

# *Stay informed* 2012 Financial Reporting Survey

*Energy industry current trends in SEC reporting*

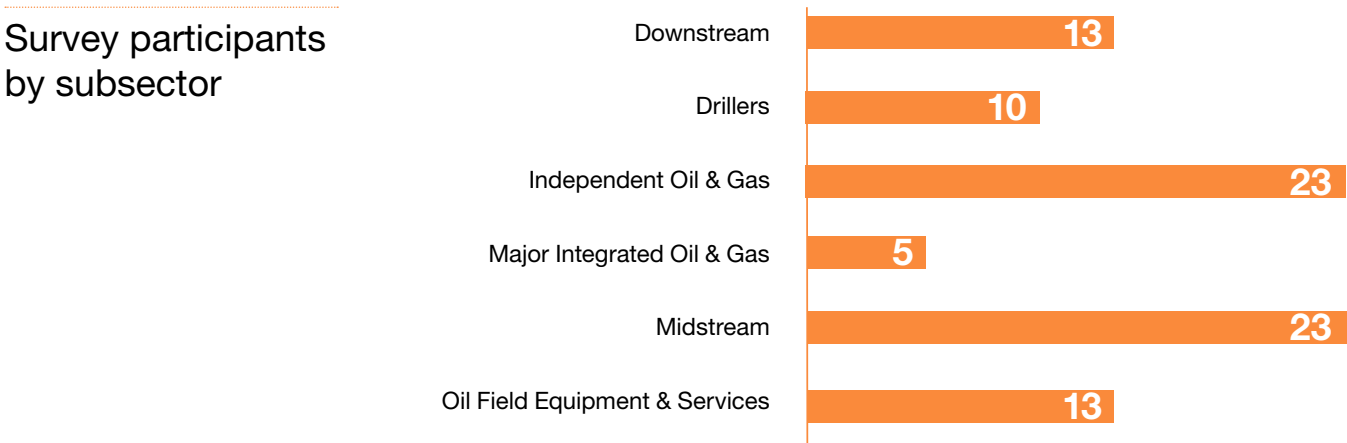
February 2013



# Overview

The energy sector of PwC is pleased to present our first survey of financial reporting trends for the energy industry. Financial statement users and audit committees continue to focus on the appropriateness and transparency of financial reporting disclosures made by management. With this in mind, the purpose of this survey is to help our clients benchmark selected accounting policies with industry practices, identify trends for significant accounting estimates and facilitate discussions on certain aspects of industry practice.

The information contained in this survey was obtained from Form 10-K filings available on the Securities and Exchange Commission’s (SEC) EDGAR database. The survey is based on the most recent annual filing closest to December 31, 2011. The survey participants included SEC registrants in the energy industry with market capitalization of at least \$1 billion that apply US GAAP, as summarized below:



## Filing metrics

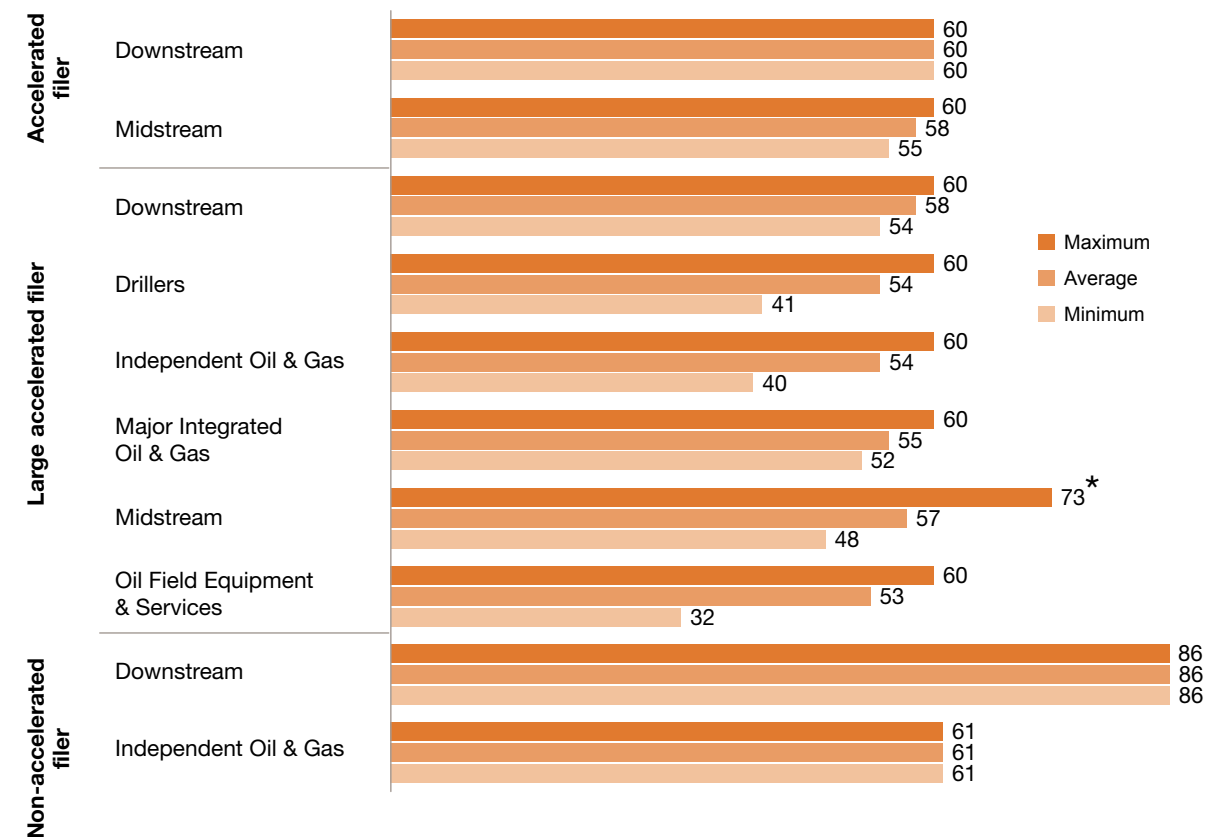
### Days to file

The deadlines for filing the Form 10-K depend on a registrant's filing status and days to file can be a key metric for registrants to evaluate their financial reporting process and timing against peers.

The number of days to file was also impacted by the requirement for all domestic registrants to implement XBRL tagging for 2011 annual financial reporting. Many filers

experienced difficulties and delays with current XBRL tagging requirements, including the need to finalize annual filings 48 hours prior to the planned EDGAR filing to allow time for third-party service providers to complete tagging. Of the registrants included in our survey, two, both independent oil and gas registrants, elected a hardship exemption under Rules 201 and 202 of Regulation S-T for XBRL tagging.

Days to file 2011 annual filings



\*Registrant filed a Form 12b-25, Notification of Late Filing

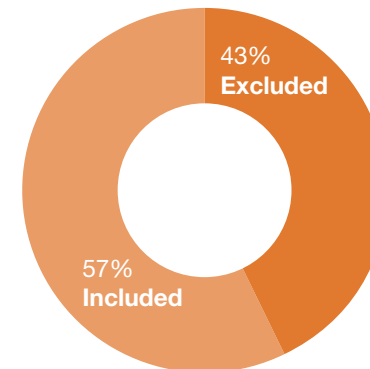
## Financial statement disclosures

### Fair value measurements

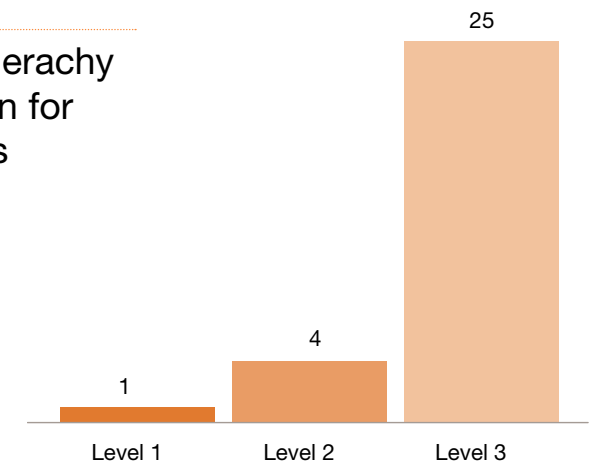
The fair value measurement standard provides disclosure guidance for nonrecurring measurements that include the level within the fair value hierarchy in which the non-recurring measurements fall. Impairments are a common nonrecurring measurement in the energy industry and we analyzed the 44 registrants in our survey which disclosed impairment losses in their 2011 annual filing for compliance with the fair value hierarchy disclosure guidance, noting that some disclosures were omitted.

Of those registrants that included impairments in the fair value hierarchy, all concluded that Level 3 measurements were utilized to determine fair value for calculating at least one of the types of impairment recorded. Of the five registrants disclosing more than one type of impairment, inventory and assets held for sale nonrecurring measurements were classified as Level 2 and investment non-recurring measurements were classified as Level 1.

Disclosures of fair value hierarchy of impairments



Fair value hierarchy classification for impairments



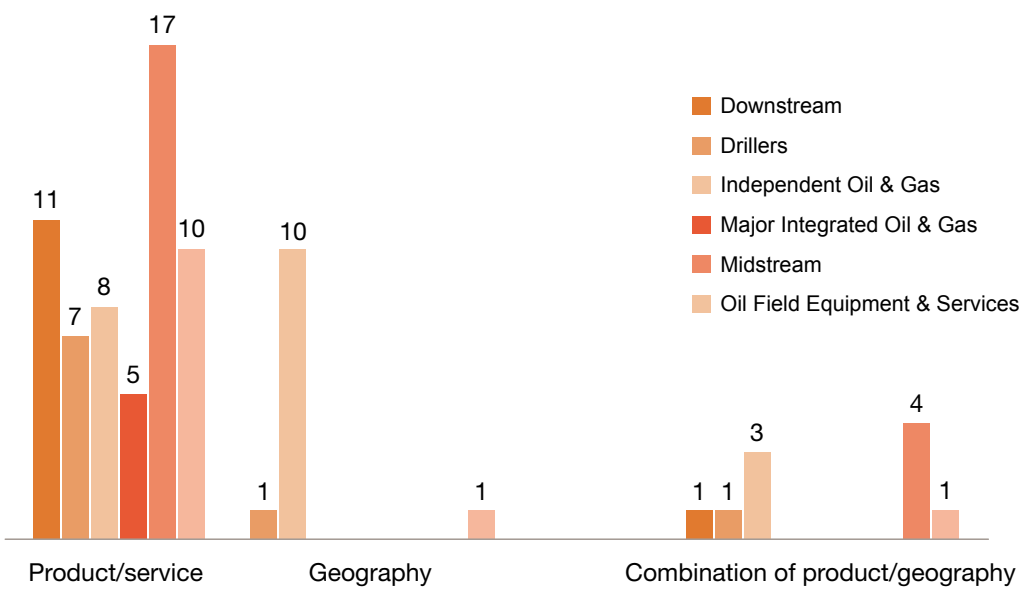
Financial statement disclosures (continued)

Segments

Segment presentation continues to be a hot topic with the SEC, primarily focusing on the determination of segments. The “Segment presentation” chart analyzes how registrants in our survey present segments. Many registrants operating in just one segment

often exclude segment disclosures and we noted that approximately 6% of the registrants in our survey did not include segment disclosures. However, SEC comment letter trends indicate that even when operating in just one segment, registrants should disclose that fact.

Segment presentation



Financial statement disclosures (continued)

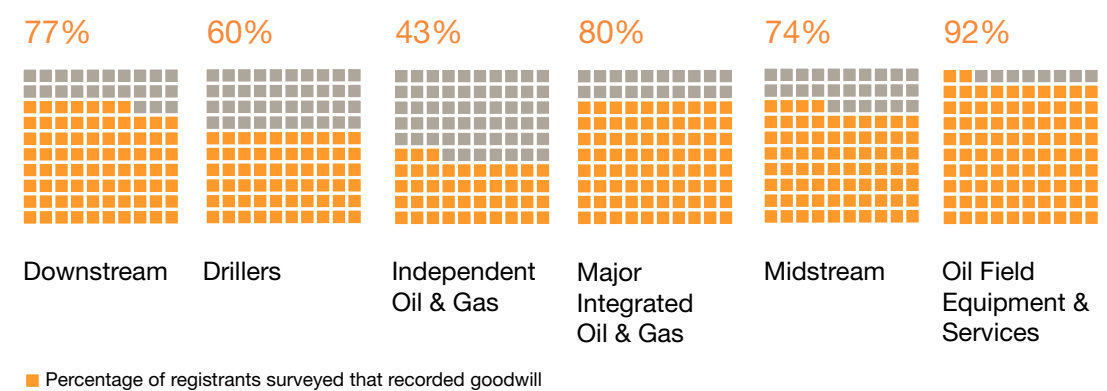
Goodwill

Accounting for goodwill is an area that requires significant judgment and has consistently garnered the attention of the SEC in filing reviews. The “Goodwill” chart analyzes the prevalence of goodwill recorded by registrants surveyed in each subsector.

The issuance of Accounting Standards Update No. 2011-08, Testing Goodwill for Impairment, in 2011 gave registrants the

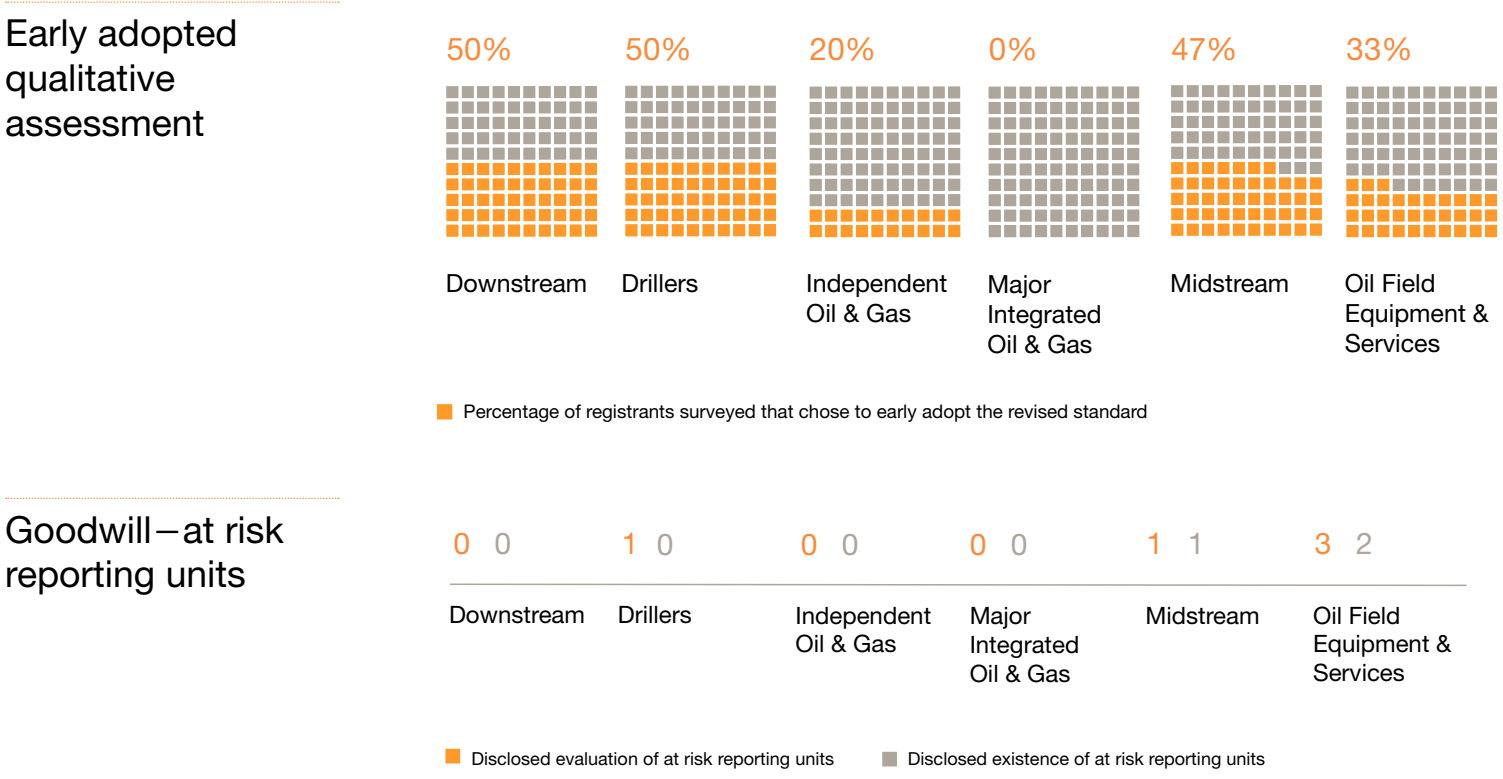
option to perform a qualitative assessment to determine whether further impairment testing is necessary. While the revised standard was effective for fiscal years beginning after December 15, 2011, registrants were allowed under certain circumstances to early adopt the standard in 2011. The “Early adopted quantitative assessment” table reflects the percentage of registrants surveyed, by subsector, that chose to early adopt the revised standard.

Goodwill



Financial statement disclosures (continued)

In evaluating goodwill for impairment, registrants must also consider whether there are any reporting units that are at risk of failing step one of the impairment test. When an at risk reporting unit is identified, registrants should consider additional disclosures outlined in SEC Financial Reporting Manual section 9510.3, including percentage by which the fair value exceeded carrying value as of the most recent test and a discussion of the degree of uncertainty associated with key assumptions. The “Goodwill-at risk reporting units” chart reflects the number of registrants surveyed with goodwill that disclosed an evaluation of at risk reporting units and of those, the number that disclosed a reporting unit that had goodwill considered at risk.



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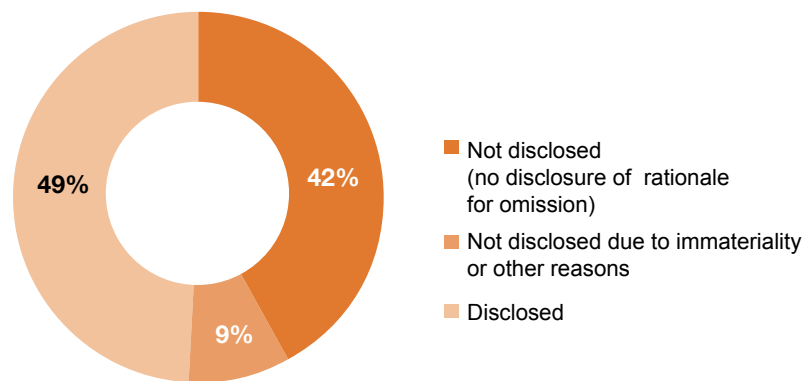
Financial statement disclosures (continued)

Acquisitions

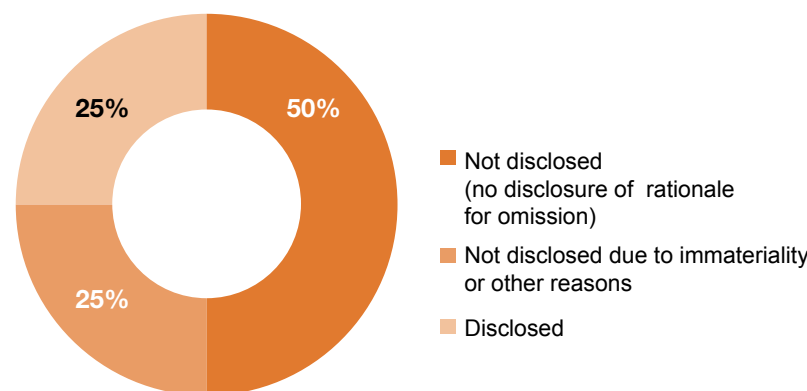
The energy sector historically has been acquisitive, seeking opportunities to grow business through acquisitions. ASC 805 establishes the disclosure requirements for material business combinations, which includes disclosure of the fair value of the total consideration transferred, the fair value of each major class of consideration (i.e., purchase price allocation) and the revenue and earnings of the combined entity

as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period (supplemental pro forma information). Of those registrants surveyed with acquisitions during 2011, the “Purchase price allocation” and “ASC 805 supplemental pro forma financial information” charts analyze how the registrants complied with these two disclosure requirements.

Purchase price allocation



ASC 805 Supplemental pro forma financial information





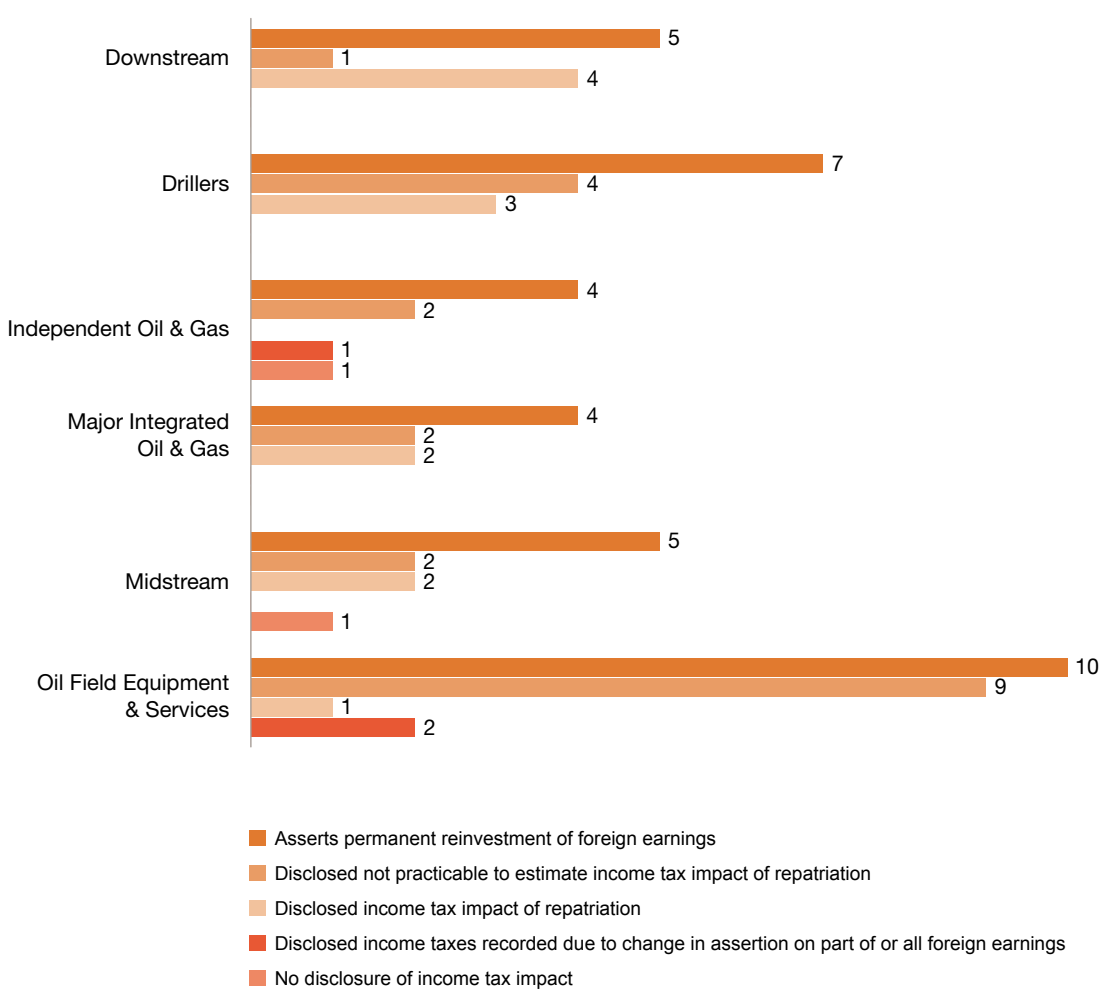
Financial statement disclosures (continued)

Income taxes

Under US GAAP, registrants are not required to provide deferred income taxes on undistributed earnings of foreign subsidiaries that are considered permanently reinvested. The interplay between a registrant’s indefinite reinvestment assertion and liquidity continues to attract the interest of the SEC. Registrants that assert indefinite

reinvestment of overseas earnings should disclose the economic consequences of repatriation of cash and short term investments. The “Undistributed earnings of foreign subsidiaries” chart analyzes the total number of registrants in our survey with foreign operations and their disclosures related to undistributed earnings of foreign subsidiaries.

Undistributed earnings of foreign subsidiaries



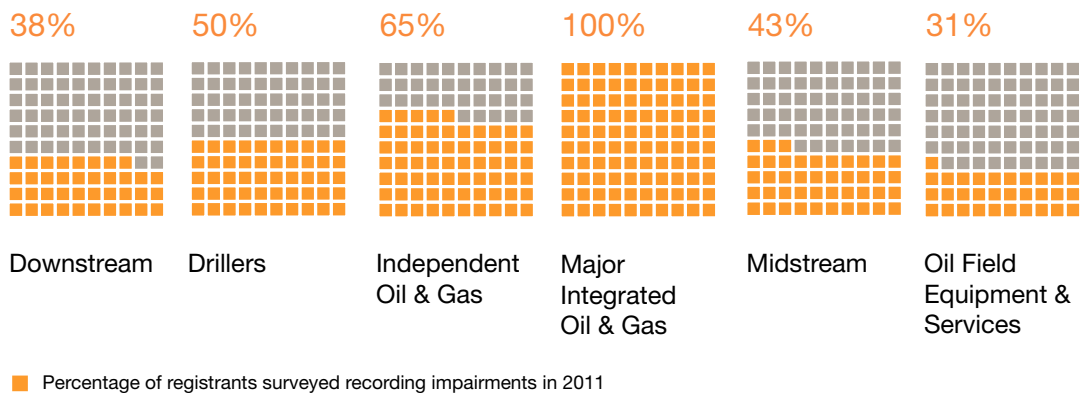
Financial statement disclosures (continued)

Impairments

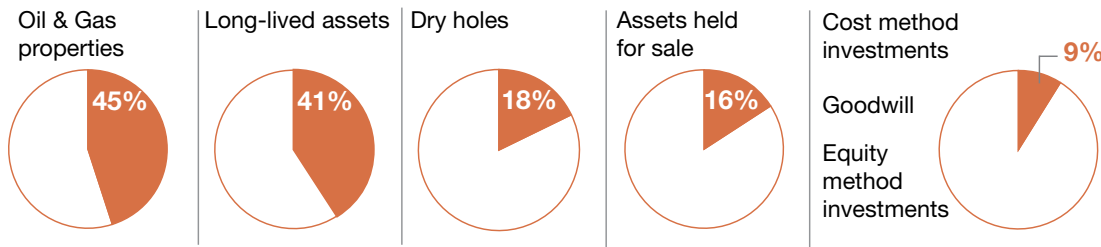
In light of the volatility in oil prices and decline in natural gas prices over the past few years, many energy registrants continued to record impairments in 2011. The SEC also continues to issue comments relating to registrants’ considerations surrounding impairments of assets and registrants are

expected to complete a thorough analysis of potential impairments and clearly disclose the assumptions used in impairment assessments. The “Impairments” and “Impairments recorded by type” charts highlight the percentage of energy registrants surveyed that recorded impairments in 2011 as well as the most common areas where impairments were recorded.

Impairments



Impairments recorded by type



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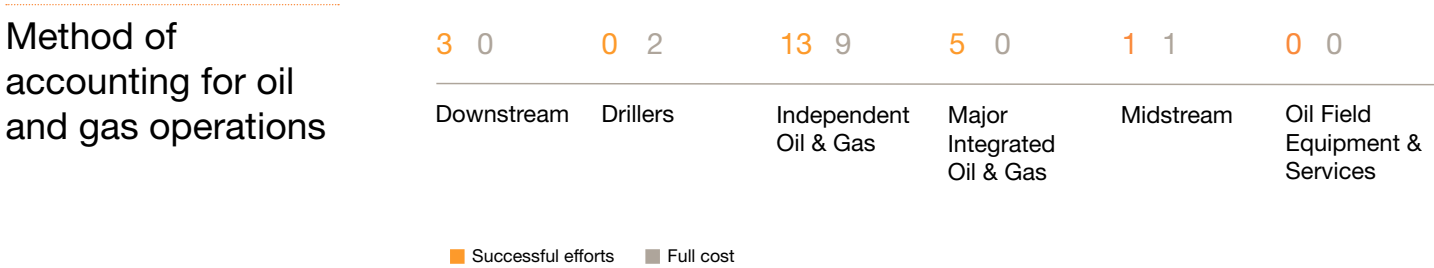
Financial statement disclosures (continued)

Accounting for oil and gas operations

Included in our survey are 34 registrants with oil and gas operations material for disclosure. While 27 of these represent major integrated or independent oil and gas registrants, the remaining seven represent Drillers, Midstream and Downstream registrants with significant oil and gas operations in addition to their core operations. One independent oil and gas

registrant was excluded from the analysis as it is a development stage enterprise with no revenues or proved reserves.

The SEC allows for two methods of accounting for oil and gas operations: successful efforts and full-cost. The “Method of accounting for oil and gas operations” chart highlights the accounting policy elections by registrants in our survey with oil and gas operations material for disclosure.



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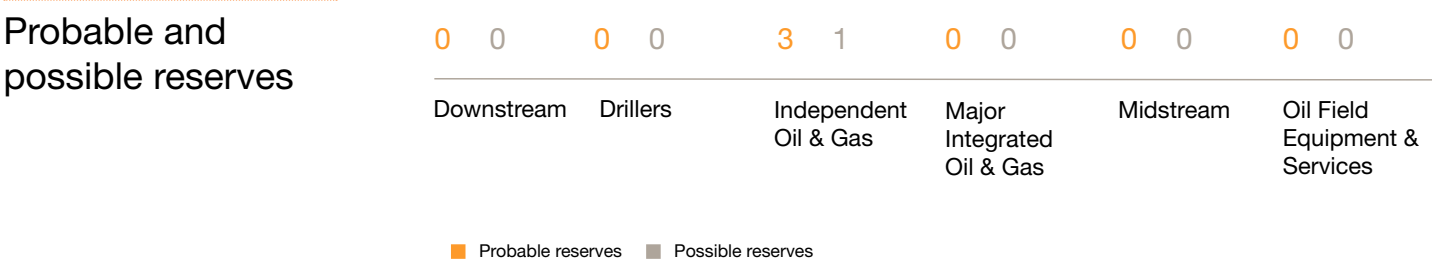
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Financial statement disclosures (continued)

Possible and probable reserves

Under Item 1202 of Regulation S-K, registrants now have the option to disclose possible and probable reserves. While this information is available to all registrants with oil and gas operations and may be

utilized in key business decisions, it still remains an area where most are reluctant to disclose in annual filings. The “Probable and possible reserves” chart reflects registrants surveyed that provide the optional disclosures.



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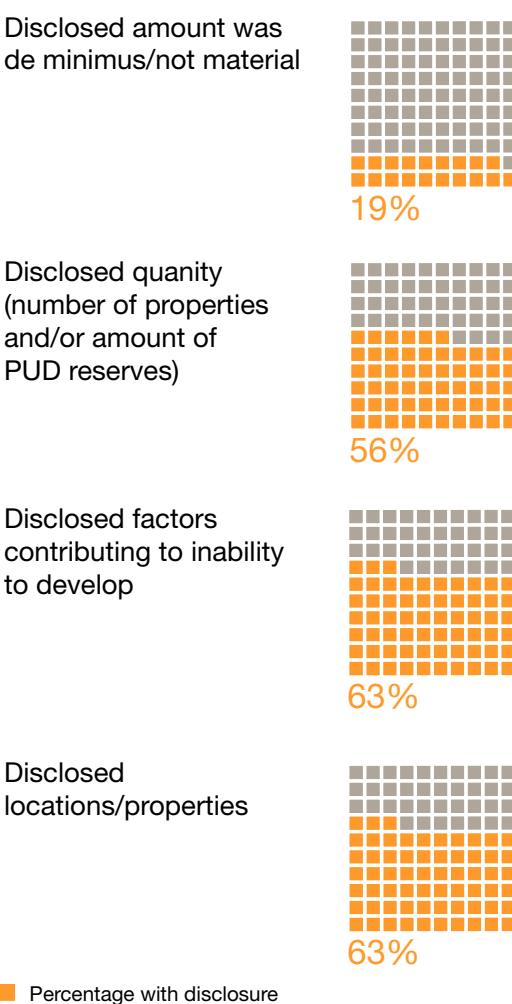
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Financial statement disclosures (continued)

Proved undeveloped (PUD) reserves

SEC rules specify that undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that the undeveloped reserves are scheduled to be drilled within five years, unless specific circumstances justify a longer time. When there are locations scheduled for development beyond five years from initially being recorded, registrants should include specific disclosure of material locations and the PUD reserves attributable to them. Of the 34 registrants included in our survey with oil and gas operations material for disclosure, 47% disclose that their PUD reserves include properties that will not be developed within five years of initial booking. The chart “Disclosures for PUD reserves not developed in 5 years” further analyzes the nature of the disclosures by these registrants related to these PUD reserves.

Disclosures for PUD reserves not developed in 5 years



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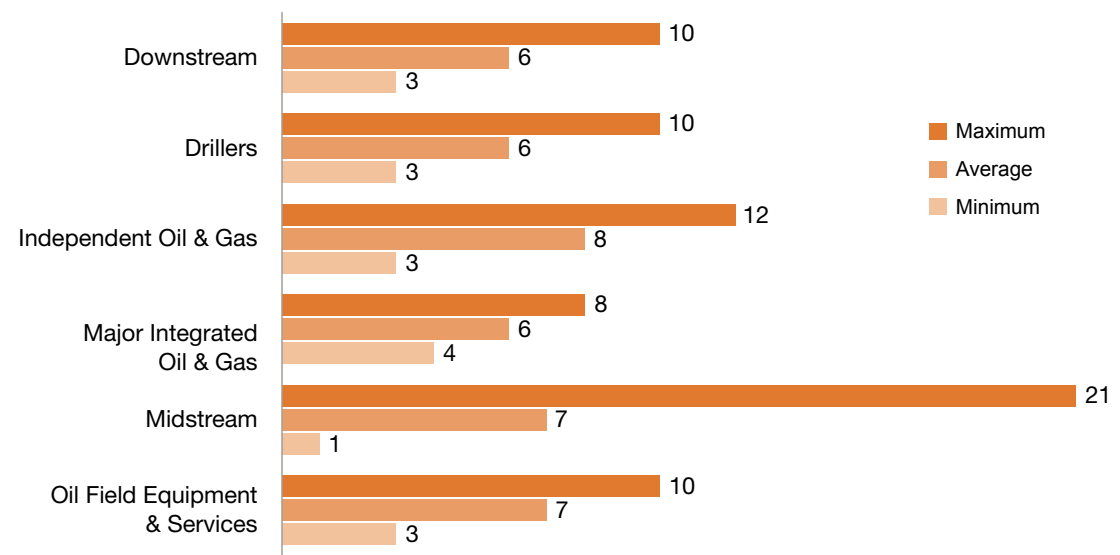
# Non-financial statement disclosures

## Critical accounting policies

The SEC has issued guidance on critical accounting policies, including FRR 60: “Cautionary Advice Regarding Disclosure About Critical Accounting Policies” which highlights the need for more robust and more transparent discussion in MD&A of critical accounting policies, preparer judgments and risks and uncertainties. In recent years, the Staff has also discussed several recommendations to registrants on improving the

disclosures of critical accounting policies. We analyzed the number of critical accounting policies by subsector as well as the more common critical accounting policies within the energy sector and determined that the amount and nature of policies disclosed were fairly consistent across the energy subsectors, where over half of the registrants surveyed included critical accounting policies on income tax/tax contingencies, goodwill and property, plant and equipment impairments.

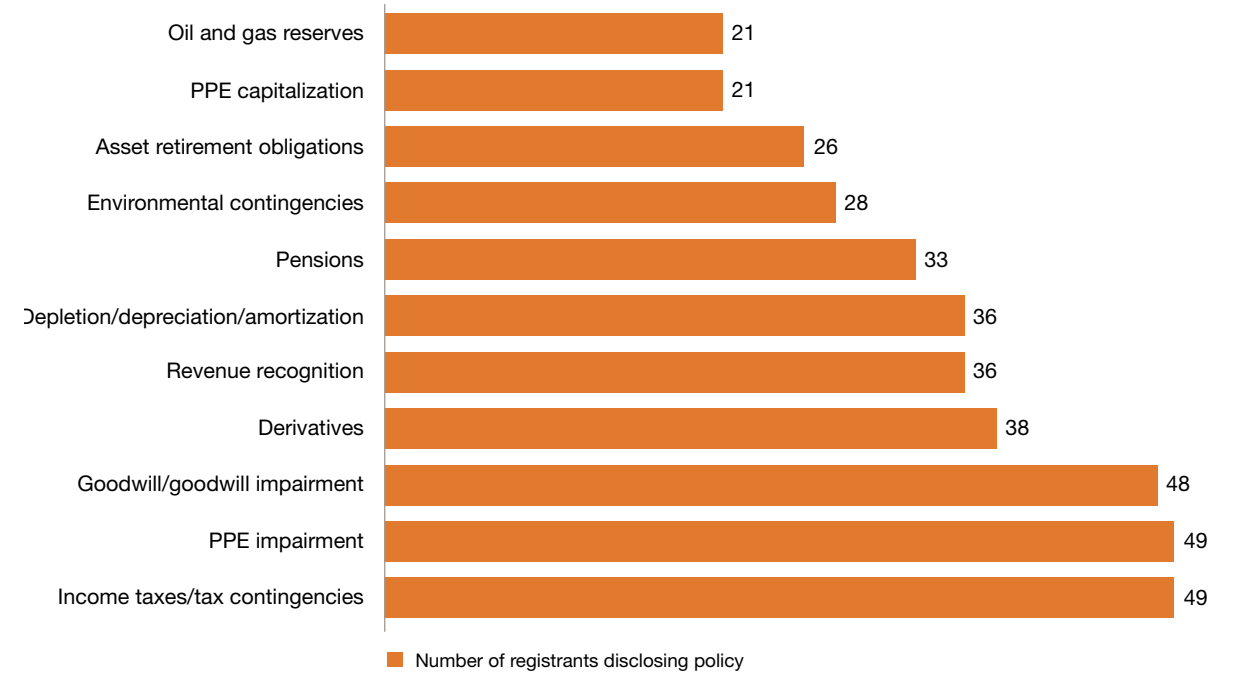
Critical accounting policies



## Non-financial statement disclosures (continued)

The top 10 critical accounting policies disclosed by registrants in our survey are highlighted below.

### Top 10 critical accounting policies



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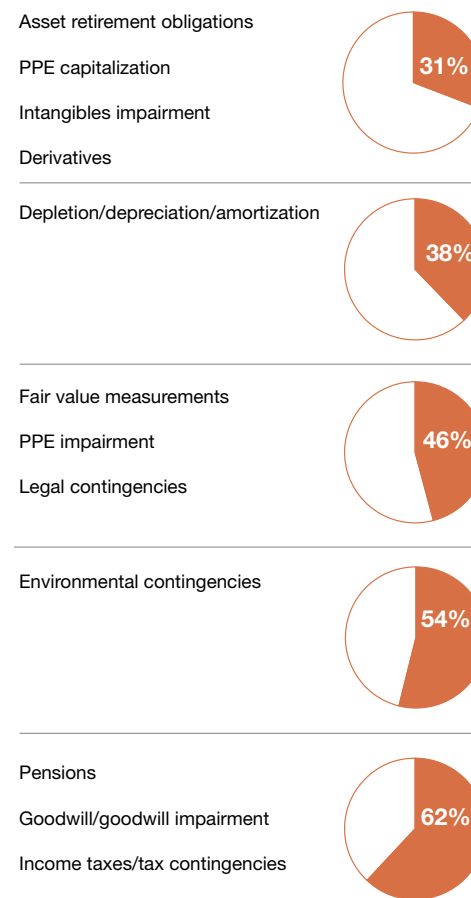


## Non-financial statement disclosures (continued)

While there were many consistencies in the type of critical accounting policies disclosed across the energy sector, we also noted subsector variations in the prevalence of disclosing certain policies. The following

six charts analyze the key critical accounting policies disclosed by subsector, with each of the policies being disclosed by at least 30% of the registrants in the respective subsector.

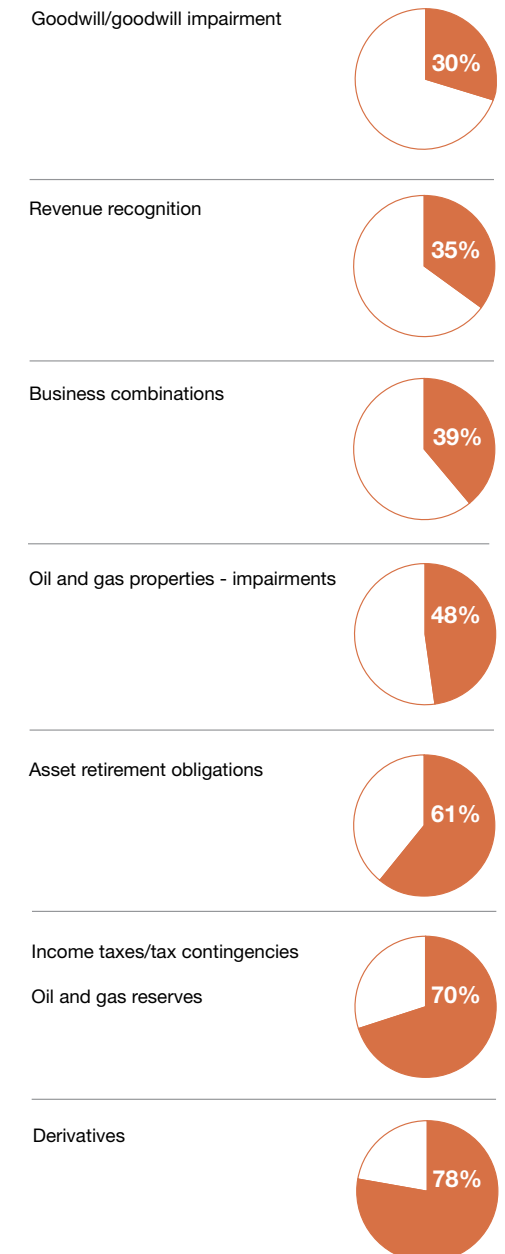
### Downstream— Critical accounting policies



### Drillers— Critical accounting policies



### Independent Oil & Gas— Critical accounting policies



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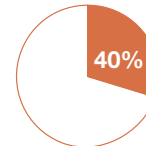




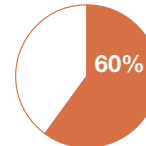
## Non-financial statement disclosures (continued)

### Major Integrated Oil & Gas— Critical accounting policies

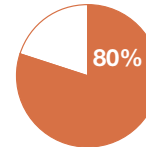
Business combinations  
Fair value measurements  
Asset retirement obligations  
Equity method investments impairment  
Derivatives  
Income tax/tax contingencies  
Legal contingencies



Goodwill/goodwill impairment  
PPE impairment  
Oil and gas properties - impairments

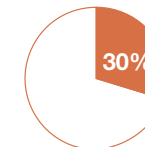


Pensions  
Environmental contingencies

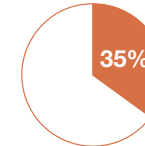


### Mistream— Critical accounting policies

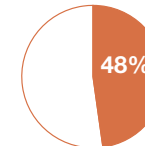
Legal contingencies



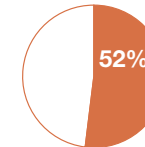
PPE capitalization



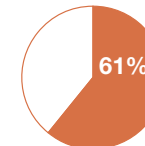
Environmental contingencies



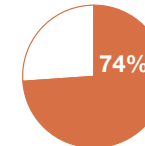
Derivatives  
Revenue recognition



Depletion/depreciation/amortization  
Goodwill/goodwill impairment

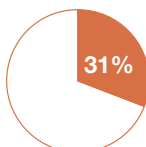


PPE impairment

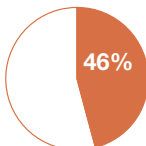


### Oil Field Equipment & Services —Critical accounting policies

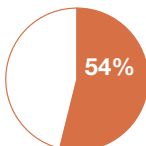
Depletion/depreciation/amortization



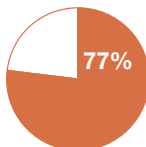
Intangibles impairment



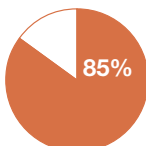
Pensions



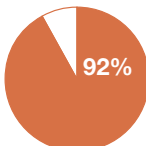
PPE impairment  
Revenue recognition



Goodwill/goodwill impairment



Income taxes/tax contingencies



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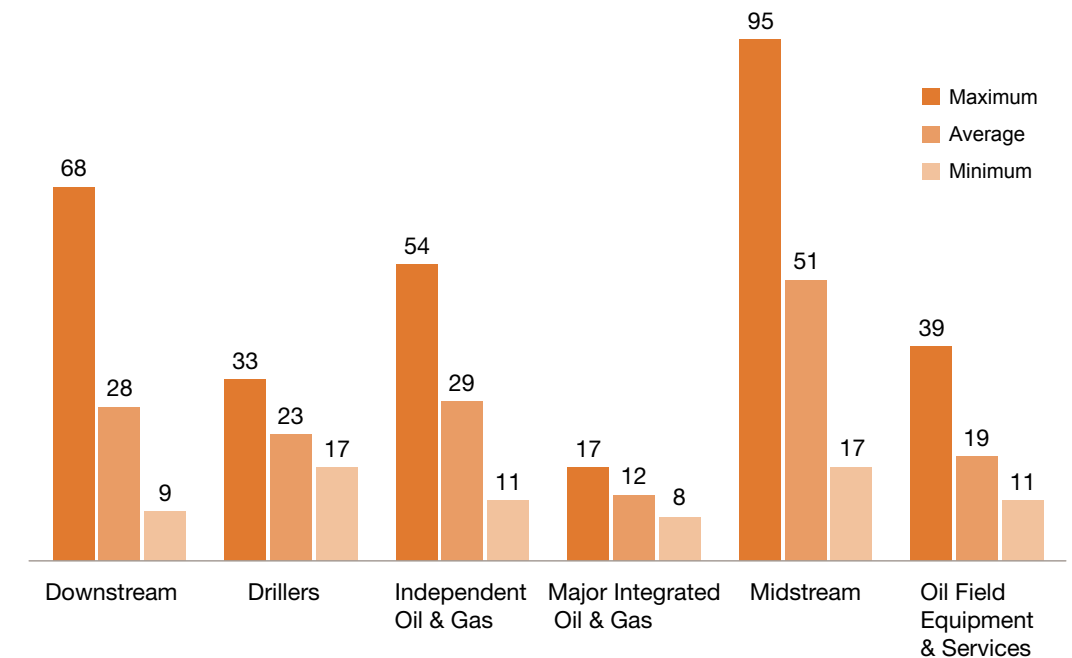
## Non-financial statement disclosures (continued)

### Risk factors

Item 503(c) of Regulation S-K outlines the requirements for risk factor disclosures in SEC filings. The SEC adopted the requirements for inclusion of risk factors in annual filings to further enhance the contents of Exchange Act reports and provide value to investors and the markets. It is common for risk factors

to also be the focus of SEC comment letters as the Staff identifies risk areas that are perceived to require more transparency in reporting and disclosures. We analyzed the number of risk factors by subsector, noting significant differences in the average number of risk factors disclosed.

#### Risk factors



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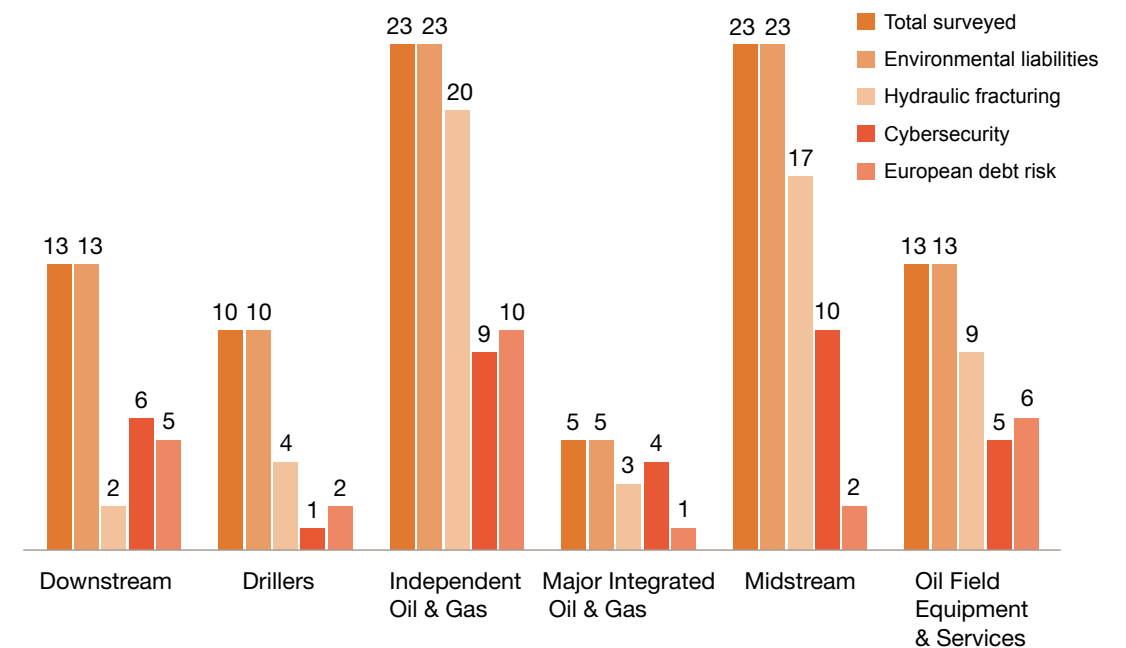


## Non-financial statement disclosures (continued)

As discussed in our energy industry *2012 SEC comment letter trends*, the SEC continues to be focused on the areas of hydraulic fracturing and environmental liabilities, with many comments in this area resulting in the addition or expansion of risk factor disclosures. The Division of Corporation Finance of the SEC also released

disclosure guidance on cybersecurity in 2011 and European sovereign debt disclosures in 2012, both of which resulted in additional risk factor disclosures across domestic registrants. Our survey of registrants included an analysis of the prevalence of risk factors on these four hot topics in the energy industry.

### Risk factors



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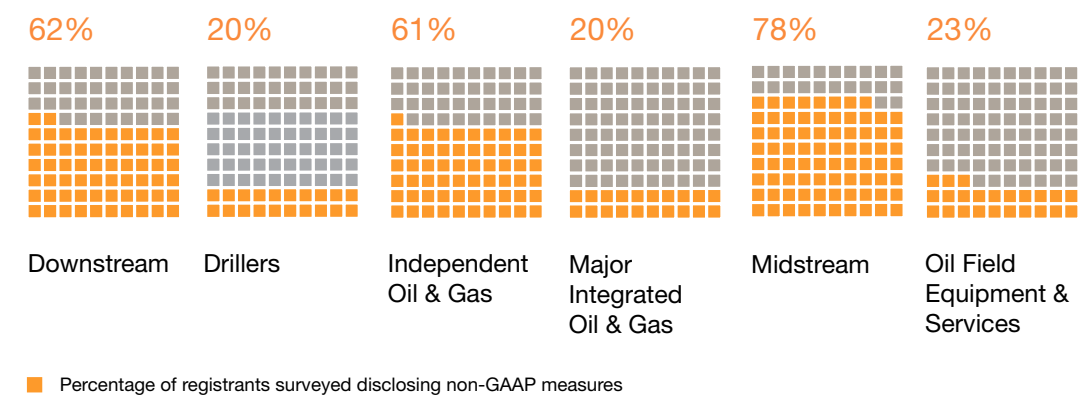
## Non-financial statement disclosures (continued)

### Non-GAAP measures

Non-GAAP measures are used frequently by registrants in the energy industry and are often subject to SEC comment letters when they do not align with the guidance in Regulation G and Item 10(e) of Regulation S-K.

Registrants in our survey that disclosed non-GAAP measures in filings presented on average two different measures, with the maximum of six non-GAAP measures being disclosed by a registrant in the downstream sector. The most commonly reported non-GAAP measure is EBITDA or adjusted EBITDA.

#### Non-GAAP measures



#### Types of non-GAAP measures disclosed

Revenue by segment	5
Segment operating margin	
Gross margin	6
Segment operating income	
Gross operating margin by segment	
Distributable cash flow	8
PV-10	9
EBITDA/adjusted EBITDA	21

■ Number of registrants surveyed disclosing measure

## Non-financial statement disclosures (continued)

### Contractual obligations

Disclosures for contractual obligations, outlined in Item 303(a)(5) of Regulation S-K, were designed to present a meaningful snapshot of a registrant's cash requirements arising from contractual payment obligations. The area of contractual obligations have become a renewed focus of the SEC, with Staff comments encouraging the

development of a presentation method that is clear and transparent and reflects a categorization of obligations that are meaningful in light of the registrant's business. As there continues to be diversity in the nature of items included in the contractual obligations table, we analyzed the survey participants for common areas disclosed.

#### Contractual obligations

Capital lease obligations	20
Derivatives	
Drilling rig/oil field services commitments	21
Employment agreements/pension plan funding/benefits	24
Transportation agreements	
Asset retirement obligations	26
Capital expenditures	30
Purchase obligations	53
Interest payments	60
Operating leases	81
Debt	85

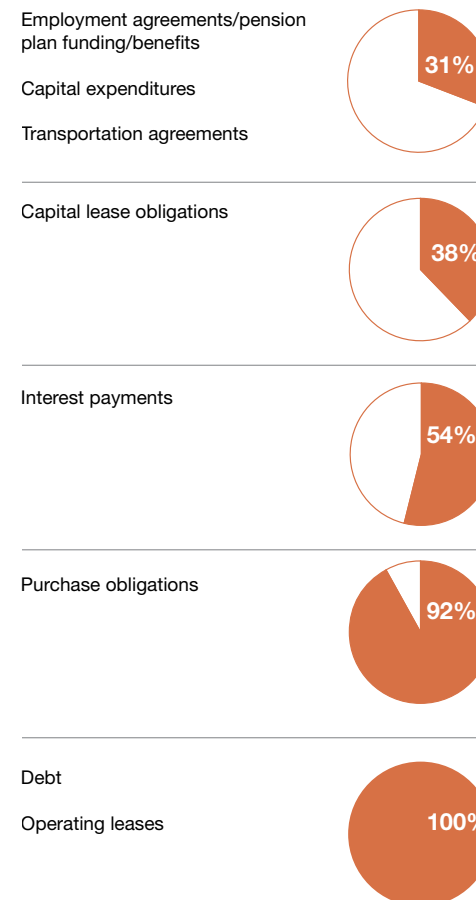
■ Number of registrants surveyed disclosing obligation

## Non-financial statement disclosures (continued)

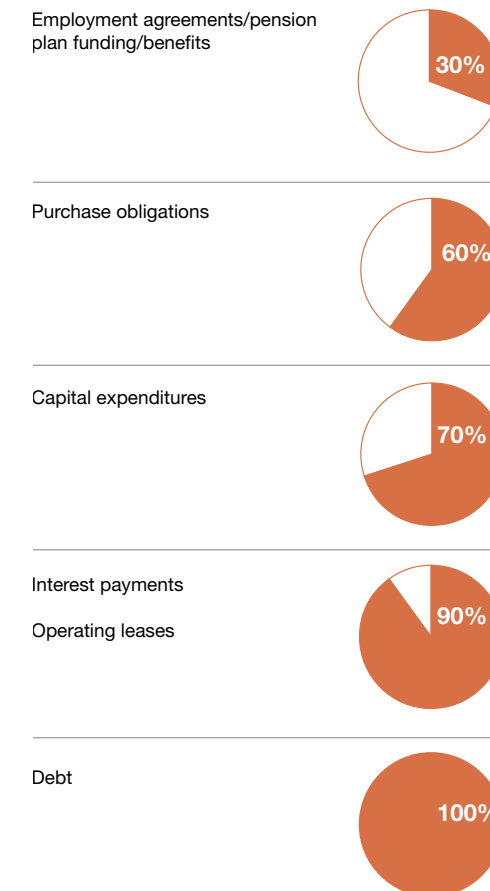
The following six charts analyze the contractual obligations disclosed by subsector, with each of the obligations

being disclosed by at least 30% of the registrants in the respective subsector.

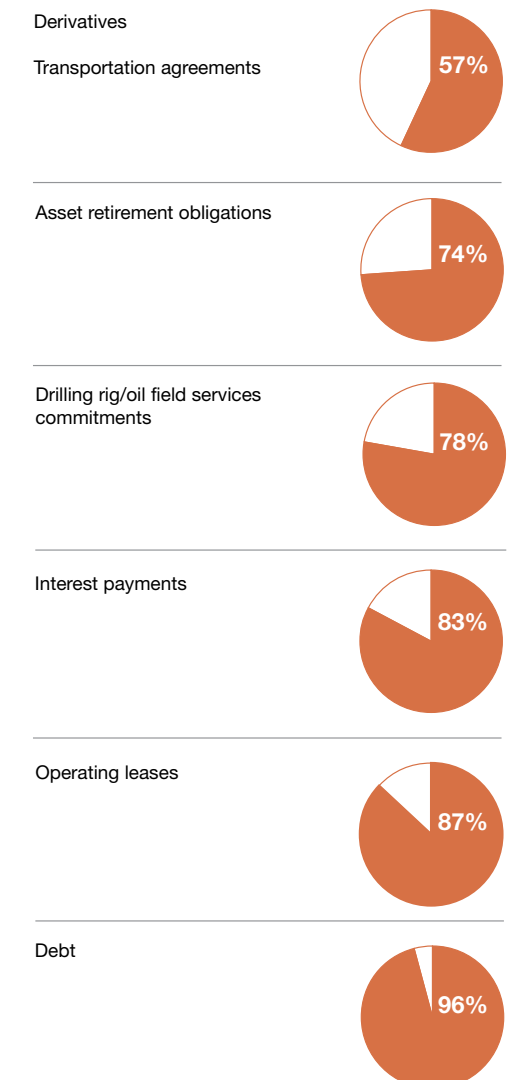
### Downstream— Contractual obligations



### Drillers— Contractual obligations

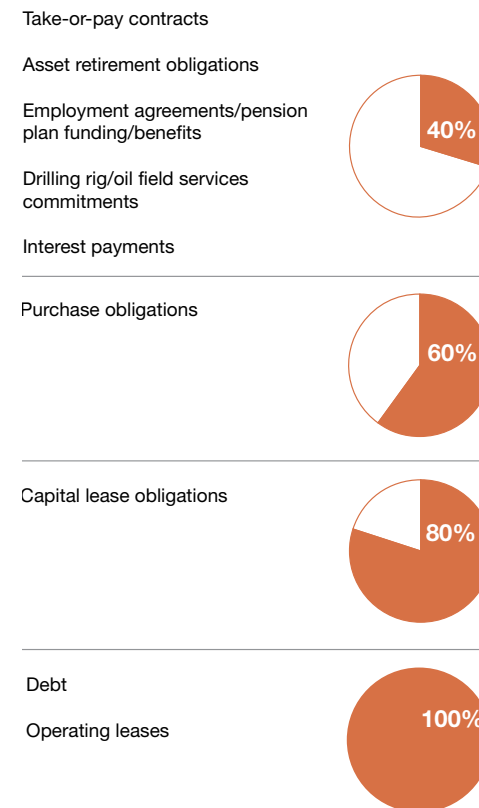


### Independent Oil & Gas— Contractual obligations

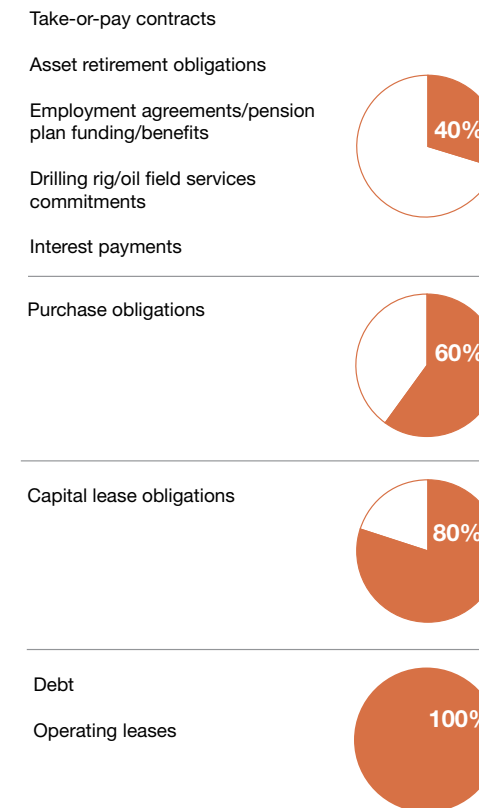


## Non-financial statement disclosures (continued)

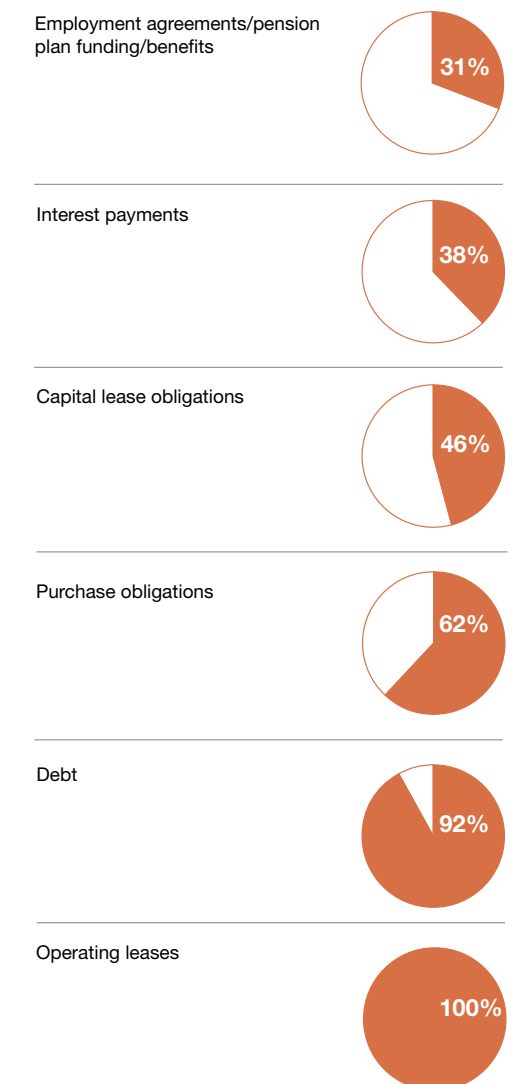
### Major Integrated Oil & Gas— Contractual obligations



### Mistream— Contractual obligations



### Oil Field Equipment & Services— Contractual obligations



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Energy registrants surveyed

Downstream

Calumet Specialty Products Par	Imperial Oil Ltd.	Sunoco, Inc.
CVR Energy, Inc.	KiOR, Inc.	Tesoro Corporation
Hess Corporation	Marathon Petroleum Corporation	Valero Energy Corporation
HollyFrontier Corporation	Murphy Oil Corporation	Western Refining, Inc.
		World Fuel Services Corp.

Drillers

Atwood Oceanics Inc	Helmerich & Payne Inc.	Patterson-UTI Energy Inc
Diamond Offshore Drilling	Nabors Industries Ltd	Rowan Companies Inc
Ensco Plc	Noble Corp-Swiss & Cayman	Transocean Ltd
		Unit Corp

Independent Oil & Gas

Anadarko Petroleum Corporation	Continental Resources, Inc.	Noble Energy, Inc.
Apache Corp.	Denbury Resources Inc.	Pioneer Natural Resources Co.
Cabot Oil & Gas Corporation	Devon Energy Corporation	Plains Exploration & Production
Chesapeake Energy Corp	Energy XXI (Bermuda) Limited	QEP Resources, Inc.
Cimarex Energy Co	EOG Resources, Inc.	Range Resources Corporation
Cobalt International Energy, Inc	Kosmos Energy LTD.	SM Energy Company
Concho Resources, Inc	Linn Energy, LLC	Southwestern Energy Co
	Newfield Exploration Co.	Whiting Petroleum Corp

Major Integrated Oil & Gas

Chevron Corp	Exxon Mobil Corporation	Occidental Petroleum Corporation
ConocoPhillips	Marathon Oil Corporation	

Midstream

Boardwalk Pipeline Partners, LP	Energy Transfer Partners LP	Regency Energy Partners LP
Buckeye Partners LP	Enterprise Products Partners	Spectra Energy Corp
Cheniere Energy Partners LP.	Kinder Morgan Energy Partners	Spectra Energy Partners, LP
Chesapeake Midstream Partners	Magellan Midstream Partners LP	Sunoco Logistics Partners L.P.
El Paso Corp	MarkWest Energy Partners, LP	Targa Resources Partners LP
El Paso Pipeline Partners, L.P.	NuStar Energy L.P.	Western Gas Partners LP
Enbridge Energy Partners LP	Oneok Partners, LP	Williams Companies, Inc
Energy Transfer Equity LP	Plains All American Pipeline	

Oil Field Equipment & Services

Baker Hughes Inc	FMC Technologies, Inc	Oceaneering International, Inc
Cameron International Corporation	Halliburton Company	Oil States International, Inc
CARBO Ceramics Inc	Lufkin Industries Inc	Schlumberger NV
Core Laboratories NV	National Oil well Varco, Inc	Superior Energy Services, Inc
Drill-Quip, Inc		



## About PwC Energy

With more than 5,300 industry-dedicated professionals located in strategic energy centers, we can help companies everywhere they operate. PwC has energy centers in countries throughout the world including Houston (US headquarters), Calgary, Rio de Janeiro, Doha, Dubai, Moscow, Stavanger, London, Jakarta, Beijing and elsewhere. Our energy practice also includes more than 350 partners focused on the industry's needs and priorities. PwC has more than 100 years of experience serving energy companies, including some of the world's largest national oil companies and international oil companies.

PwC provides a full range of assurance, tax and advisory team members who understand the industry and the issues that oil companies face. Our professionals specialize in accounting and auditing, rate regulation, financial risk management, revenue assurance, taxation, transaction services, environmental regulation, Sarbanes-Oxley compliance and other key areas for the industry. We take pride in our global approach supported by our local knowledge.

A leading global network of professional services firms, PwC delivers quality and excellence in audit and assurance, tax, and advisory services. The network has close to 180,000 people in member firms located in 158 countries who make a difference for all of its stakeholders—clients, people, the capital markets and the communities our member firms service —by unlocking potential and creating lasting value.

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## ***Acknowledgements***

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