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Changing Outlook

Petroleum Equipment Suppliers
Association

Annual Meeting 2014

Summary

- **US Land** → 2H14 activity > 1H14 helped by oil prices...10% overcapacity in PP...seeing PP pricing in spot & contractual markets now...talk of weather making it difficult for railroads to get sand to TX
- **GoM** → Late-2013 completion work pushed in 1H14; exploratory work seems to be slowing (globally) as IOCs & NOCs focus more onshore and fields already online
- **Canada** → Rig count is 10% below a year ago levels; West Coast LNG talked about but too early still
- **Land Rigs** → Rig efficiencies to continue in '14
- **Offshore Rigs** → US Fed inspired bubble
- **International** → Closing down and/or starting up big projects can hurt (i.e. Brazil/LAM 1H14)

Recent Research Highlights

Oilfield Services: Symmetry of a Theme – We Agree with SLB

SLB was the Keynote Speaker at a competitor's conference that started today. Below are quotes from the CEO's speech and our comments.

“Over the past 10 years, total E&P capex spend has grown by around 400% while global oil production is up by only 15 percent. Over the past 3 years, the upstream E&P industry has spent on average \$600 billion per year with the only net increase in global oil production coming from North America unconventional resources.” Major oil companies are shifting spending from offshore deepwater to onshore unconvensionals as they accelerate spending on higher return, faster payback projects.

“The combination of escalating finding and development costs, relatively flat global oil production, and range-bound commodity prices is therefore putting significant pressure on profitability and free cash flow in the entire E&P value chain. It is also clear that the required improvement will not come from yet another round of procurement-driven price reductions across the E&P value chain, while we continue to do business as usual.” Reducing cost per BOE and improving IPs and EURs are now more important to the E&P industry than just squeezing out some costs and increased integration of technical capabilities accelerates that trend.

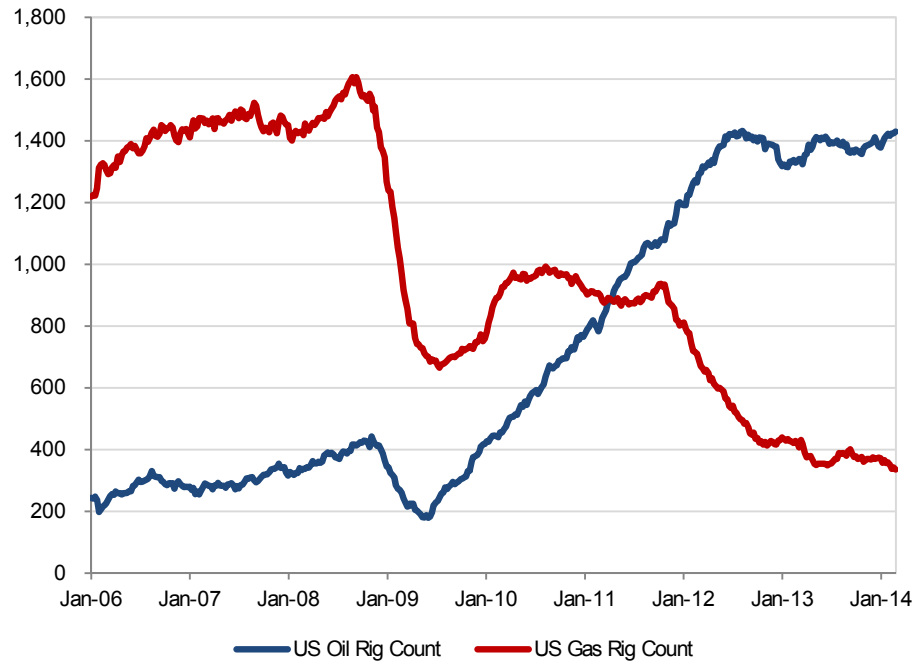
“The current underlying technical performance will simply not support that.”

“The required step-change can only be achieved by taking a new approach to how we drive our business forward; by learning from what has been done in other industries and by actively challenging the status quo of our current performance.” Risking one's margins based on the expectation of improved performance from project integration and technology is increasing.

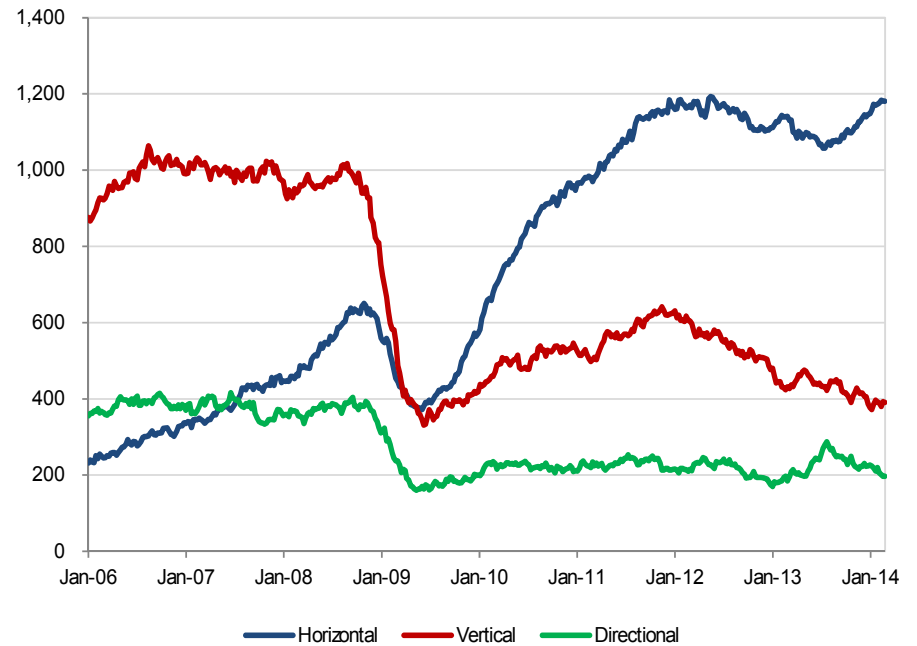
Source: Credit Suisse

Paradigm Shift

US Oil & Gas Split



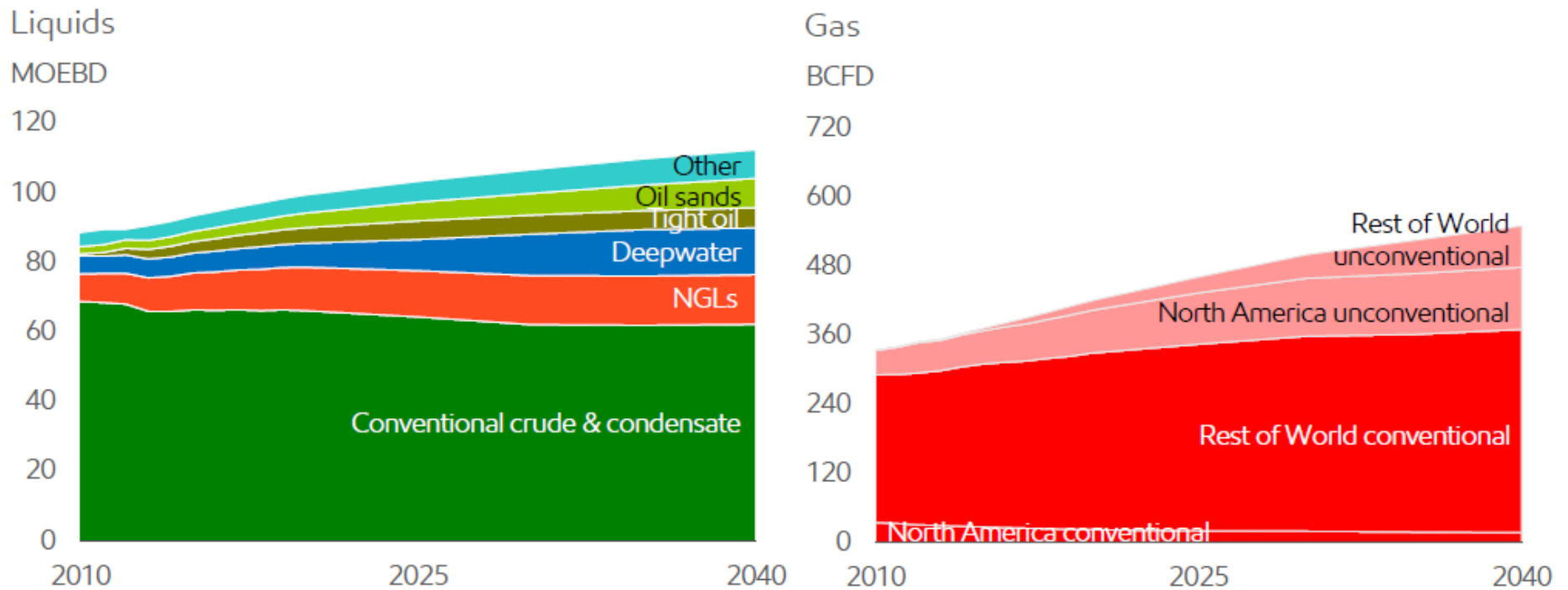
US Rig Count Trajectory



Paradigm shift from Gas to Oil rigs and from Vertical to Horizontal drilling

Source: Baker Hughes Rig Count

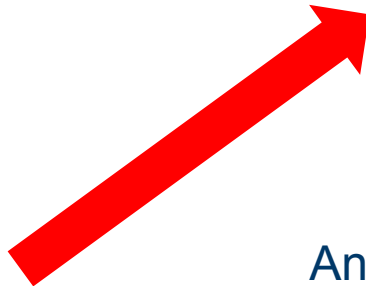
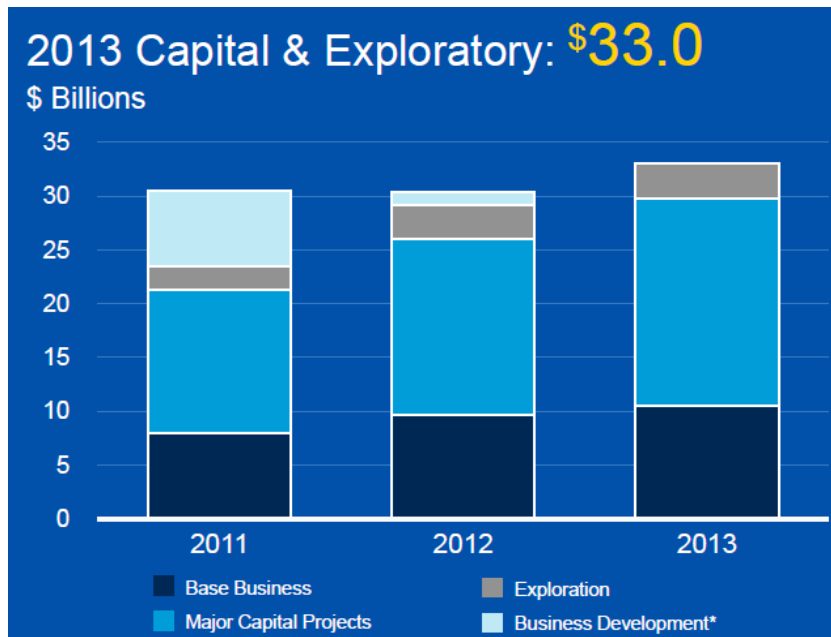
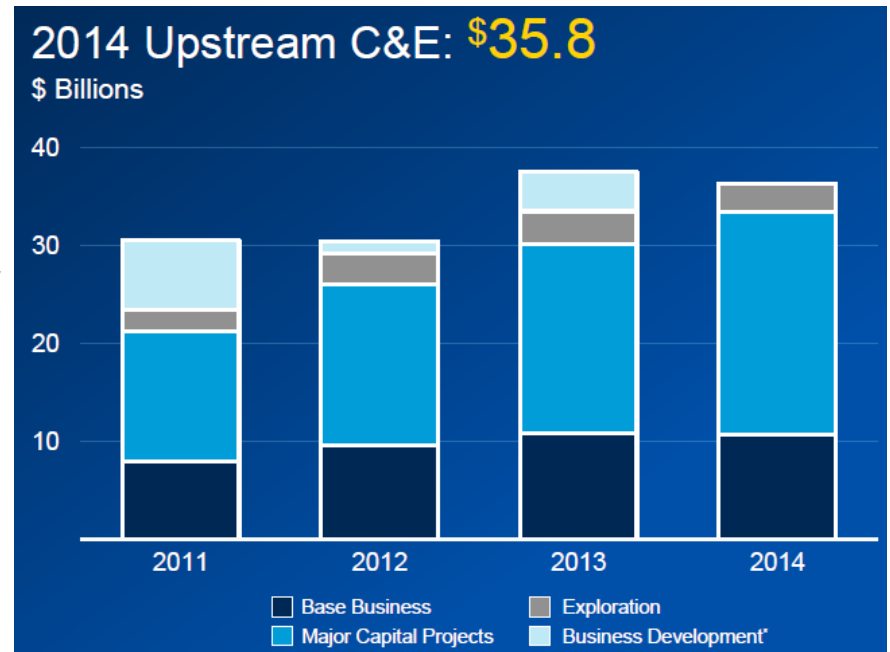
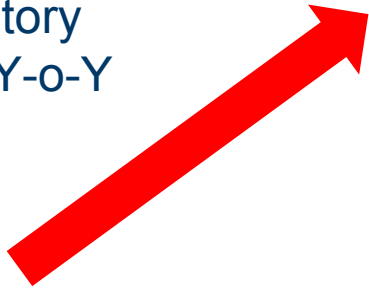
Technology enables growth in Unconventionals



Source: Exxon Mobil Analyst Day 2014

Upstream Capex

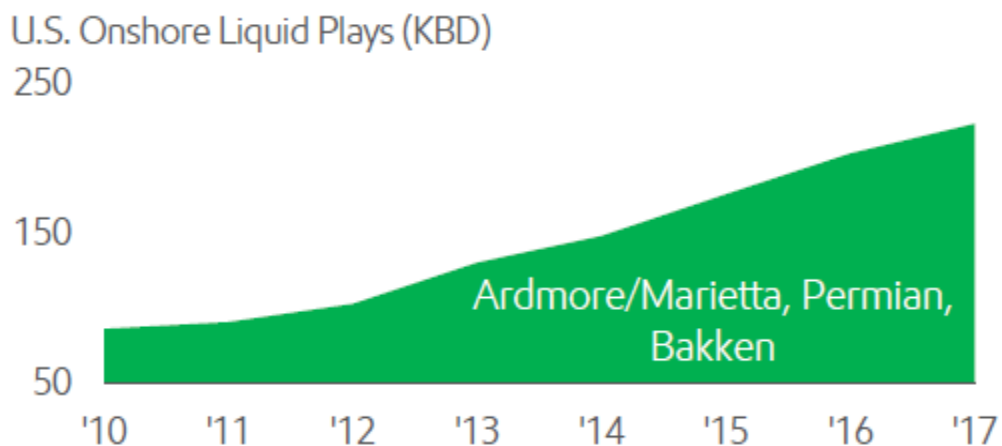
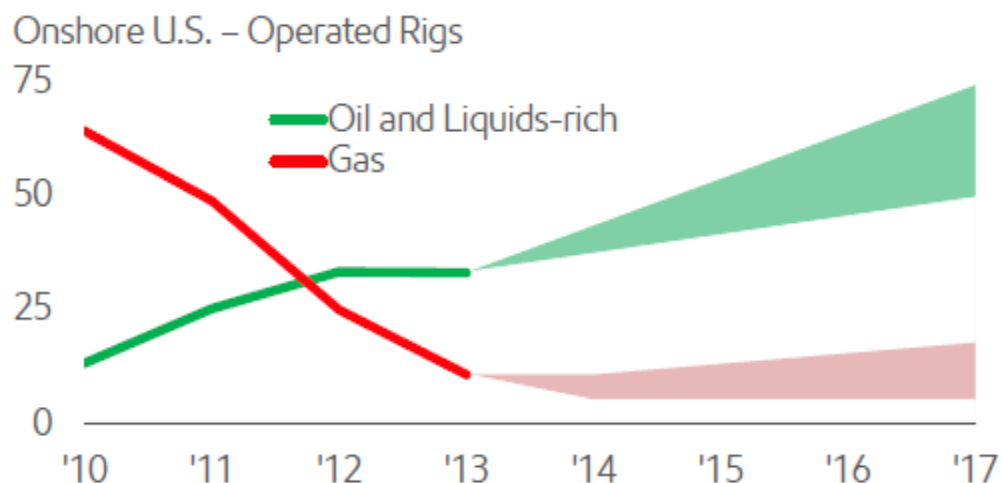
CVX's capital & exploratory (C&E) budget up +8.5% Y-o-Y



Anadarko's '14 capex is +12% YoY to \$8.1-\$8.5bn but 60% is going onshore vs. offshore

Source: Chevron Analyst Day 2014

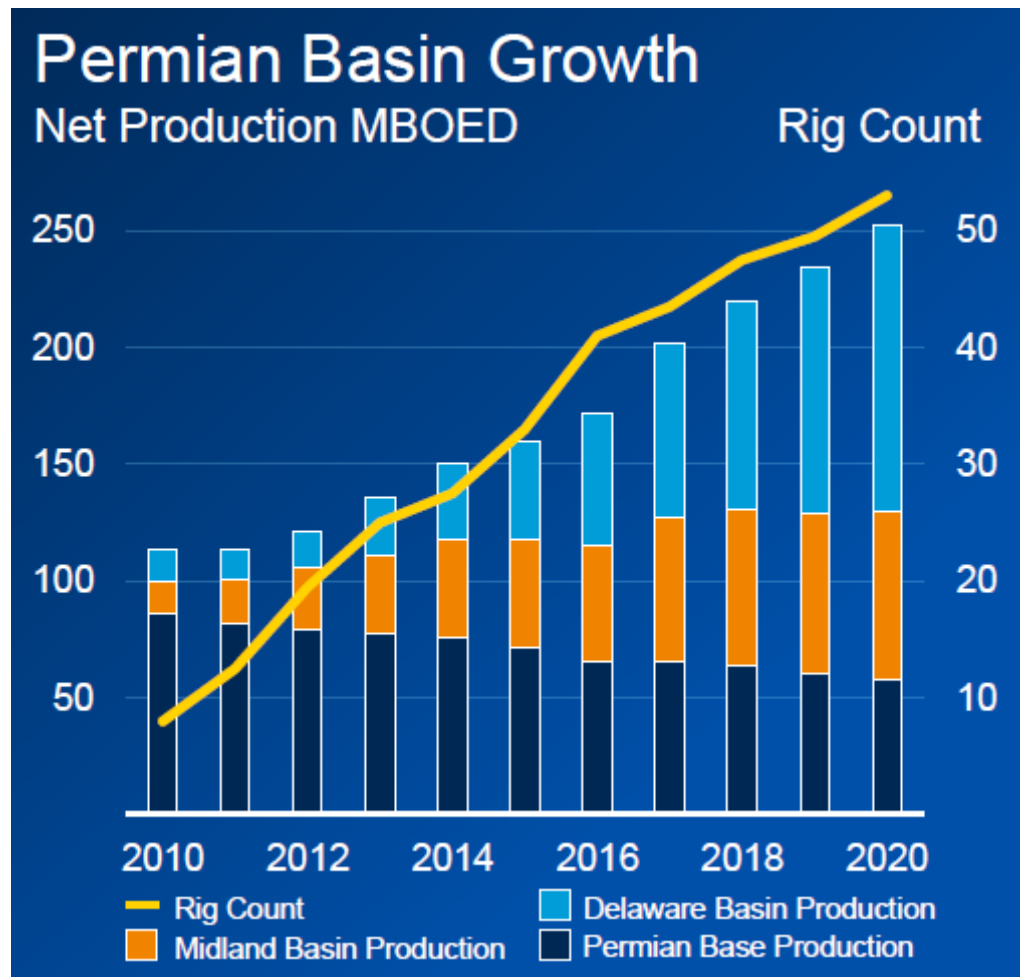
Majors focused on liquids-rich plays



- IOCs & Majors searching for “better wells”
- Near-term focus is on high-margin liquids production (onshore)
- ExxonMobil’s (**XOM**) focused on the Bakken, Woodford Ardmore/Marietta and the Permian; rig count from 30 or so up towards 45-70 rigs
- Chevron’s (**CVX**) Permian rig count to 50 from 25; adding in Duvernay over time too
 - “Small capital projects have high rates of return” (Chevron’s ‘13 Security Analyst Meeting presentation)

Source: Exxon Mobil Analyst Day 2014

Permian Basin's Growth

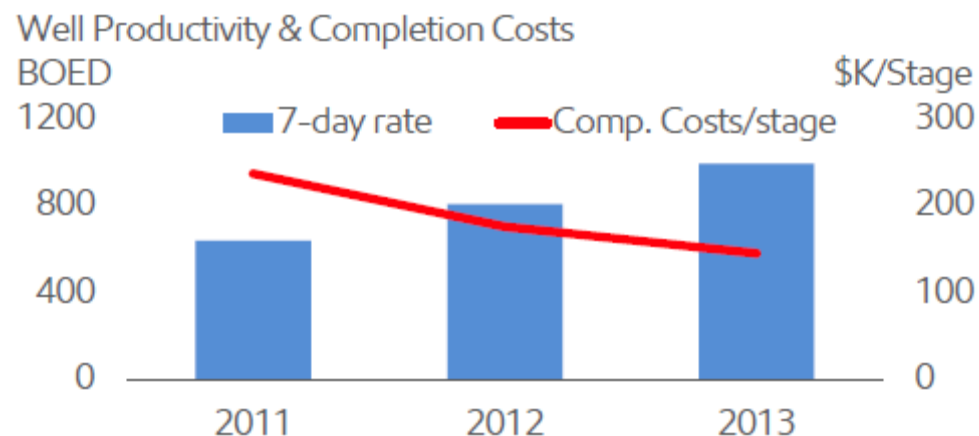
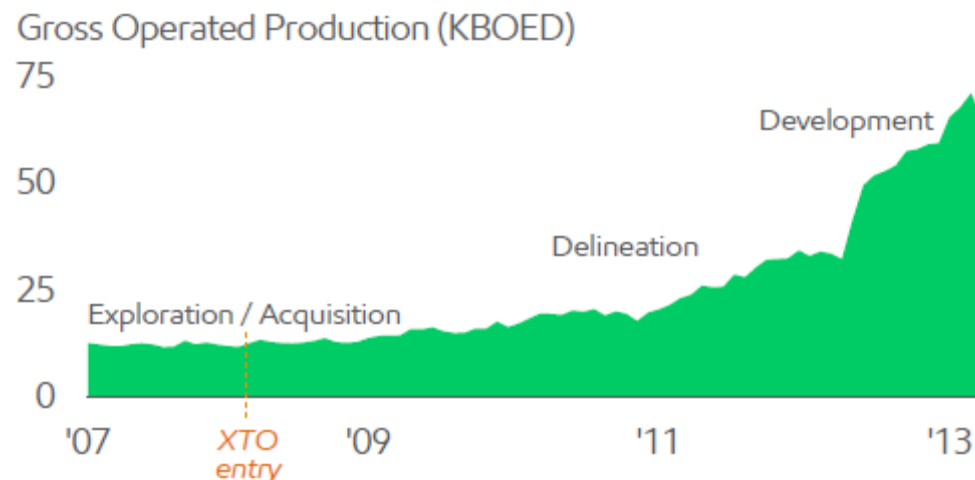


Horizontal Permian Oil rig count is up +25% Y-o-Y

Exxon and Chevron both increasing their rig counts in the Basin

Source: Exxon Mobil Analyst Day 2014

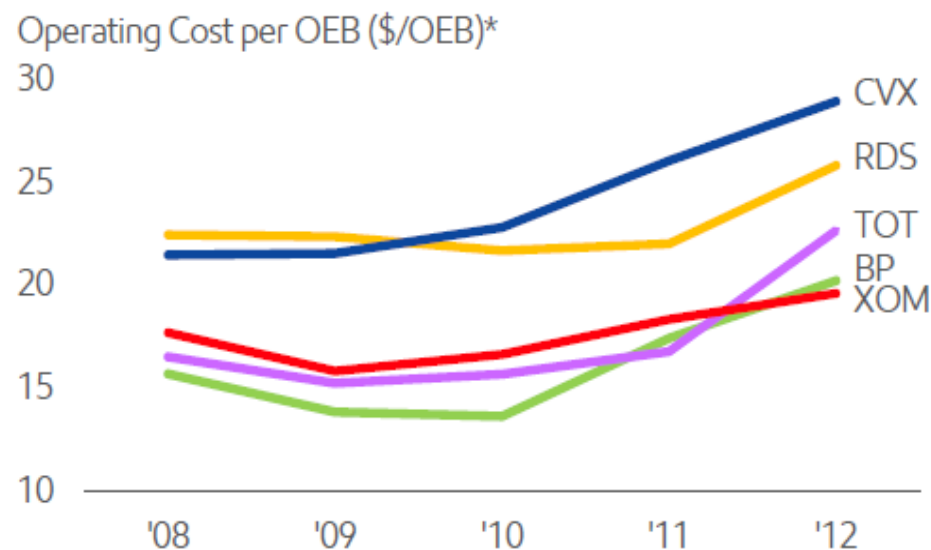
Higher margin growth Onshore U.S.



- High-margin development
 - Pad drilling
 - Optimized drilling & completions
- Integrating high-impact technologies
 - Increasing recovery and efficiencies
 - For example...
 - HAL's CYPHER™
 - SLB's Mangrove™

Source: Exxon Mobil Analyst Day 2014

Rising Costs & the need for better investor returns



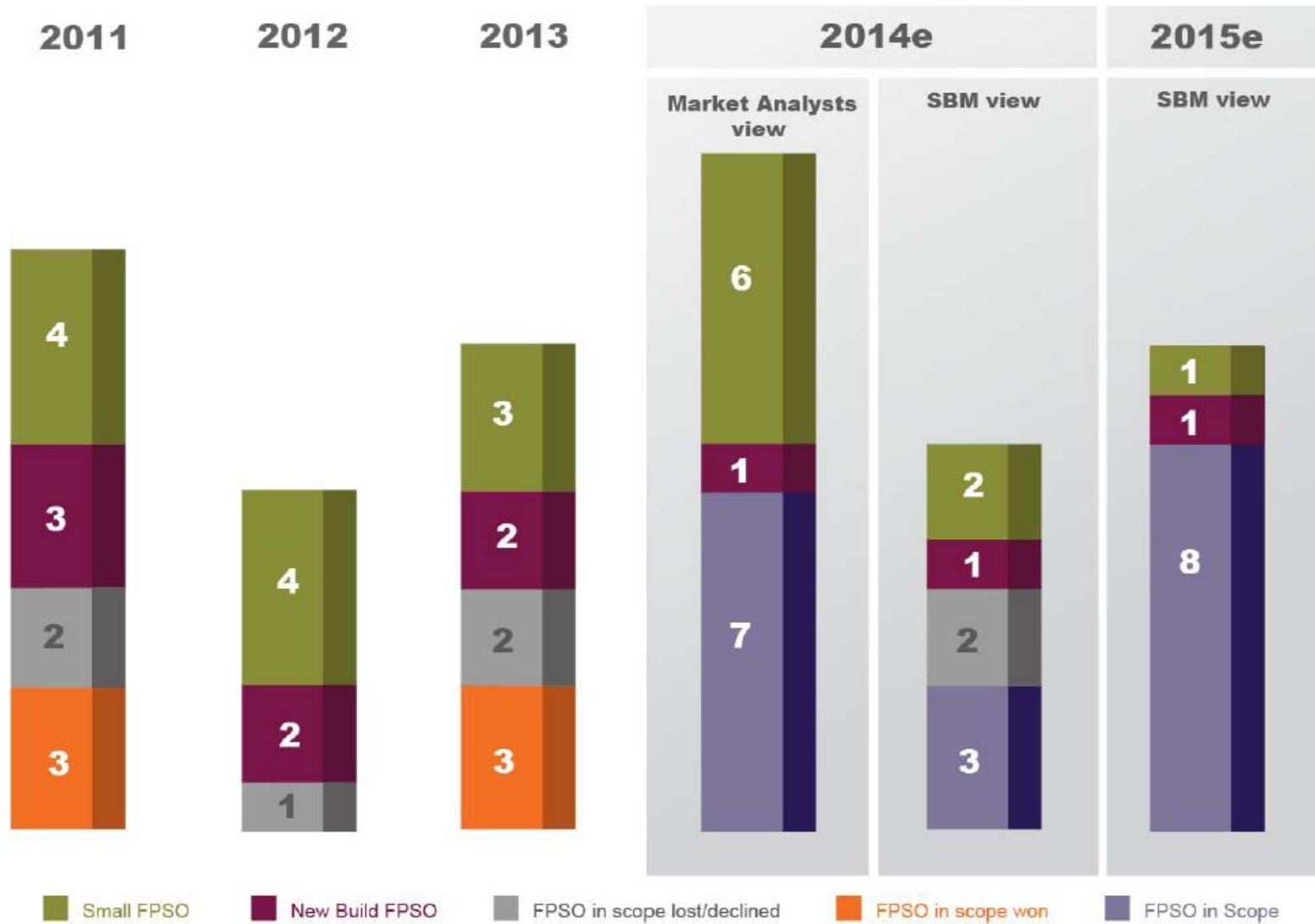
* Cost defined as production costs excluding taxes plus exploration expenses and depreciation & depletion costs (per 10-K, 20-F)

- Significant cost escalations since 2010
 - Key areas of cost increases:
 - Subsea equipment
 - Subsea installation and repair
 - Maintenance and labor

- BP's notion of "**Value over Volume**"
 - Focused on returns
 - Separating their Lower 48 onshore O&G business in the U.S.





Source: ExxonMobil and BP plc.

Overly Optimistic Offshore Build out



Source: SBM Offshore presentation

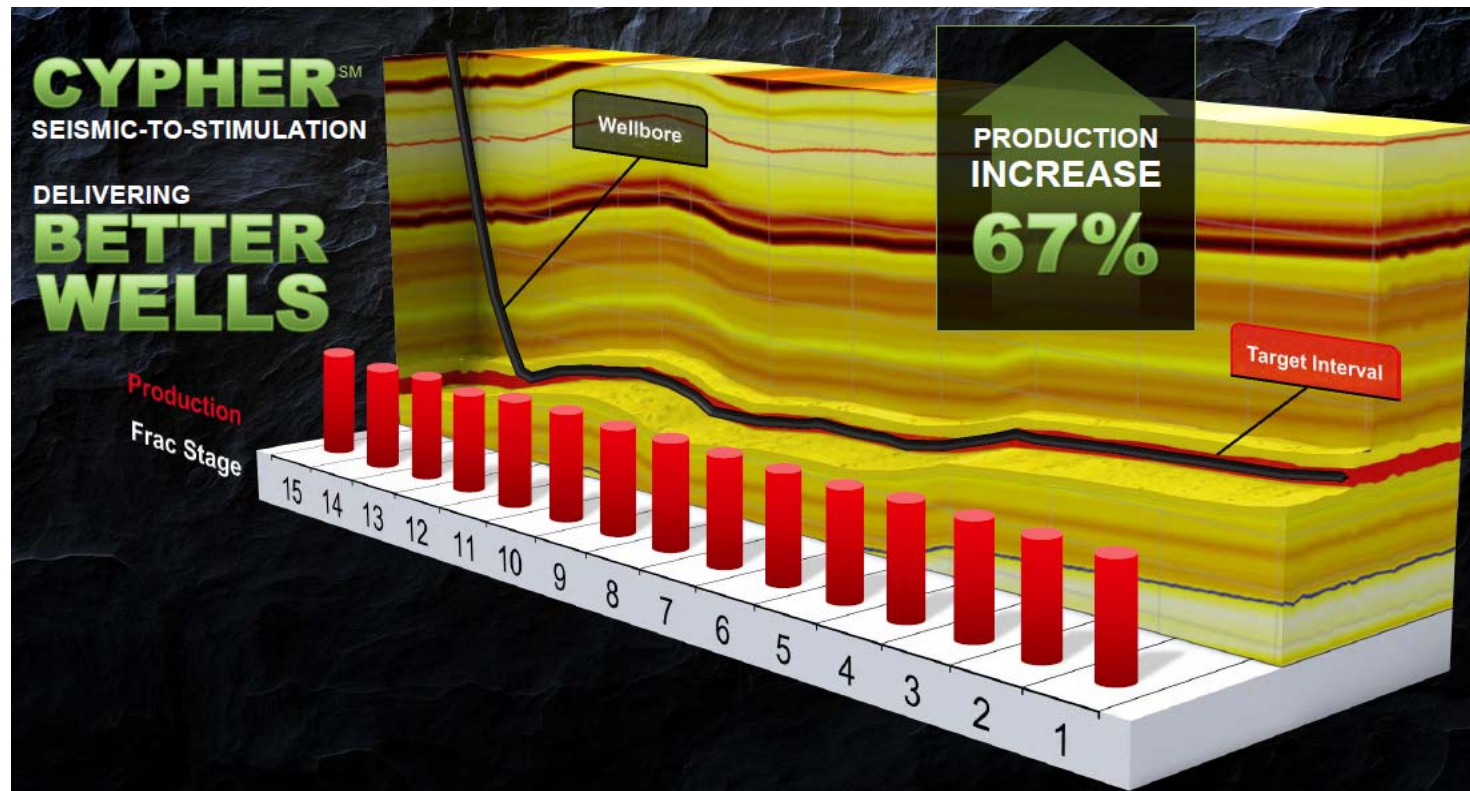
Big Fields Getting Bigger

	April 2010	Feb 2012	Feb 2013	Feb 2014
				
Wells/Section (Unit)	5	10	10 - 16	16
Spacing Acres/Well	130 Acres	65 Acres	40-65 Acres	≈40 Acres
Est. Reserves/Well, NAR	320 MBoe	450 MBoe	400 MBoe	450 MBoe
Est. Reserves/640 Acres	1.6 MMMBoe	4.5 MMMBoe	6.4 MMMBoe	7.2 MMMBoe
CWC/Well	\$5.25 MM	\$6 MM	\$6 MM	\$5.5 MM
Direct ATROR*/Well	80%	130%	100%	100%+
NPV10/640 Acres	\$23 MM	\$69 MM	\$98 MM	\$114 MM
Total Net Potential Resource	0.9 BnBoe	1.6 BnBoe	2.2 BnBoe	3.2 BnBoe

Wells/Section up +220%
 Costs per well up < 5%
 Resource Potential up +256%

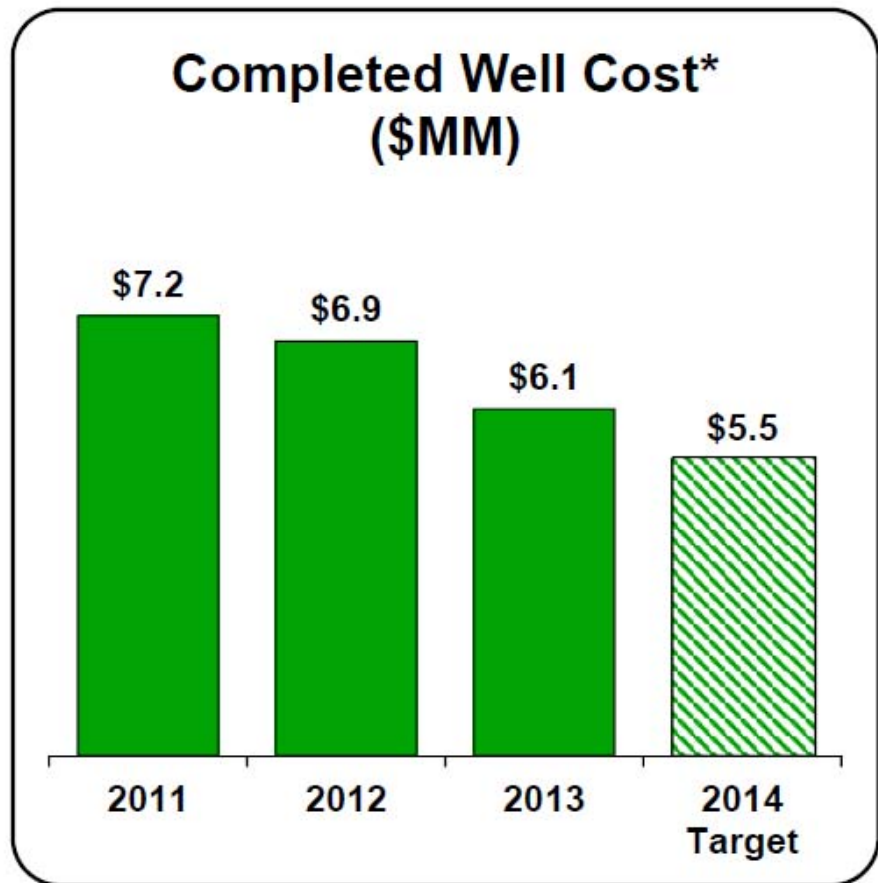
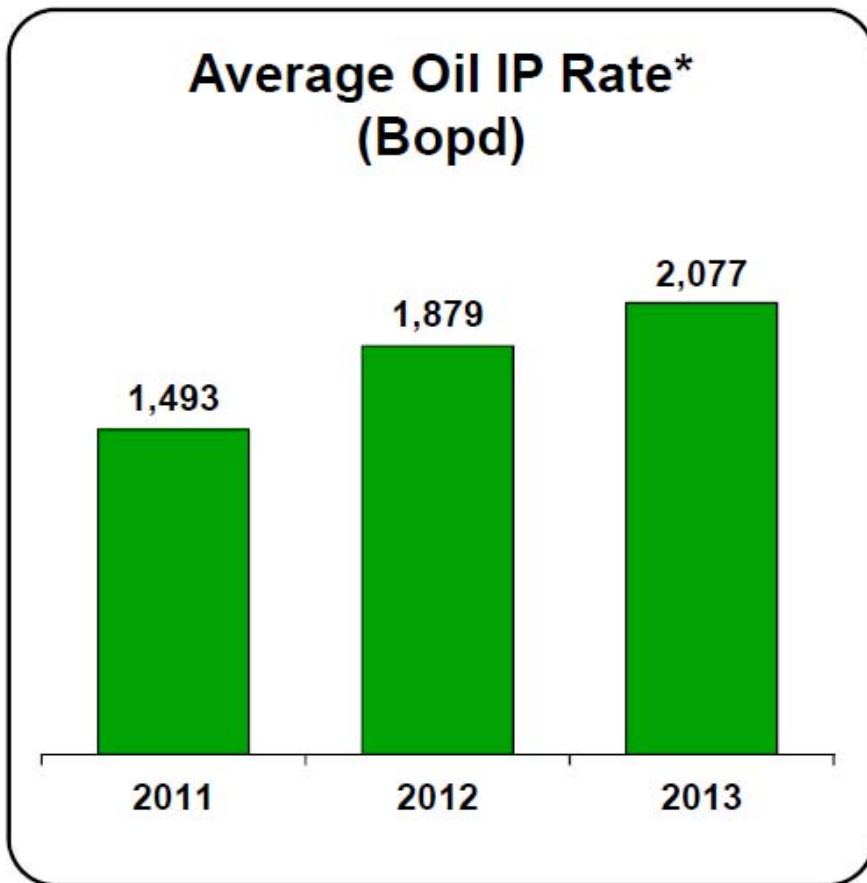
Source: EOG Resources

Creating Value – A Simple Formula



Source: Halliburton Analyst Day presentation

Optimizing Efficiency

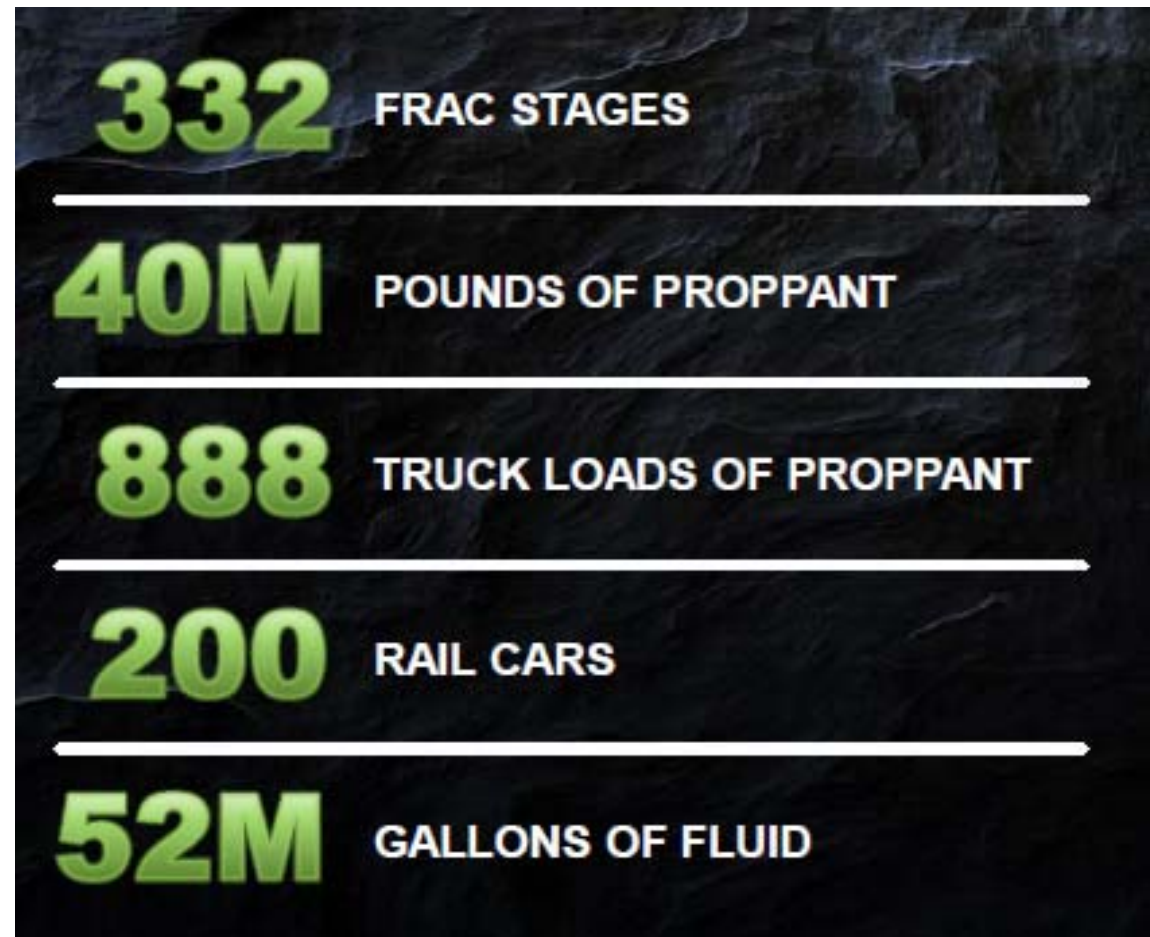


Source: EOG presentation

Service Intensity per Frac Crew

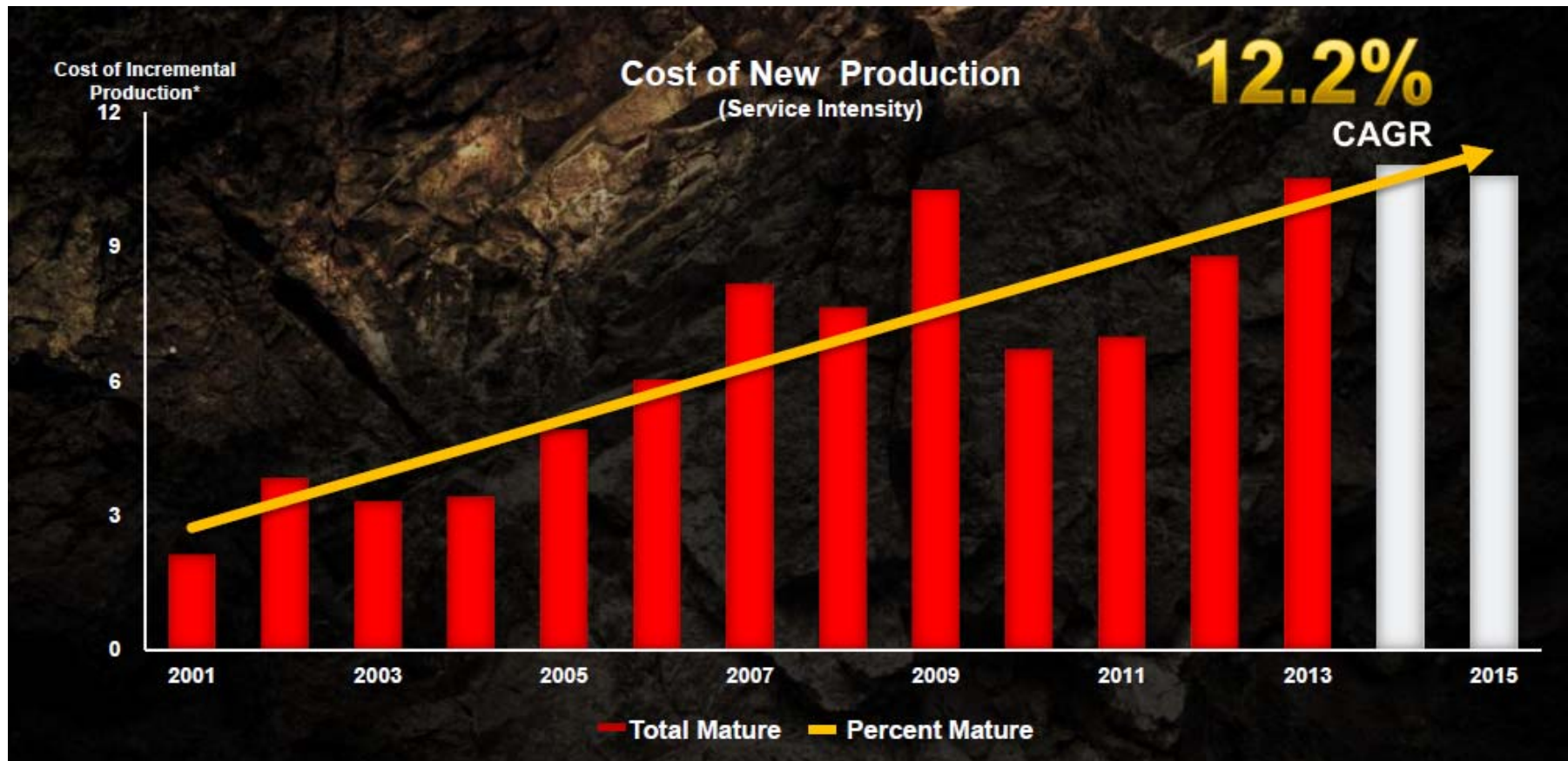
What does it take to support 24-hour operations today?

- One 24-hour frac crew working for 30 days



Source: Halliburton Analyst Day presentation

Service Intensity Accelerating Spend

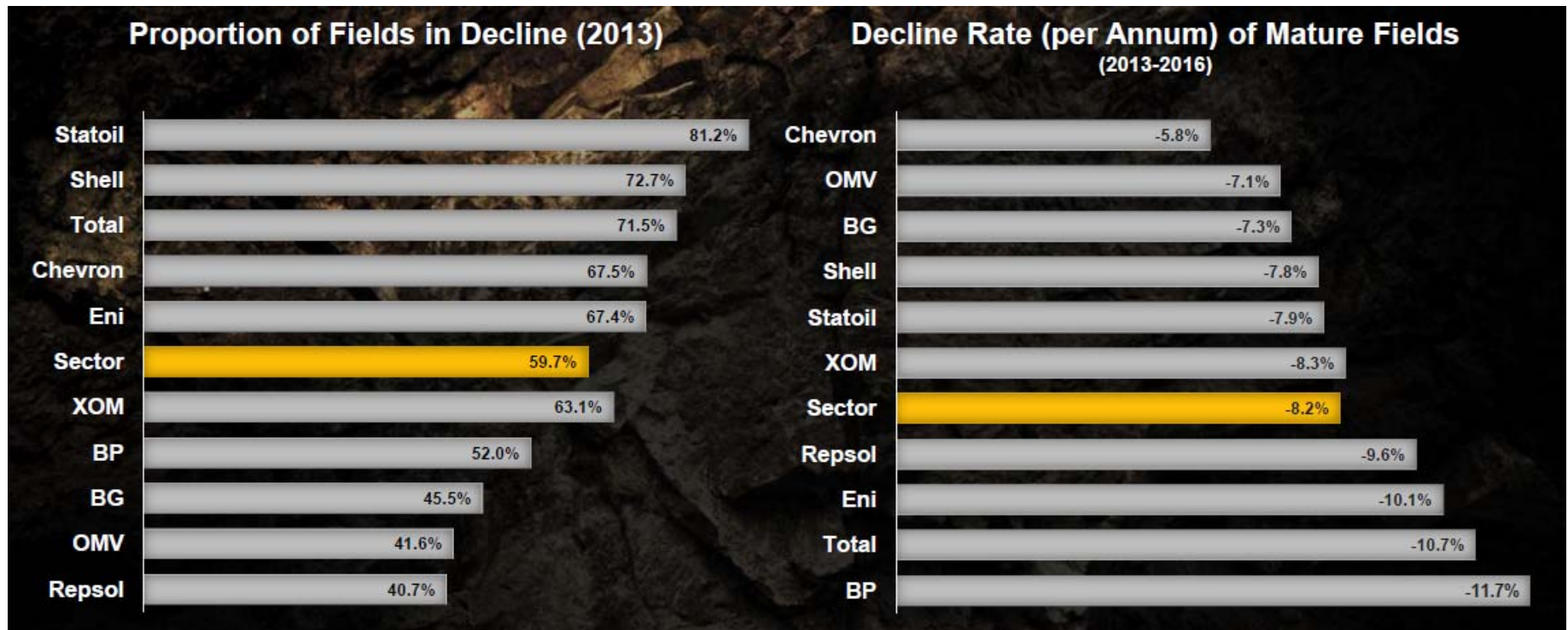


Capex required (in millions of dollars) to increase production by 1,000 BOE per day

Source: Halliburton Analyst Day presentation

Managed Shale for Mature Fields

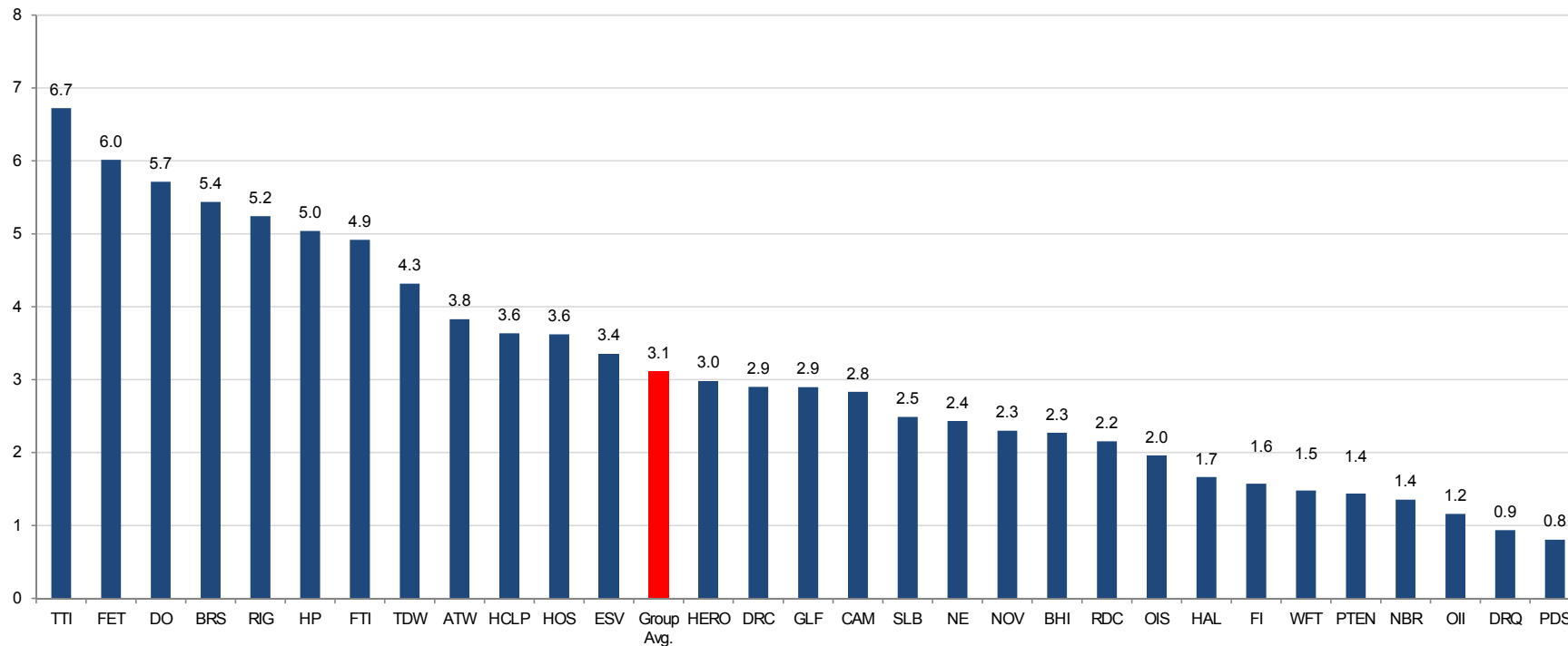
Managed Shale is the notion whereby OFS companies take on additional reservoir and project management risk in both conventional and unconventional reservoirs in order increase returns.



60% of NOC's production is **declining at 8% per annum**, which creates an opportunity for OFS companies to deploy their newest technologies to boost production

Source: Halliburton Analyst Day presentation

OFS Short Interest Ratio / Days to Cover



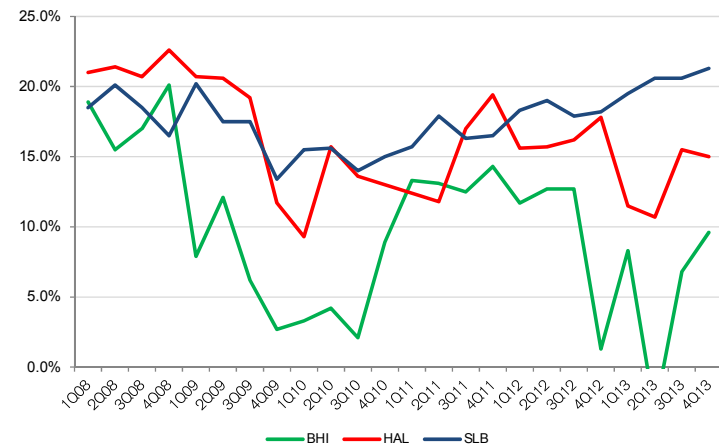
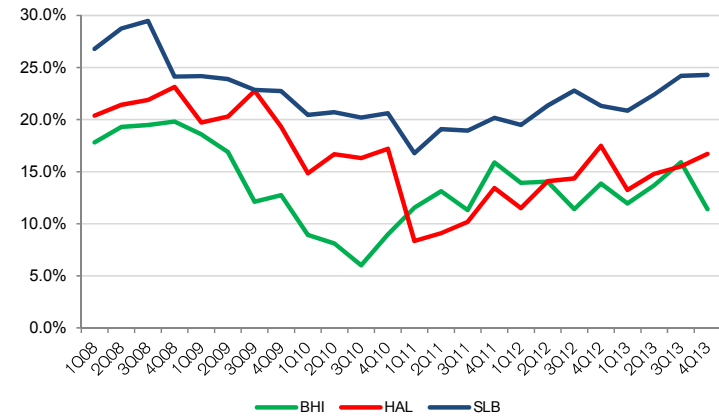
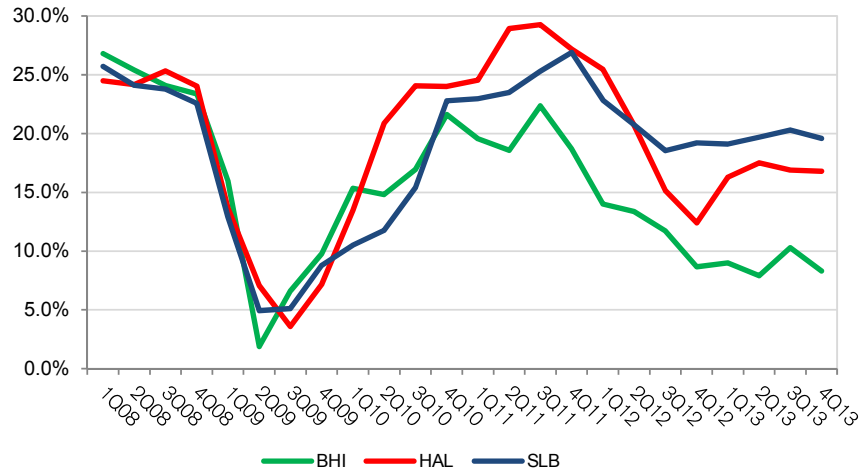
- FET and TTI have the short interest ratio
- TDW and BRS should the greatest period-over-period increase in short interest, +116% and +83%, respectively
- DRC's declined by 52% period-over-period

Source: Credit Suisse estimates and Bloomberg

Historic Geographic Margin Comparisons

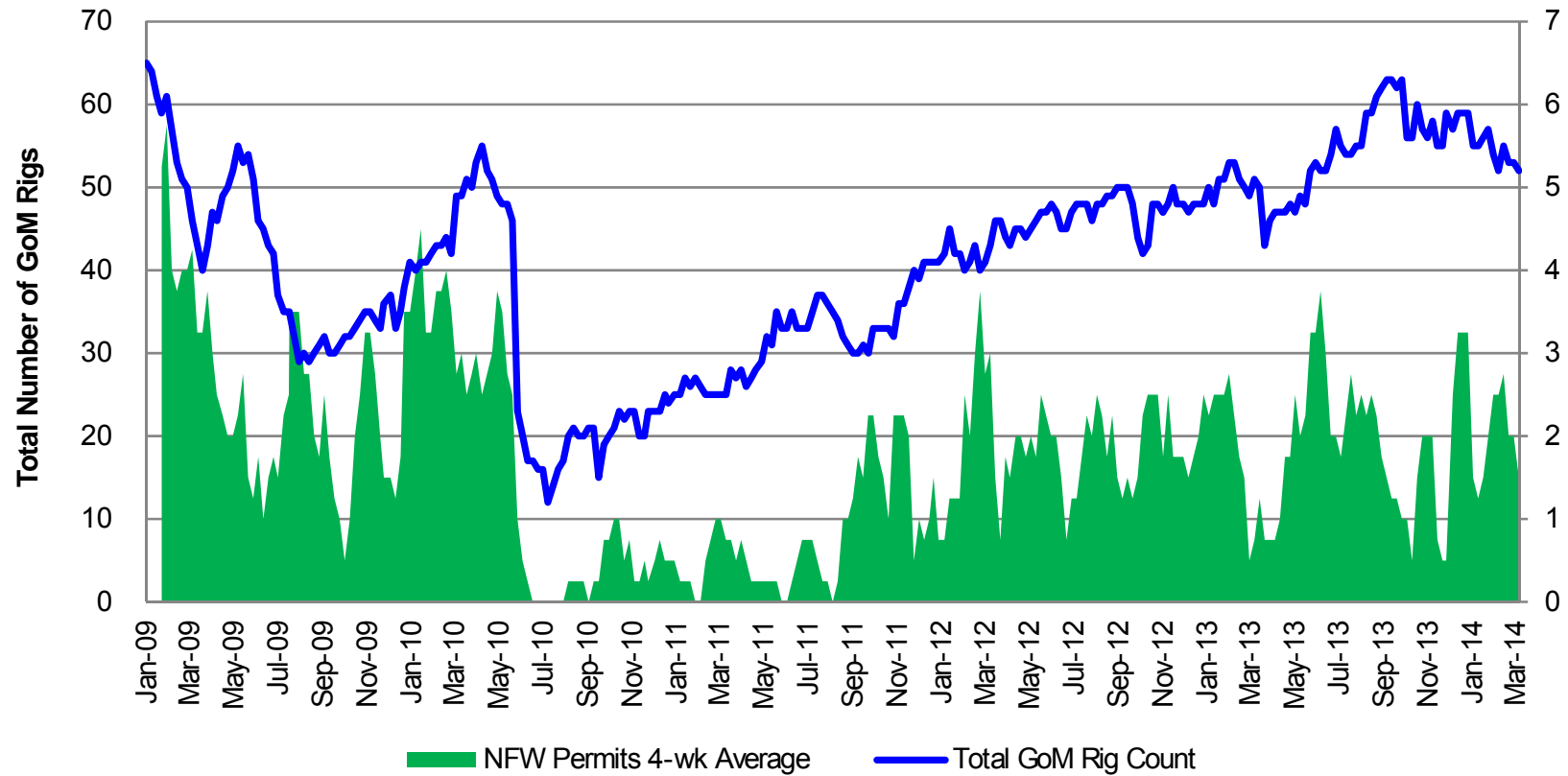
E. Hemisphere & Latin America

North America



Source: Credit Suisse estimates and company data

Gulf of Mexico



Source: Baker Hughes Rig Count

Companies Mentioned (Price as of 14-Mar-2014)

Baker Hughes Inc. (BHLN, \$61.8)
Cameron International Corp. (CAM.N, \$61.92)
FMC Technologies, Inc. (FTLN, \$51.35)
Forum Energy Technologies, Inc. (FET.N, \$27.3)
Halliburton (HAL.N, \$55.19)
Helmerich & Payne, Inc. (HP.N, \$97.95)
Nabors Industries, Ltd. (NBR.N, \$22.0)
National Oilwell Varco (NOV.N, \$74.6)
Oceaneering Intl, Inc. (OILN, \$71.01)
Oil States International (OIS.N, \$94.87)
Patterson-UTI Energy, Inc. (PTEN.OQ, \$28.79)
Precision Drilling Corporation (PDS.N, \$10.46)
Schlumberger (SLB.N, \$99.09)
Superior Energy Services, Inc. (SPN.N, \$28.36)
Tetra Technologies, Inc. (TTLN, \$11.73)
Weatherford International, Inc. (WFT.N, \$16.09)

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