

Enhancing the CFO:
The new imperative
for oil and gas producers

Deloitte.

Gaining ground
in
volatile
times



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prices to recover
from the 1985-86
downturn...





CALL IT THE MOMENT OF TRUTH.

Though hardly out, oil is still down — and the same goes for Canada's high-cost producers. And though this particular bust is not altogether like the last one, a comparison to the 1980s can be helpful. The early part of that decade saw rising U.S. domestic production and, like today, Saudi Arabia's reaction was to flood the market in an attempt to price out marginal players relying on less cost-efficient sources. It took 19 years for prices to recover from the 1985-86 downturn, and producers are looking at today's conditions concerned volatility will continue well beyond a 12-month window.

If it does, what's their best chance to get through it? We think the core of the solution is a more strategic CFO and Finance function.

THE COMPLEX TASK OF FINANCE

Alright, easier said than done.



CFOs and their teams already have difficult jobs. They must balance four complementary roles, or “faces,” all of which rightly belong to every CFO — just in different proportions, depending on the organization:



As **CATALYSTS**, they drive behaviours across Finance and, more importantly, across the entire organization, to execute strategic and financial objectives while also creating a risk-intelligent culture.



As **STRATEGISTS**, CFOs act as financial leaders helping to shape and define the organization’s strategic direction and aligning the organization’s financial people, processes and systems accordingly.



As **STEWARDS**, CFOs concentrate on protecting and preserving the organization’s critical assets and accurately reporting its financial position and operations to stakeholders.



As **OPERATORS**, they concentrate on the efficiency and effectiveness of the core transaction processing processes and systems to ensure a ‘rock solid’ quality-based foundation.

While the Steward and Operator roles are foundational, focused primarily on activities within the Finance function itself, the roles that play “above the line” — Catalyst and Strategist — focus on partnering with and enabling the business.

Of course, leveraging financial perspective and insight that will ultimately create new value is easier said than done.

The world is always reinventing itself, and for that growing number of organizations and their CFOs who desire or expect Finance to play more of a catalytic and strategic role, the key challenge is likely not in seeing the need but in overcoming a number of systemic barriers in their way, in particular:

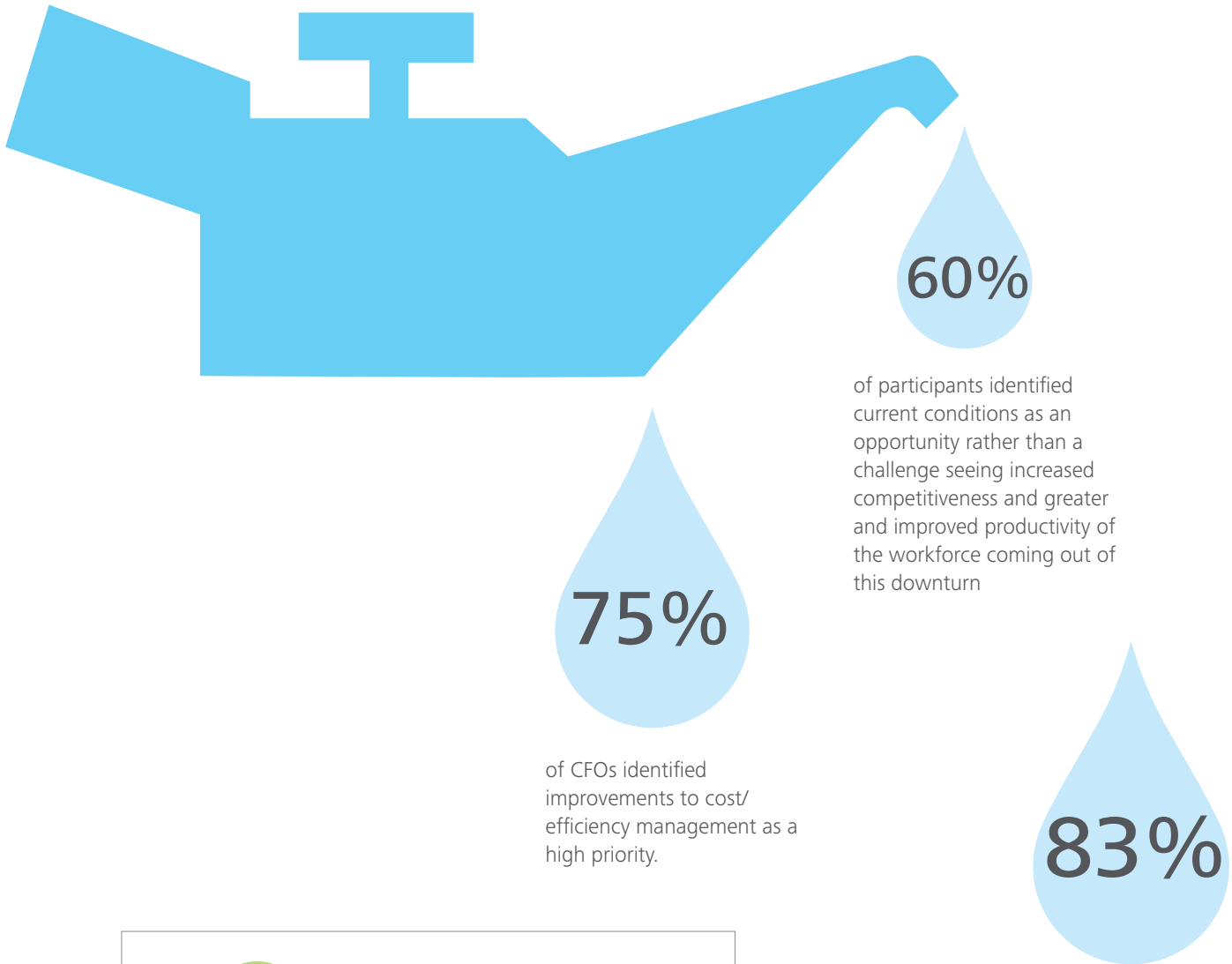
- Inability to produce timely and relevant forecasts
- A fragmented systems environment
- Ineffective financial close processes.

GATHERING AND APPLYING INTELLIGENCE

We surveyed CFOs from many larger Canadian upstream oil and gas companies.



Here are some highlights of what we learned:



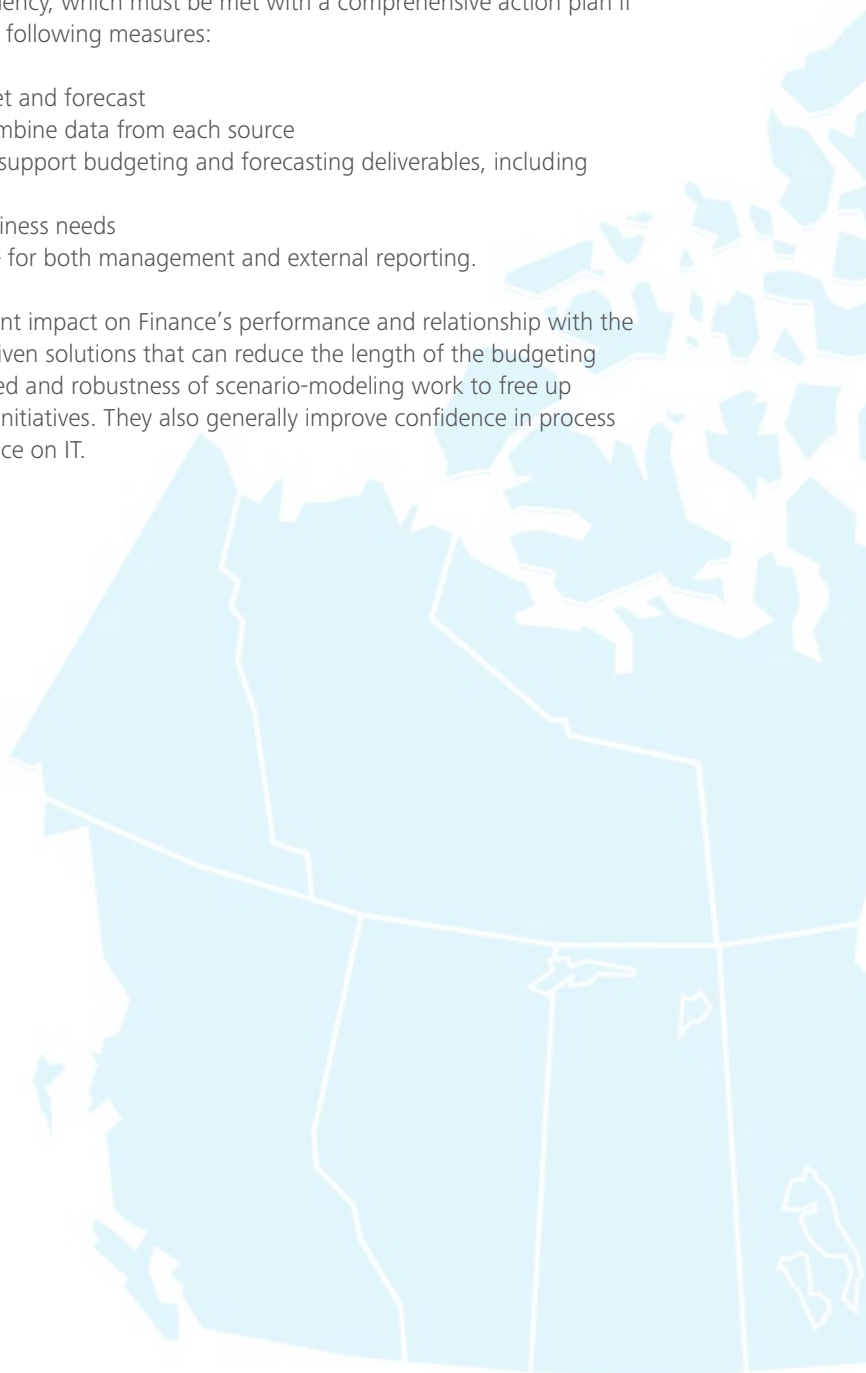
-  Debt reduction and managing lenders' expectations were consistent themes.
-  Growth capital has largely been deferred, in addition to reduced sustaining capital in some cases.
-  CFOs were generally split on assigning a high or medium priority to hedging strategy.

As it happens, 61% of CFOs already see the need for Finance to become more strategic, with improvements to their business partnering and analytical thinking being key manifestations of the goal. We see enhancement of their typical approach in three crucial areas — capital planning, budgeting and forecasting — as part of the critical path forward.

The way the industry thinks about these areas has to change, as priorities shift from identifying and finding opportunities to getting the most out of a portfolio of assets that often far exceed the available capital. In other words, there is a renewed imperative toward efficiency, which must be met with a comprehensive action plan if it is to be satisfied. Such a plan should include the following measures:

- A single version of the truth for actual, budget and forecast
- Codified and automated business logic to combine data from each source
- Analytics modules and business processes to support budgeting and forecasting deliverables, including scenario modeling and reporting
- A Finance Analytics roadmap to prioritize business needs
- An automated financial reporting package — for both management and external reporting.

Implementing these measures can have a significant impact on Finance's performance and relationship with the rest of the organization. Integrated technology-driven solutions that can reduce the length of the budgeting and re-forecasting cycles while increasing the speed and robustness of scenario-modeling work to free up more resources to work on finance improvement initiatives. They also generally improve confidence in process controls and automation while reducing the reliance on IT.



INTERESTING FACTS

60%

Identified current conditions as an **OPPORTUNITY** rather than a challenge



72%

BELIEVE it will take more than 12 months for WTI prices to return to US \$70–80/bbl



56%

are positioning for **STRATEGIC** acquisitions



56%

IDENTIFY budgeting / forecasting as a high priority



44%

are forced to consider monetizing **ASSETS**



61%

say improving Finance's capability as a strategic advisor is a **PRIORITY**



...this moment for oil
producers is a pivotal one.

MOVING FINANCE FORWARD

There's broad agreement that times like these highlight the importance of Finance being a strategic advisor to the business, demonstrating the need to develop analytical thinking and business partnering skillsets as high priorities.

In order to deliver on rising expectations and aspirations, CFOs and their teams will need to rethink and retool their Finance organizations to think differently about the people, process, data, and technology capabilities they have in place — not only to deliver on the foundation but also to position the company for future success.

This moment for oil producers is a pivotal one, and taking advantage of Finance's expertise will go a long way in deciding its outcome.



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