific capabilities. In other cases, they fail to adopt an enterprise-wide information management program, resulting in standalone projects, rising maintenance workloads and an inability to keep pace with system evolution and enhancement
- The use of data analytics can help an organization to view data it currently collects in a more strategic manner
- To avoid these pitfalls, you need a robust business intelligence solution designed to turn your data into a strategic corporate asset

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