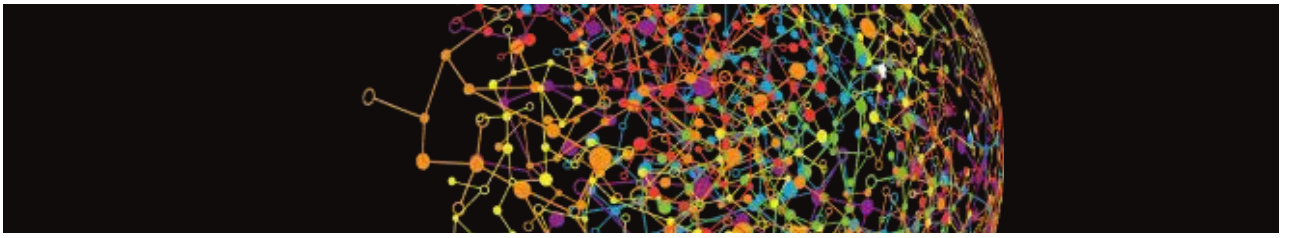

Earnings, Cash & Working Capital impact

Oil and Gas sector taking proactive steps to mitigate

The current situation…

Equity markets sharply down; Governments and Central Banks taking emergency action
Significant number of Oil and Gas profit downgrades

The recent announcement by Saudi Arabia to raise production and offer its crude at deep discounts comes on top of the global impact from the Coronavirus. The combination has seen oil prices fall 50% since the beginning of the year with great uncertainty for future price movements.

A number of our Oil and Gas clients are moving quickly to understand and quantify the operational and financial impact on their organisation, in particular how this impacts their asset portfolio. With the impact on price, demand, supply chains and the economics of critical projects, companies are trying to mitigate the impact on underlying profitability as well as the immediate cash and working capital issues they face. Our conversations with clients to date have highlighted that even if the spread of the virus is contained in the short term, the impact of this and the move by Saudi Arabia will be felt for months if not years to come.

In a sector that is already strained, clients need to be on the front foot to proactively mitigate the impacts on their business.

Key actions Oil and Gas companies should be taking…

1. **Understand the impact on Cash, Working Capital and Profitability**
   - Have an extended trading and cash flow forecast for the next six months. Be realistic and develop Base and Downside scenarios to understand critical points for earnings and cash
   - Where applicable, assess the mitigating effect of any hedging strategy and the run off of this
   - Manage your inventory and payments to suppliers
   - Minimise all discretionary expenditure. Stop or postpone expenditure where possible to conserve cash
2. **Assess the impact on your revenue & supply chain and create a mitigation plan**
   - Understand if loss of revenue will be permanent or just delayed
   - Assess the impact on your key customers in terms of both demand and ability to pay
   - Know how your suppliers are affected and if key suppliers are on hold, know when supplies will re-start. Source alternative suppliers where realistic in the timeframe
3. **Assess the impact to critical project economics and overall asset portfolio**
   - Evaluate the profitability and returns for active projects in a scenario of 'lower for longer'
   - Assess your portfolio of active projects and evaluate if any require adjustment to ensure profitability
   - Understand the latest performance of operated and non-operated ventures
   - Know your options to delay or halt projects and take portfolio measures to optimise your position
4. **Seek additional funding early if required**
   - If your forecasts highlight a funding requirement, assess the equity or debt funding sources available
   - Be aware that existing lenders may find it difficult to quickly provide additional facilities
   - There may be alternative lenders that can move quickly to provide short-term funding. However, these may have a higher interest charge and fee structure
5. **Proactively manage your key stakeholders**
   - Talk to your key customers, suppliers and funders to manage expectations and maintain confidence
   - If you are going to breach covenants, speak to your lender to seek a waiver where this is clearly a short-term issue that will not impact viability
   - Ensure your internal communications provide clarity for your people
6. **Keep plans under active review**
   - This is a dynamic and fast moving environment. Ensure that you keep abreast of changes to the situation and impacts these may have
   - Be prepared to react quickly to these changes. New cross-functional governance structures may be required to allow decisions to be swiftly made, communicated and implemented

What are our clients and market participants saying…

"Oil Demand To Drop For First Time Since 2009" - International Energy Agency

"Sales are down overseas and in our local markets"

"The key to size the impact is how low will the price go and how long will it stay there"

"We haven't yet fully quantified the impact but it will be material, we have spoken with our major Shareholders to advise new capital may be required"

"If current prices persist, activity will collapse by the end of this year as producer companies cancel contracts with oilfield services companies"

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