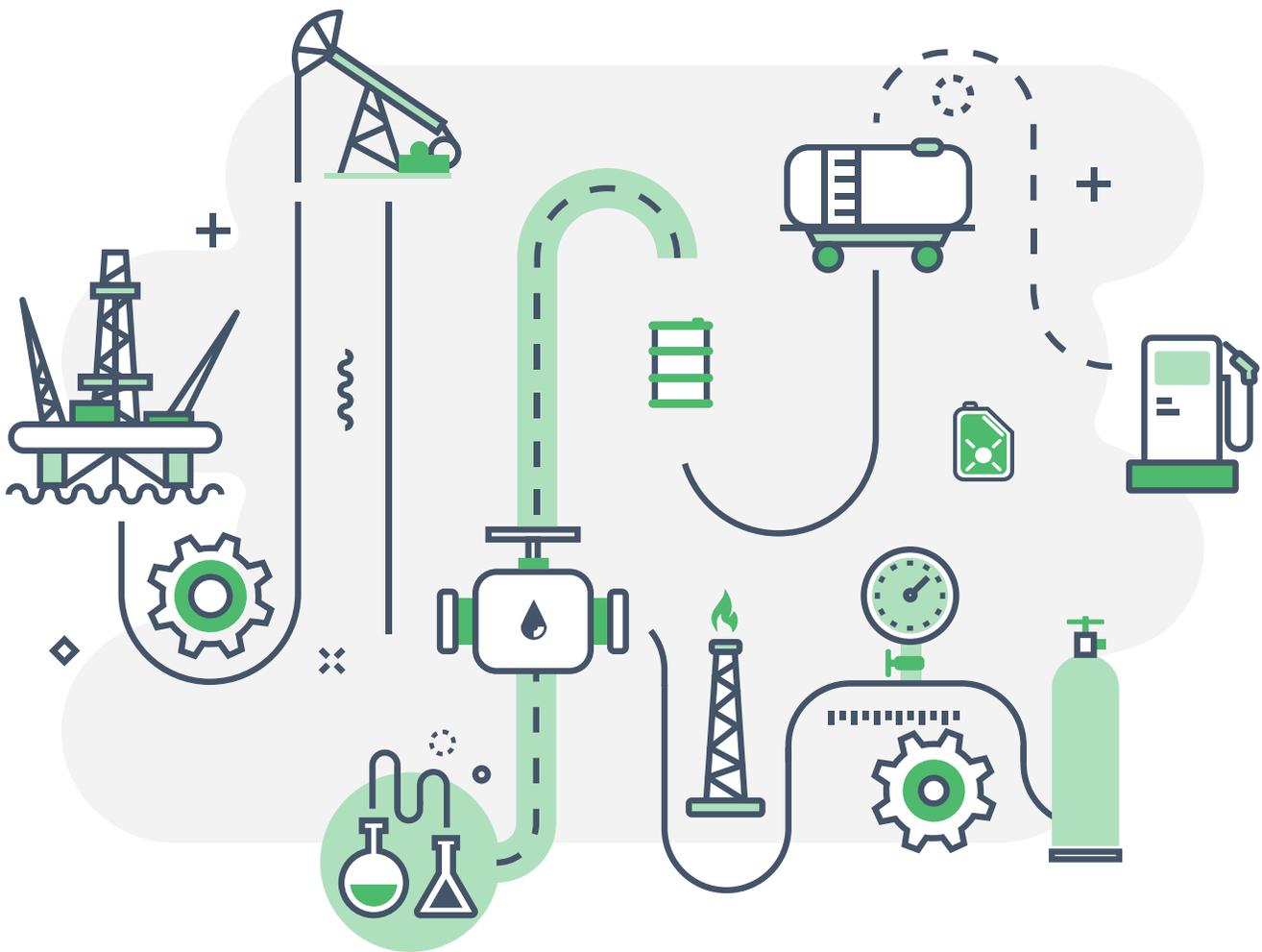


Lease Accounting for the Oil & Gas Industry: **Planning for Sustainability**

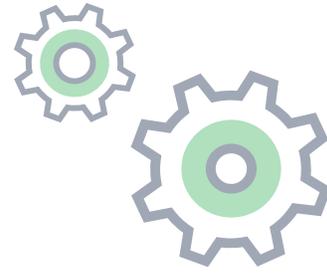
An industry focus on lease accounting post-IFRS 16 and ASC 842 compliance and staying sustainable in today's marketplace



NAKISA[®]



Pricing pressures, emerging innovations, and regulatory changes have always been part of the shifting landscape facing oil and gas companies.



A wave of significant financial reporting changes over the last few years have added challenges to the energy industry's accounting procedures. Effective January 2019, updates to the IFRS 16 and ASC 842 lease accounting standards required nearly all leases to move onto company balance sheets, exposing billions in lease liability across the industry. Shifting to the latest IFRS 16 and ASC 842 regulations involved more than simply providing a snapshot into a company's finances. The standard updates included requirements to reflect the changes that occur to both leases and leased assets, adding further complexity to maintaining records for accuracy and auditability.

Given the global scope of oil and gas operations, the industry's accounting practices must allow for such dynamic requirements as multiple currencies and multi-GAAP for geographically dispersed assets. The oil and gas and energy sector is an asset-intensive industry for which leased assets are common. These assets include real estate as well as equipment used in the production and transportation process such as vessels, rigs, to drills, or

rail cars, and the facilities used to store or sell the product. As the energy sector is segmented within upstream, midstream, and downstream operations, each channel of activity involves its own lease types with different and customized lease terms and conditions to be accounted for.

Moreover, the industry's leases may have unique characteristics, such as daily and in-use calculations/assumptions and multiple assets under single lease agreements that go into operation at different times. Together, these factors compound the complexity of Day Two accounting and the ongoing efforts to maintain compliance can be labor-intensive, particularly at period-end close and when producing disclosures.

While collecting the leases for this asset-intensive industry onto the balance sheet required significant effort, overall, the energy sector successfully accomplished their initial financial statements under the latest standards in a manner that was both effective and timely. Today, the oil and gas industry is now focused on making the right choices for sustainability regarding their lease accounting strategy.

Sustainability in Times of Uncertainty

The oil and gas industry has much experience responding to downturns in prices and their potential impacts to cost and production models. Over the course of 2020, the combined effects of oversupply, aggravated by tensions between Russia and Saudi Arabia, as well as a global demand shock from the pandemic, have led to a sharp drop in prices. As the energy sector engages in a strategically significant service, the industry impacts the economy as a whole, as crude oil is essential for production in many, if not all other industries. This makes sustainability especially critical.

“Evolving energy demand and pricing outlooks are transforming the oil and gas industry. But few companies are fully harnessing the power of digitalization. The sector requires new business models, rationalized portfolios, accelerated investment in digital technologies, and great capital flexibility.”

–Ernst & Young, Latest Thinking

The Power of Technology to Gain Control

With so many moving parts, oil and gas companies require access to accurate, real time leasing data. Organizations must be able to identify leases, including value, payments and depreciation, and be able to produce required disclosure reports. Ensuring the impact of the latest lease accounting standards does not create additional manual labor while providing timely and actionable reporting that meets compliance requirements is essential.

The most efficient way to manage accounting challenges and focus on sustainability is to leverage lease management and accounting technologies that centralize lease data and automate lease accounting. Instead of sifting through spreadsheets with duplicated or lacking information, a single system for lease management helps to streamline and simplify financial lease reporting. The right technology empowers businesses to visualize their organization as a whole and make informed decisions in order to adapt, cut costs in various markets, and stay competitive.



With a lease accounting solution, organizations can solve for:

Efficiency

- Reduce costs by making lease data accessible and actionable for stakeholders.
- Automate finance and accounting through push and pull ERP integration.

Visibility

- Centralize contract data in a single repository to provide a global view of lease contracts.
- Gain clear visibility into leasing data, including liabilities and commitments.
- Easily review lists of lease contracts with future payment split by years.
- Identify the highest payments and analyze whether the lease of these higher-cost premises or equipment may be made redundant.
- Use the FP&A dashboard to effectively forecast and plan in real time.

Insights

- Gain insight into contractual data to identify lease exposure and analyze the impact on financial statements.
- Understand financial implications including impairment/abandoned assets and make informed decisions.
- Easily review lists of lease contracts with future payment split by years.
- Review and analyze leases with early termination and renewal options.

Nakisa Offers a Smarter Solution for Lease Accounting

Nakisa Lease Administration is a lease management and accounting solution designed to support your organization by automating, centralizing, and simplifying lease accounting operations. The ability to consolidate data, group together leases, and provide disclosure reports in compliance with leasing standards, makes it the solution of choice for leading oil and gas companies.

Key Value Drivers of Nakisa Lease Administration

Nakisa Lease Administration enables accounting and finance teams to centralize and optimize their global lease portfolios while assisting with sustainability measures. With Nakisa Lease Administration, lease accounting is simplified and streamlined. Leveraging a single system for accruals, payments, reconciliation, and financial reporting on leases, oil and gas companies can use the solution to maintain an audit trail of all changes and decisions for traceability.



Nakisa Lease Administration: Easy Deployment

The Nakisa solution can be deployed with full integration to your ERP or in a phased deployment model in standalone mode to shorten deployment timelines. In this scenario, deployment is simplified by abstracting data from specific organizational units using a combined effort from project teams and ready-to-use configuration templates. Before

integration is configured in the phased deployment model, lease accounting technology can be used to amortize ROU assets and lease liability schedules internally. However, the benefits of ERP integration become much more significant as lease liabilities and ROU assets go through frequent remeasurements due to changes in the lease terms and conditions and also due to changes in user decisions in terms of extension and termination.

With Nakisa Lease Administration, You Can:

- Achieve global visibility through end-to-end lease contract management, reporting, and audit trail maintenance.
- Streamline contract management, lease accounting, and compliance reporting efforts.
- Reduce costs by leveraging powerful automation and ERP integration technology.

Why Industry Leaders Trust Nakisa:

- Global leader in enterprise business solutions for accounting and compliance.
- Experience with the world's most renowned brands.
- Proven solution for end-to-end lease management and accounting.
- Validated by the Big 4 accounting firms.



About Us

A global leader in cloud business solutions for Organization Transformation and Accounting & Compliance, Nakisa delivers innovative, forward-thinking and robust human resource and financial management solutions that advance your business strategies.

Nakisa serves 800+ enterprise customers and over 4 million subscribers in 24 industries. Nakisa is proud to work with some of the world's most renowned brands.

Contact Us

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