



Financial Overview Of The Offshore Oil & Gas Industry



34th Annual Marine / Offshore Industry Outlook Conference



Barry Donovan
Morgan Keegan & Company, Inc.
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QUESTIONS TO ANSWER TODAY

- ▶ Why Do Toasters Have A Setting That Burns Toast To A Horrible Crisp That No Human Can Swallow?
- ▶ Does Pushing The Elevator Button More Than Once Make It Arrive Faster?
- ▶ Why Is It That The Professor On Gilligan's Island Could Construct A Radio Out Of A Coconut But He Couldn't Lead An Effort To Repair A Hole In A Boat?

FINANCIAL OVERVIEW OF THE OFFSHORE OIL & GAS INDUSTRY

- ▶ Significance Of Offshore Oil & Gas
- ▶ Tale Of Two Operating Environments
 - Worldwide Offshore Growth
 - Post-Macondo U.S. Offshore Market
- ▶ Financial Implications For Offshore Industry

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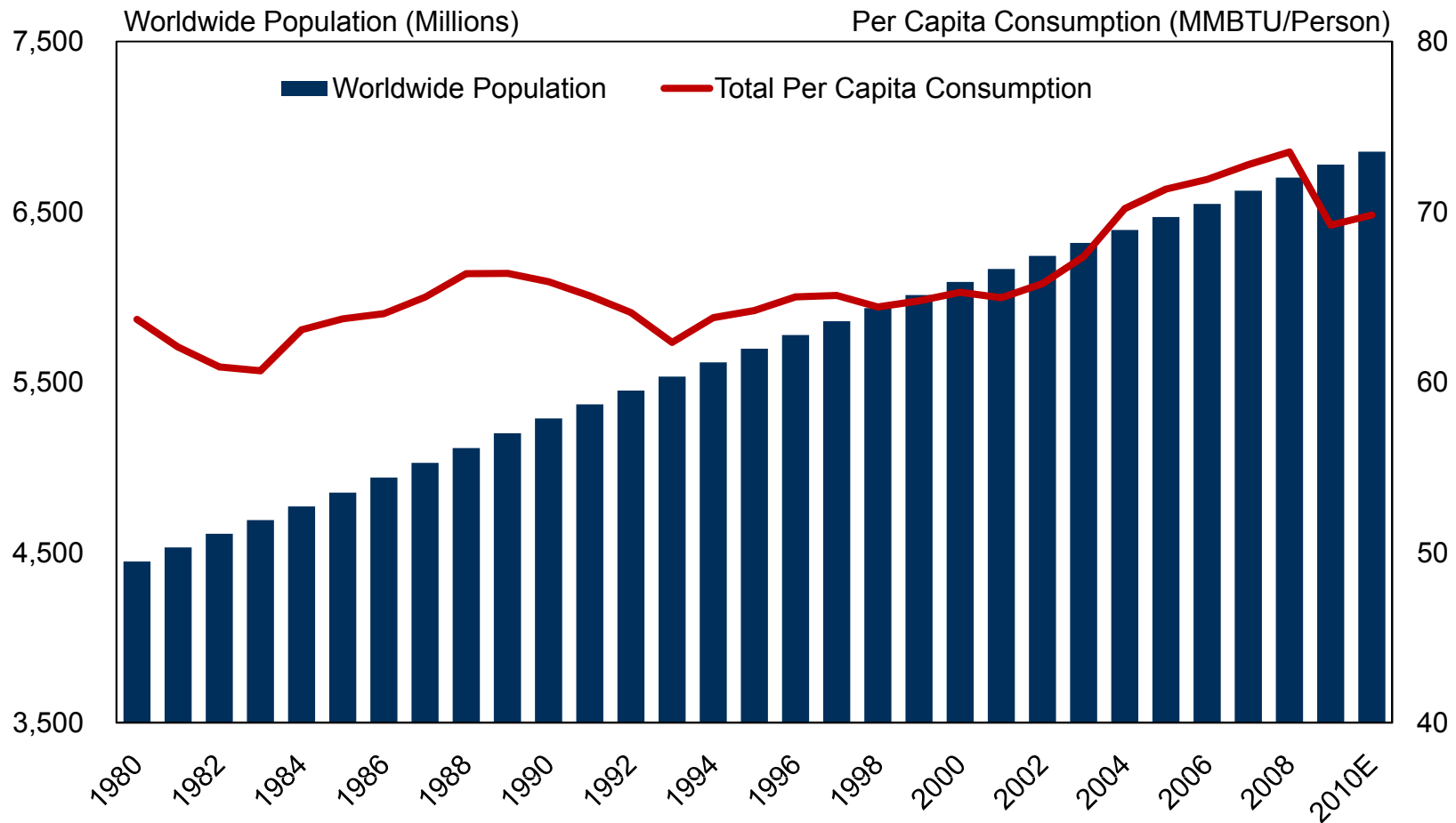
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A photograph of an offshore oil and gas platform at sea. The platform is a complex structure with multiple levels, a tall derrick, and various pipes and cranes. It is supported by a large steel jacket. The sea is a deep blue, and the sky is a lighter blue, suggesting a clear day. The text "Significance Of Offshore Oil & Gas" is overlaid in white, bold, sans-serif font in the center of the image.

Significance Of Offshore Oil & Gas

INCREASING GLOBAL ENERGY CONSUMPTION

▶ Growing Populations; Generally Growing Per Capita Consumption

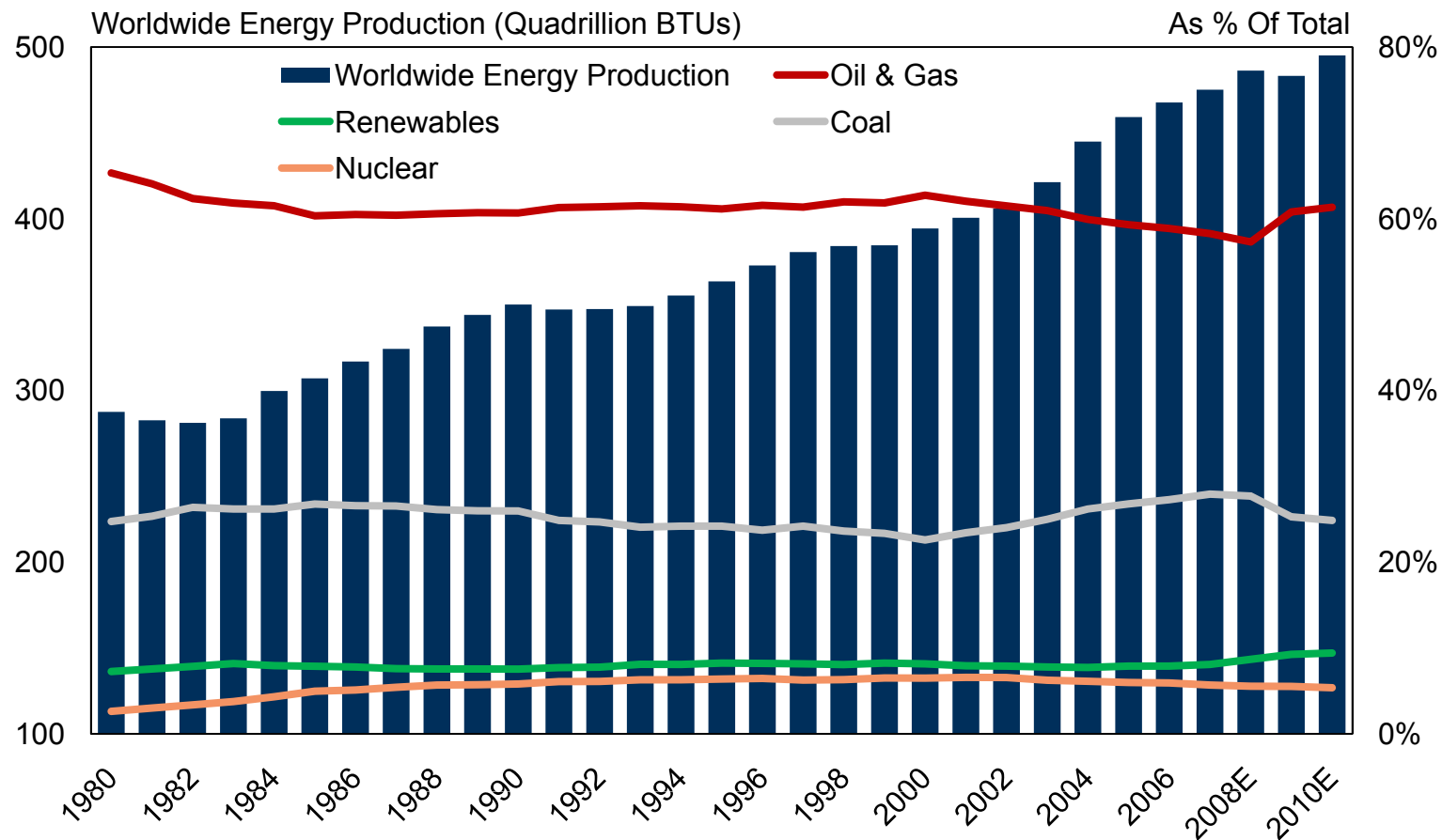


▶ Consumption Expected To Continue Increasing Worldwide (+50% 2008-2035)

Source: U.S. DOE/EIA, Annual Energy Review (2010), Monthly Energy Review (February 2011) and International Energy Outlook (2010).

OIL & GAS = LARGEST SOURCE OF GROWING ENERGY SUPPLY

▶ Oil & Gas Is Primary Source Of Growing Energy Production



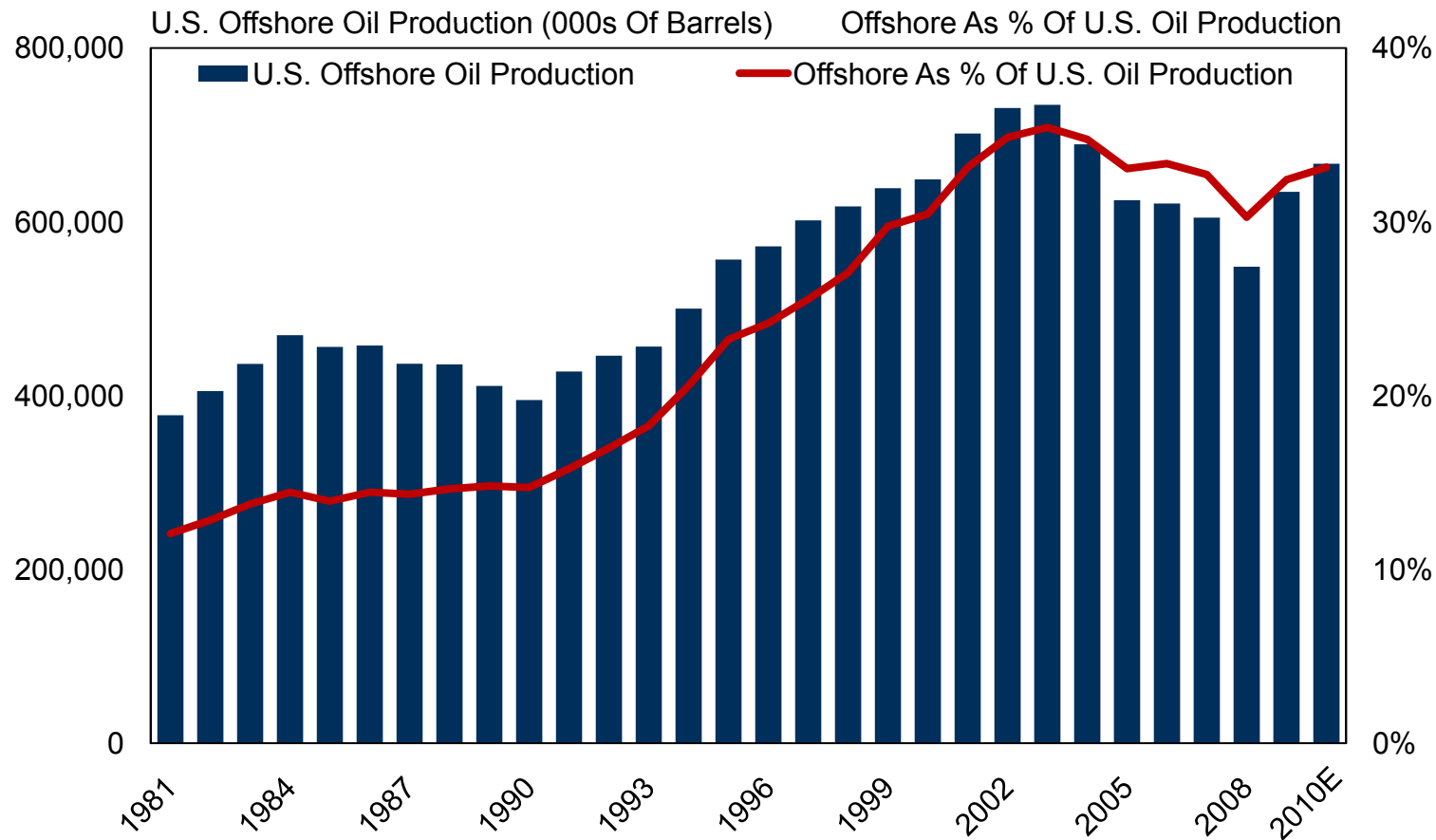
▶ Oil & Gas Is Expected To Remain Primary (>50%) Source In Forecast

Source: U.S. DOE/EIA, Annual Energy Review (2010). Estimates based on Monthly Energy Review (February 2011). Oil & Gas includes NGLs.

GROWING U.S. OFFSHORE CONTRIBUTION

▶ U.S. Offshore Grew As % Of U.S. Oil Production

- 2004-2008 exception: hurricanes and flat world rig supply (international migration)



▶ U.S. Offshore Remains Large Untapped Source Of Domestic Energy

- Potential issue: ultimate post-Macondo regulatory environment

Source: U.S. DOE/EIA. Actual through October 2010. Estimated for remainder of 2010.

GROWING OIL & GAS RESERVES

▶ Technology And Investment Have Increased Oil & Gas Reserves Worldwide


	Proven Oil & Gas Reserves (Billions Of Barrels Of Oil Equivalent)		
	1990	2000	2010
U.S.	56	52	63
Brazil	4	10	15
West Africa ¹	40	57	90

▶ Substantial Offshore Additions

- U.S.: 13 deepwater discoveries (1.4+ billion barrels) in 2009, most since 2002; plus deep shelf and deep wells in shelf
- Brazil: pre-salt reserves anticipated to be more than 90 billion barrels
- West Africa: Angola reserves increased 2x from 2005 to 2010; Senegal & Equatorial Guinea undiscovered oil reserves increased 5x from 2000 to 2010
- Rest Of World: many countries increasing offshore (Israel, Egypt, others)

Source: Oil & Gas Journal, 2011.

¹ West Africa includes Angola, Benin, Cameroon, Congo (Brazzaville & formerly Zaire), Equatorial Guinea, Gabon, Ghana, Ivory Coast, Mozambique, Nigeria and Senegal.

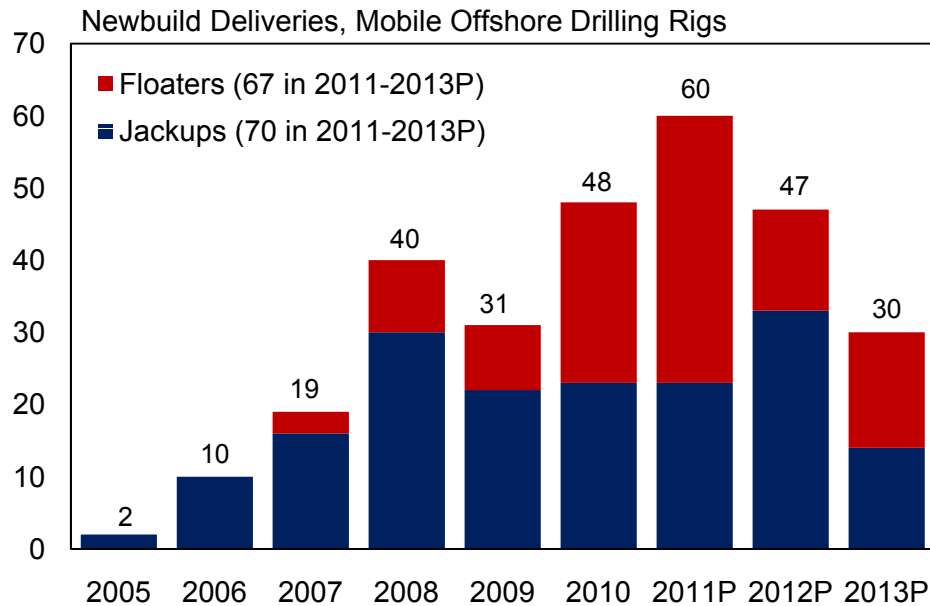
A world map is centered on the page, rendered in a light blue color against a dark blue background. The map is overlaid on a grid of thin, light blue lines that form a globe-like pattern. The text is positioned in the lower half of the image, centered horizontally.

Tale Of Two Operating Environments

OFFSHORE INDUSTRY ACTIVITY WANTS TO GROW

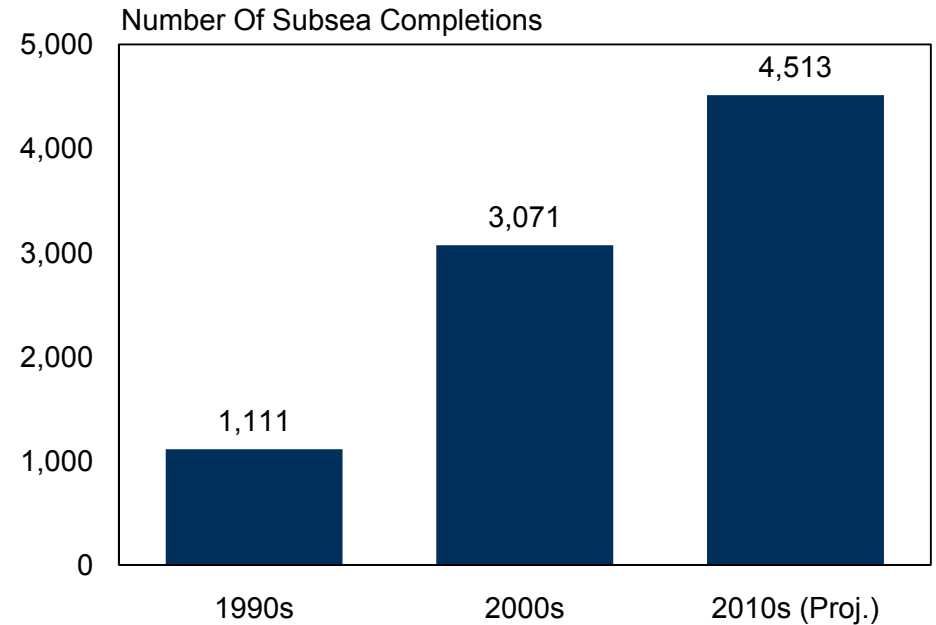
► Offshore market wants to grow, including in U.S.

Worldwide Offshore Rig Fleet Additions¹



2011-2013P Additions As % Of 1/1/11 Rigs (722) ≈19%

Worldwide Subsea Completions Growth²



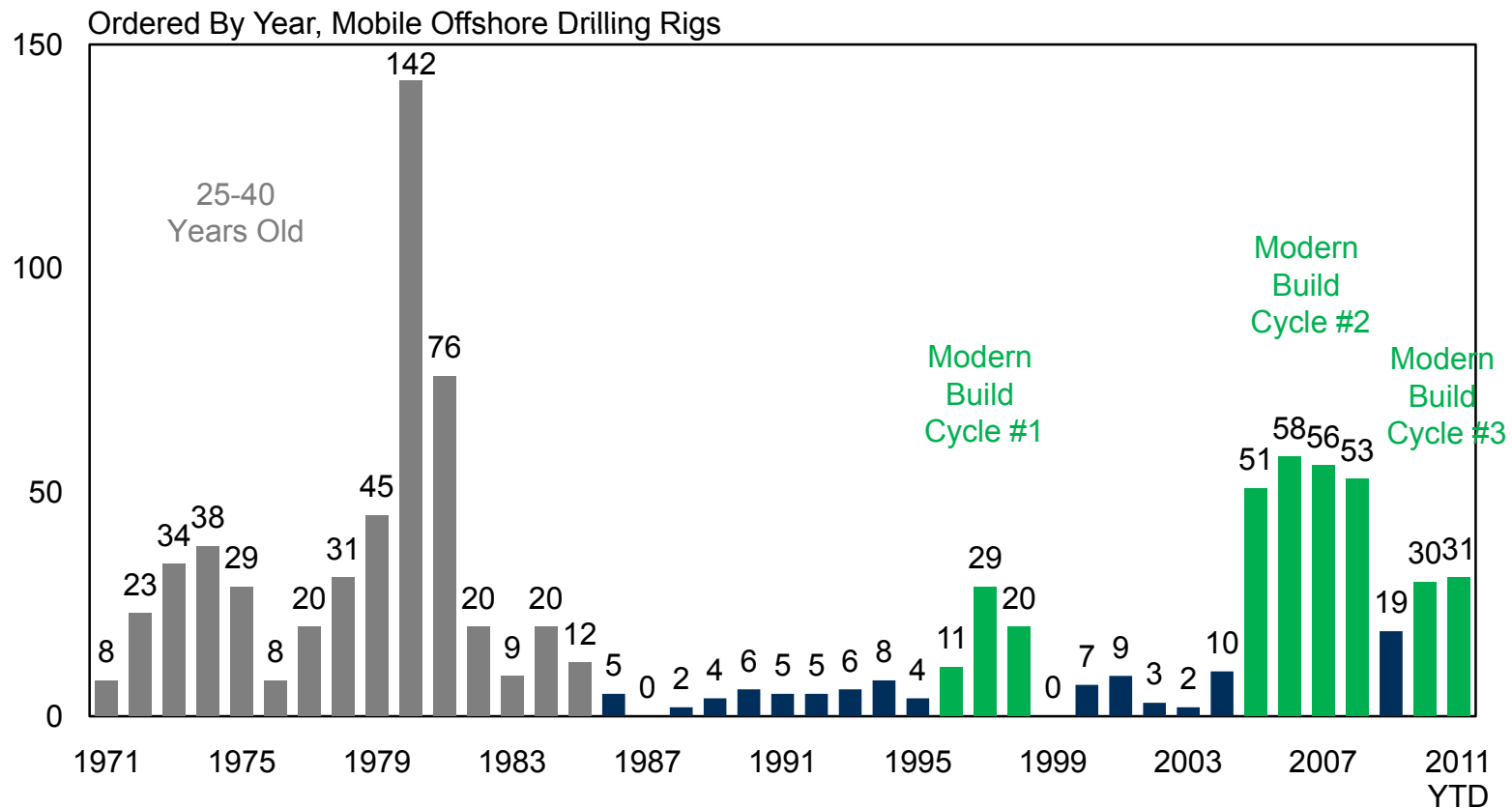
► Growth extends beyond rigs to include other services and equipment

¹ Source: ODS Petrodata, March 11, 2011. Includes jackups and floaters only.

² Source: Quest Offshore Resources, January 2011.

INDUSTRY IS INVESTING IN OFFSHORE RIGHT NOW

▶ Industry Is Investing For Deepwater, Deep Wells And Horizontal Wells



▶ Drillers Ordered 55, Or ≈\$20 Billion, Of New Rigs In ≈5 Months Since 10/10

▶ More Than ½ Of Rigs Are Not Contracted For Work When Ordered

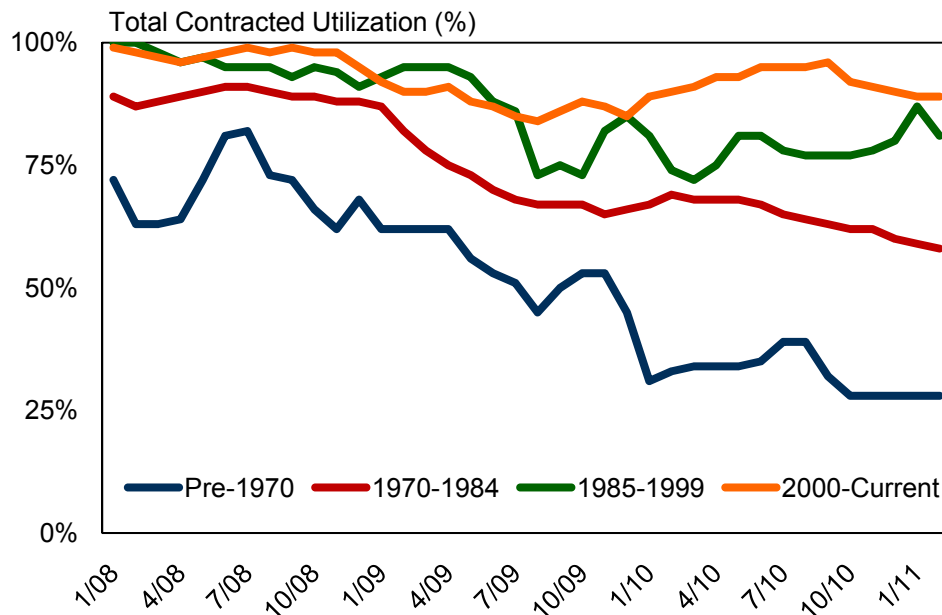
Source: ODS Petrodata RigBase and Morgan Keegan estimates based on company press releases. YTD 2011 through March 11, 2011.

Morgan Keegan

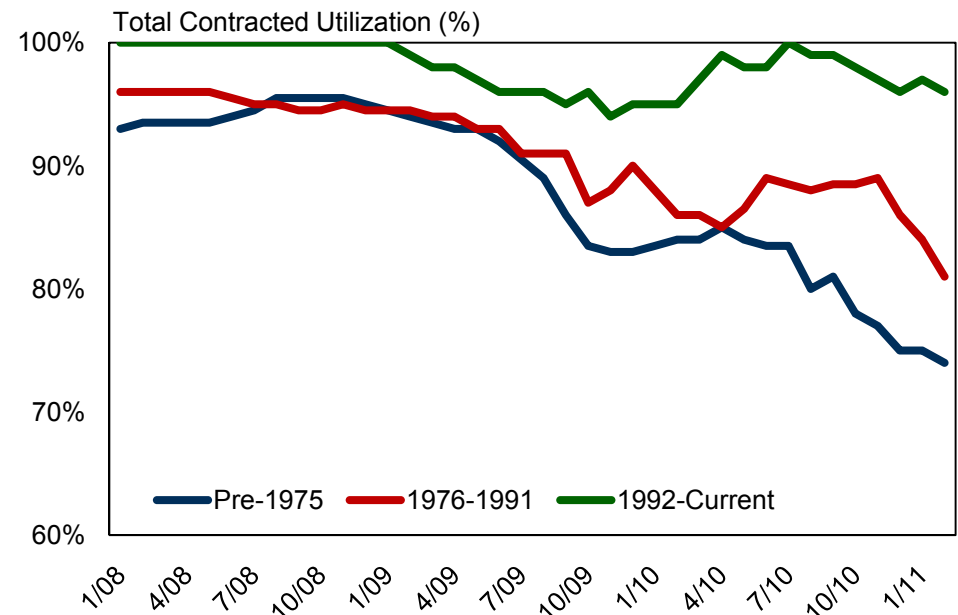
INVESTMENT DRIVEN BY BIFURCATED DEMAND

- ▶ Overall Fleet Utilization Does Not Suggest Additional Rig Needs; Specs Do

Utilization Of Jackups Since 2008 By Build Cycle



Utilization Of Floaters Since 2008 by Build Cycle



- ▶ High Utilization Of New Rigs Is Driving Current Investment And The Risk Being Taken By Drillers To Order Rigs Without Contracted Work

Source: ODS Petrodata, February 14, 2011. Included in an Atwood management presentation.

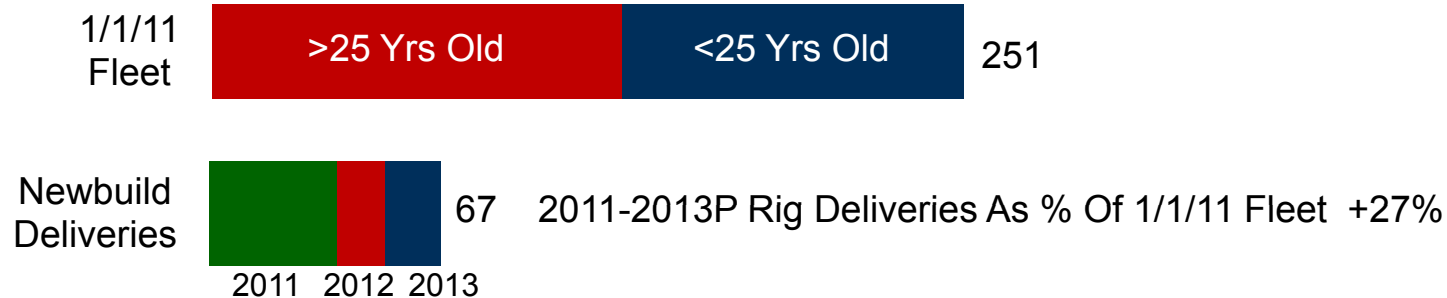
FUTURE DELIVERIES MAY INITIATE SOME RATIONALIZATION

- ▶ Is Building Rigs (And Vessels, Etc.) Without Contracted Work Defensible?
 - Bifurcated demand and existing fleet ages support it
 - Rig building economics are generally OK for drillers (not "off the chart")

Jackups



Floater

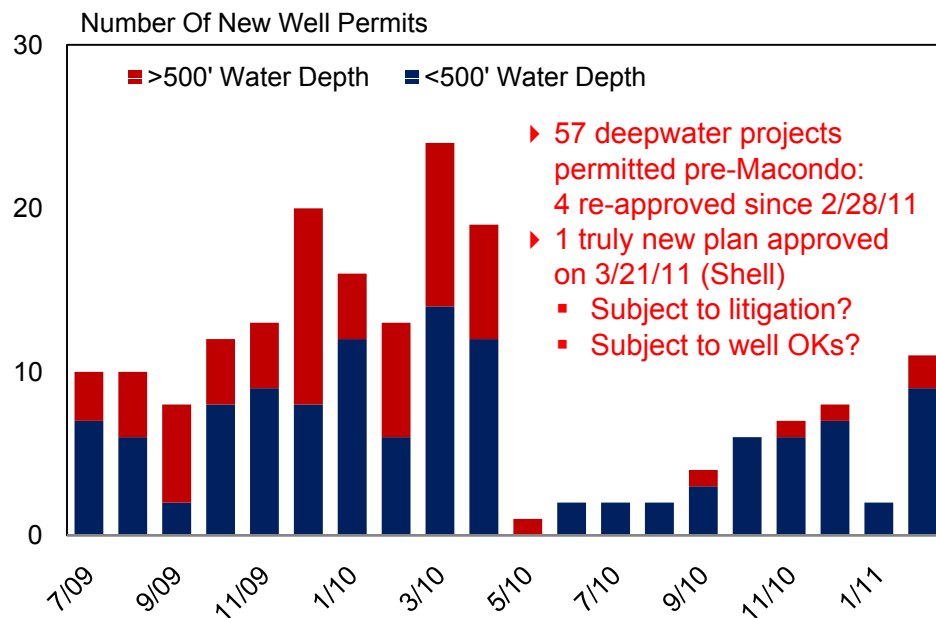


- ▶ Latest Build Cycle May Accelerate Fleet Rationalization For Some Drillers

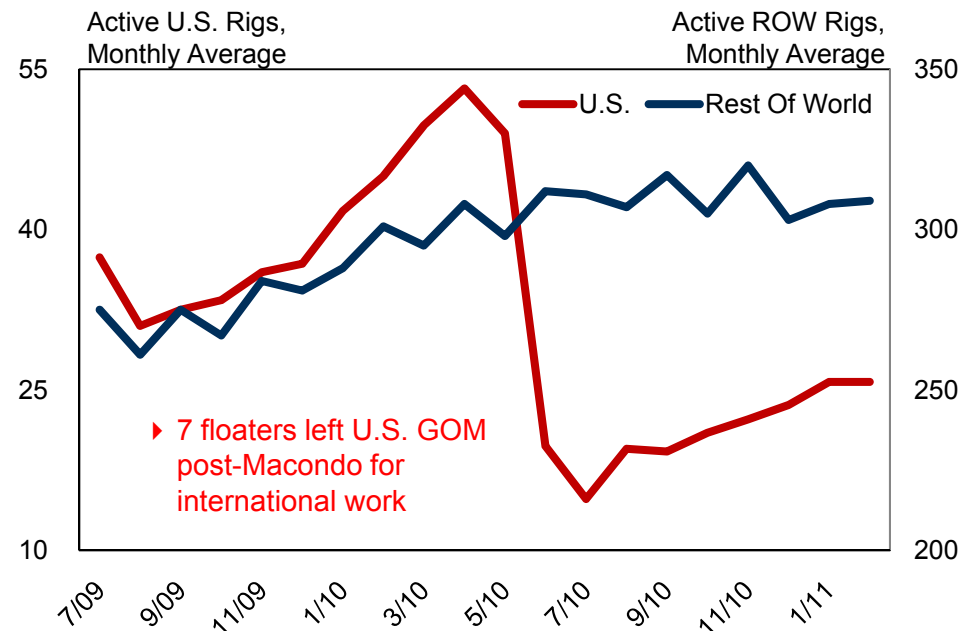
POST-MACONDO U.S. OFFSHORE MARKET IS UNCERTAIN

- ▶ In The U.S. Offshore Market, Post-Macondo Impacts Are To Be Determined
 - Recent statements by gov't about rigs/production are misleading (at best)

U.S. Gulf Of Mexico New Well Permits¹



Offshore Rigs "Turning To The Right"²



- ▶ Bottom line: Must Establish Non-Fluid Regulatory Positions; Resume Prior Work; Issue Truly New Permits; And Open New Markets

¹ Source: U.S. Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE). Excludes sidetracks. Recently approved Noble Energy well was first deepwater well approved under the requirements outlined in BOEMRE's Notice to Lessees (NTL-06 & NTL-10) published on October 12, 2010.

² Source: Baker Hughes.

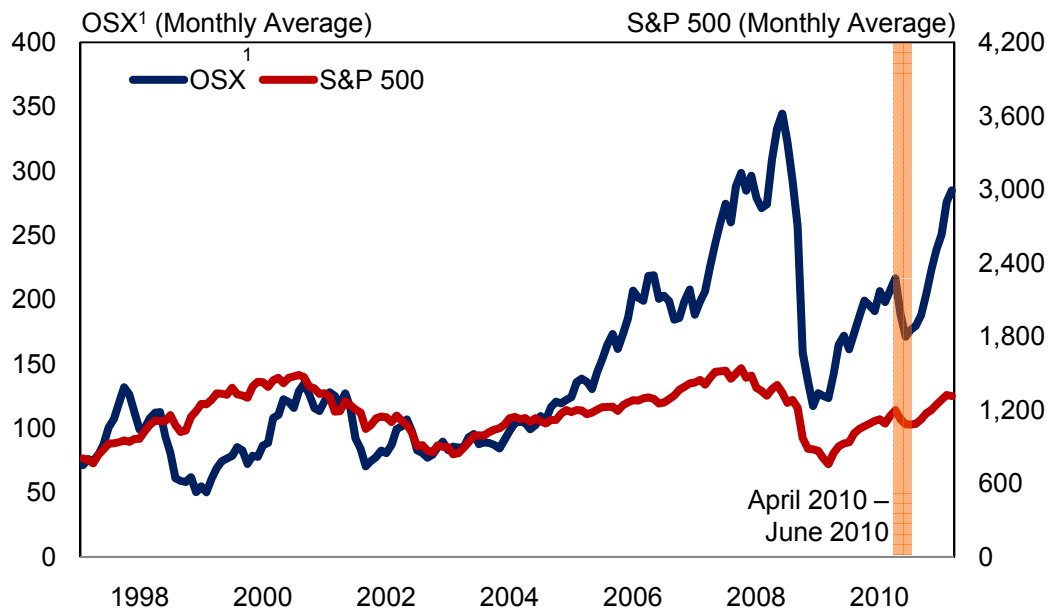
A collage of financial symbols including a keyboard, a newspaper, a calculator, and money. The text "Financial Implications For Offshore Industry" is overlaid in white. The background features a blue keyboard, a newspaper with "ALL STREET" and "FRIDAY AUGUST" visible, a calculator, and several US dollar bills and coins.

Financial Implications For Offshore Industry

ENERGY SERVICE STOCKS OUTPERFORMING MARKET SINCE 2004

► Energy Service Stocks Took Hit With Macondo (4/10-6/10)

Relative Performance Of OSX¹ vs. S&P 500



Averages	Overall Percentage Increase/(Decrease)	
	OSX ¹	S&P 500
1/04 – 6/08	251%	18%
6/08 – 12/08	(66%)	(35%)
12/08 – 3/11	143%	50%
1/04 – 3/11	191%	16%

► Energy Service Stocks "In Favor" From 6/10 To Current

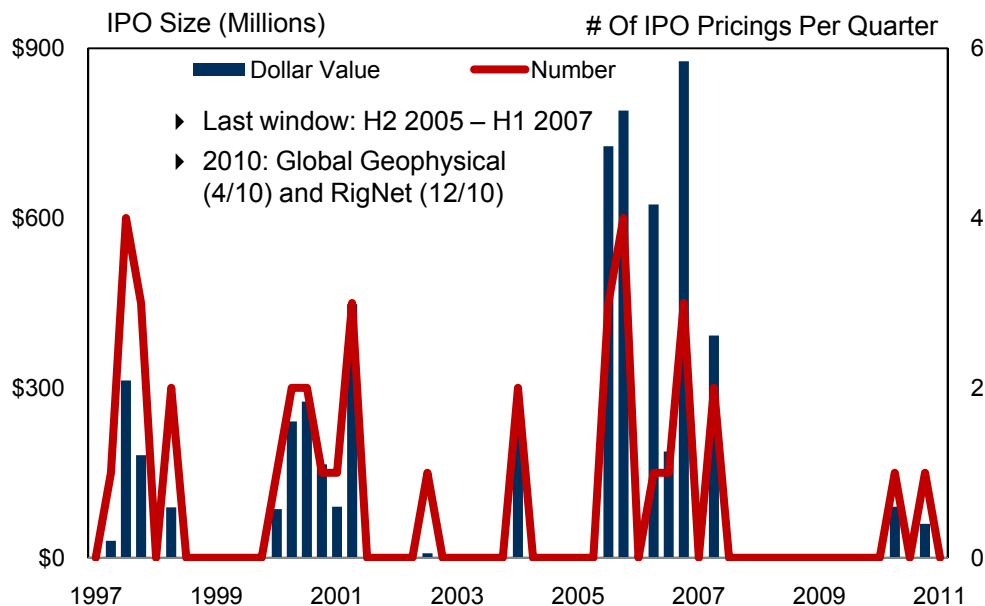
Monthly averages. Starts February 24, 1997. Through March 11, 2011.

¹ OSX includes Baker Hughes, Cameron, Diamond, Global Industries, Halliburton, Lufkin, Nabors, Noble, National Oilwell Varco, Oceaneering, Rowan, Transocean, Schlumberger, Tidewater and Weatherford.

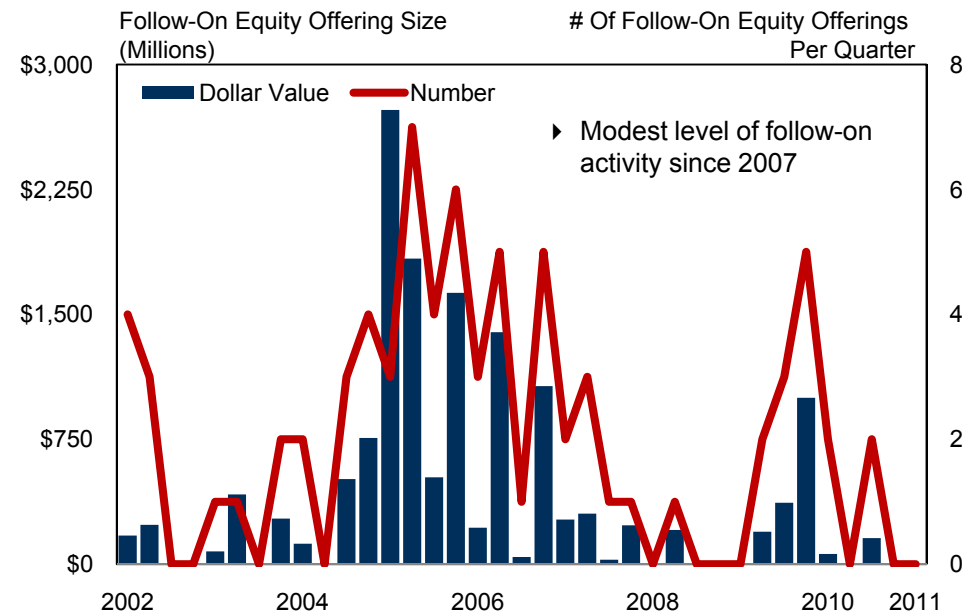
FEW U.S. EQUITY OFFERINGS SINCE 2007

► Despite Performance, Few U.S. Energy Service Equity Offerings Since 2007

ES&E IPO Activity (U.S.)



ES&E Follow-On Equity Activity (U.S.)



► Expect Increased Equity Offerings Activity In 2011

- In registration: Frac Tech; Great White; Compressco; others are "in pipeline"

Source: Morgan Keegan's compilation of common equity offerings for public companies. Excludes private placements, rights offerings and public offerings of industrial companies with energy exposure. Excludes greenshoe/overallotment. Through March 11, 2011 (excludes pending offerings).

SIGNIFICANT U.S. DEBT OFFERINGS SINCE 7/10

▶ \$26+ Billion Of Debt Transactions Reinforces Capital Has Been Available

Date	Company	Financing	Amount (\$mm)	Date	Company	Financing	Amount (\$mm)
2/10	Stallion	10 1/2% Senior Notes Due 2015	225	9/10	Newpark	4% Conv. Senior Notes Due 2017	150
3/10	Parker	9 1/8% Senior Notes Due 2018	300	9/10	CHC Helicopter*	9 1/4% Senior Notes Due 2020	1,100
3/10	Pioneer	9 7/8% Senior Notes Due 2018	250	9/10	Seadrill*	6 1/2% Senior Notes Due 2015	350
3/10	N.A. Energy Partners	9 1/8% Senior Notes Due 2017	219	10/10	Patterson-UTI	4.97% Senior Notes Due 2020	300
4/10	Global Geophysical	10 1/2% Senior Notes Due 2017	200	11/10	Exterran Partners	New Credit Facility Due 2015	550
5/10	Willbros	Senior Notes Due 2016	250	11/10	Exterran Holdings	7 1/4% Senior Notes Due 2018	350
5/10	ENSCO*	New Credit Facility Due 2014	700	11/10	Bristow Group*	New Credit Facility Due 2015	375
7/10	Willbros	New Credit Facility Due 2013	475	11/10	Frac Tech Services	7 1/8% Senior Notes Due 2018	550
7/10	Noble*	3.45%, 4.9% & 6.2% Senior Notes	1,250	11/10	Precision Drilling	6 5/8% Senior Notes Due 2020	650
8/10	Vantage*	11.5% Senior Notes Due 2015	1,000	11/10	Calfrac	7 1/2% Senior Notes Due 2020	450
8/10	Pride*	6 7/8% & 7 7/8% Senior Notes	1,200	12/10	Trinidad Drilling	7 7/8% Senior Notes Due 2019	450
8/10	Rowan*	5% Senior Notes Due 2017	400	12/10	Flowserve	New Credit Facility Due 2015	1,000
8/10	Baker Hughes	5 1/8% Senior Notes Due 2040	1,500	12/10	BW Offshore*	New Credit Facility Due 2017	2,400
9/10	Nabors	New Credit Facility Due 2014	700	12/10	SBM Offshore JV*	New Credit Facility Due 2015	602
9/10	Nabors	5% Senior Notes Due 2020	700	1/11	Noble*	3.05%, 4.625% & 6.05% Notes	1,100
9/10	Tidewater*	4 1/4% Senior Notes	425	1/11	Schumberger	2.65% Notes & 4.2% Bonds	1,600
9/10	PHI*	8 5/8% Senior Notes Due 2018	300	2/11	Basic Energy	7.75% Senior Notes Due 2019	275
9/10	Transocean*	4.95% Senior Notes Due 2015	1,100	2/11	Solstad Offshore*	Unsecured Bonds Due 2016	123
9/10	Transocean*	6 1/2% Senior Notes Due 2020	900	2/11	Clough*	New Credit Facility Due 2014	200
9/10	Weatherford	5 1/8% Senior Notes Due 2020	800	3/11	Key Energy	6.75% Senior Notes Due 2021	475
9/10	Weatherford	6 3/4% Senior Notes Due 2040	600				
Total Amount For Selected Transactions							26,544

▶ Despite Macondo, Offshore-Oriented Companies Have Debt Available To Them

Note: Table does not represent a comprehensive list (i.e., excludes financings less than \$100 million). ★ indicates offshore-oriented company.

Source: Morgan Keegan's compilation of other (non-public equity) capital raises. Amounts shown are par value. Excludes greenshoe/overallotment. Excludes raises for public industrial companies with energy exposure. Through March 11, 2011 (excludes pending offerings).

INDUSTRY'S STOCK PERFORMANCE JUSTIFIED BY FINANCIAL RESULTS

- ▶ Except 2009, Energy Service Has Greater Revenue Growth Than General Market

Median Revenue Change	2008A	2009A	2010E	2011P
Global Energy Service	18%	-9%	15%	16%
Modified DJIA 30	5%	-6%	8%	7%

- ▶ Energy Service Has Maintained Stronger Balance Sheet

Median Ratios At 12/31/10	Current Assets To Liabs	Debt To Book Equity
Global Energy Service	228%	27%
Modified DJIA 30	147%	53%

- ▶ Energy Service Expected To Outperform General Market In 2011

Source: Capital IQ/Reuters analysts consensus.

"Global Energy Service" is Baker Hughes, Cameron, Core Labs, Dril-Quip, FMC, Halliburton, NOV, Oceaneering, Schlumberger and Weatherford.
 "Modified DJIA 30" is Alcoa, AT&T, Boeing, Caterpillar, Coca-Cola, Walt Disney, Dow, DuPont, eBay, FedEx, Ford, GE, GM, H-P, Home Depot, Intel, IBM, J&J, McDonald's, Merck, Microsoft, Nike, Pfizer, P&G, Southwest Airlines, 3M, United Technologies, U.S. Steel, Verizon and Wal-Mart.

DESPITE UPBEAT ENERGY MARKET, MACONDO IMPLICATIONS LINGER

▶ Offshore Stocks Underperformed Global Energy Service In 2010

	<u>2008A</u>	<u>2009A</u>	<u>2010E</u>	<u>2011P</u>
<u>Median Revenue Change</u>				
Global Energy Service	18%	-9%	15%	16%
Offshore Drilling, Transportation & Construction	20%	-8%	-9%	11%
<u>"U.S. Gulf Of Mexico"</u>				
Aggregate Revenue (mm)	\$ 13,248	\$ 12,111	\$ 9,948	\$ 10,456
% Annual Change	25%	-9%	-18%	5%
Aggregate EBITDA (mm)	\$ 6,211	\$ 5,903	\$ 4,145	\$ 4,267
% Annual Change	21%	-5%	-30%	3%

▶ Weakening Of Some U.S. Offshore Balance Sheets As A Result

- Trico, Seahawk, Gulf Fleet and DMT, to name a few

▶ U.S. Offshore Expected To Underperform Global Industry In 2011

Source: Capital IQ/Reuters analysts consensus.

"Global Energy Service" is Baker Hughes, Cameron, Core Labs, Dril-Quip, FMC, Halliburton, NOV, Oceaneering, Schlumberger and Weatherford.

"Offshore Drilling, Transportation & Construction" is Atwood, Diamond, Ensco, Hercules, Noble, Pride, Rowan, Seadrill, Transocean, Bristow, Gulfmark, Hornbeck, Tidewater, Cal Dive, Global Industries (N/M), Gulf Island Fabrication, Helix Energy, McDermott, Subsea 7 and Technip.

"U.S. Gulf Of Mexico" is Diamond, Hercules, Noble, Gulfmark, Hornbeck, Cal Dive, Global Industries, Gulf Island Fabrication and Helix Energy.

ECONOMIC IMPLICATIONS OF "WORK HALT" PER LMOGA (5/10)

- ▶ Assumptions per Louisiana Mid-Continent Oil And Gas Association
 - 33% U.S. oil and 10% U.S. natural gas from U.S. GOM
 - 80% U.S. GOM oil and 45% U.S. GOM natural gas from deepwater
 - "Work halt" does not affect shallow water; will last 6 months
- ▶ Immediate Impact Per LMOGA – 33 Floaters
 - Up to \$16.5 MM/day (\$3 BN/half year) for rigs alone
 - Excludes supply vessels, support services and supplies
 - Excludes secondary impact on local economy, taxes, etc.
- ▶ Long-term Impact Per LMOGA
 - "idle" ... "contracted overseas" ... "will not be available"
 - "higher drilling costs" ... "discoveries could be rendered sub-economic"
 - "decrease in the availability of domestic oil"
- ▶ Issue: Not Just Deepwater; Not Just 6 Months
- ▶ 7/10 IHS: U.S. GOM = 400,000 jobs, \$70 BN economic value in 2009

ECONOMIC IMPLICATIONS OF NEW REGULATORY RULES (10/10)

- ▶ BOEMRE Estimates \$183 MM Annual Cost Of New Rules To Industry¹
 - \$1.4 MM per deepwater project; \$90K per shallow water job
 - Seems low in an era of \$1 MM/day spreads
 - **DOI stated industry is “going to be in dynamic regulatory environment”**

- ▶ From E&P Operators’ Perspective:
 - Increased well planning, approval & inspection costs
 - Additional safety measures (equipment & personnel) and longer drilling cycle
 - Higher insurance costs, increased deductibles and policy exclusions
 - Potential increase in Oil Pollution act (OPA) cap from \$75 MM
 - Potential consolidation to create size (justify costs and OPA exposure)
 - Potentially higher taxes
 - **Industry needs to know rules of game**

- ▶ From Energy Service Companies’ Perspective, Face **Threats (Reduced Activity)** And **Opportunities (Increased Services, Next Generation Equipment)**

¹ Source: U.S. Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE), Federal Register, October 14, 2010.

An aerial photograph of the ocean surface, showing a vast expanse of blue water with numerous small, rhythmic ripples and waves. The perspective is from directly above, looking down at the water's texture. The color of the water is a deep, vibrant blue, with lighter shades where the ripples catch the light.

Conclusions / Q&A

FROM WORLDWIDE OFFSHORE GROWTH PERSPECTIVE

- ▶ Energy Demand Wants To Grow Long-Term (China, India, Elsewhere)
- ▶ Oil & Gas Is Primary (>50%) Energy Source Today And Next 25 Years
- ▶ Offshore Accounts For 1/3 Of Oil Production (Up Significantly From Past)
- ▶ Increasing Supplies Is Real Work (Decline Curves, Aging Infrastructures)
- ▶ In Q3 2010, Offshore Industry Entered Its 3rd Newbuild Cycle Since 1980s
 - Ordered ≈\$20 billion of newbuild rigs in 5 months (10/10-2/11)
 - Excludes other infrastructures, services and equipment
 - Implies increasing offshore activity in future
 - Questions: utilization of older rigs? dayrates of all rigs?

FROM U.S. OFFSHORE ENVIRONMENT PERSPECTIVE

- ▶ U.S. Activity Wants To Expand Safely Alongside Rest Of World
- ▶ Fact – Permitting Declined (5/10-1/11)
- ▶ Fact – Fewer Rigs Drilling (Since 5/10)
- ▶ Fact – This Will Result In Reduced Offshore Oil Production Eventually
- ▶ Expect – Increased Costs Of Doing Business; Threats; Opportunities
 - E.g. expect increased near-term decommissioning per "Idle Iron" Guidance
- ▶ Fundamental Issue – U.S. Regulatory Environment Is Too Dynamic Given:
 - Magnitude and non-contracted nature of investment in industry
 - Human capital, technology and hard assets
 - By E&P operators, drillers and other service companies
 - By, and for, the U.S. people

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