

“State of The Oil & Gas Industry”

Marine Technology Society
Forecast Luncheon

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2007 Outlook

- Still In An Upcycle
 - Oil = Good = \$60/bbl
 - Gas = Overhang = \$7/mcf
- } Volatile!
- Rigcount: U.S. Flat/Down; International Growing
 - Rising Breakeven E&P Costs
 - Easing Service Constraints
 - Geopolitical Wildcards

Good...But Tougher

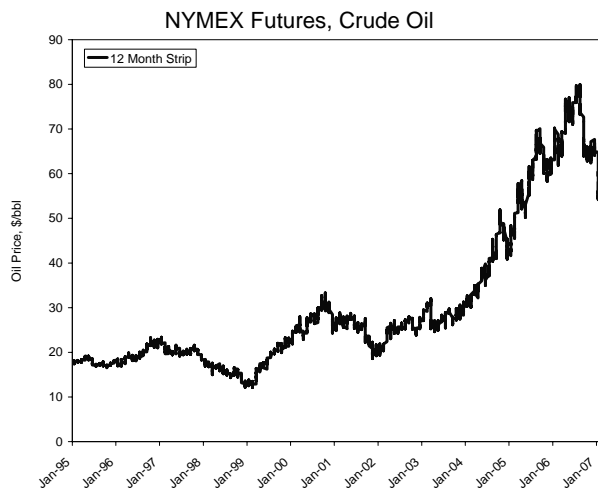


[Oil Thoughts/Outlook]

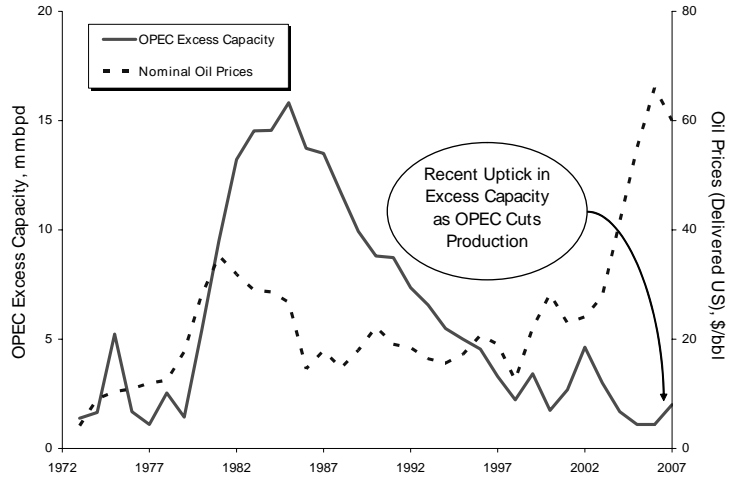
- **Scarce, But Not Peak**
- **Demand Is Key Factor**
- **Demand Reacts To Price**
- **Recent Correction Not Armageddon**
- **\$60/bbl Feels Realistic**

**\$60/bbl
volatile**

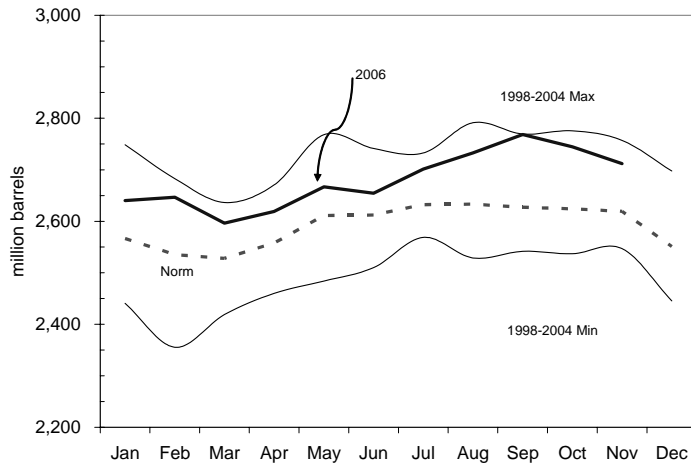
Crude Oil Isn't Going To Crack



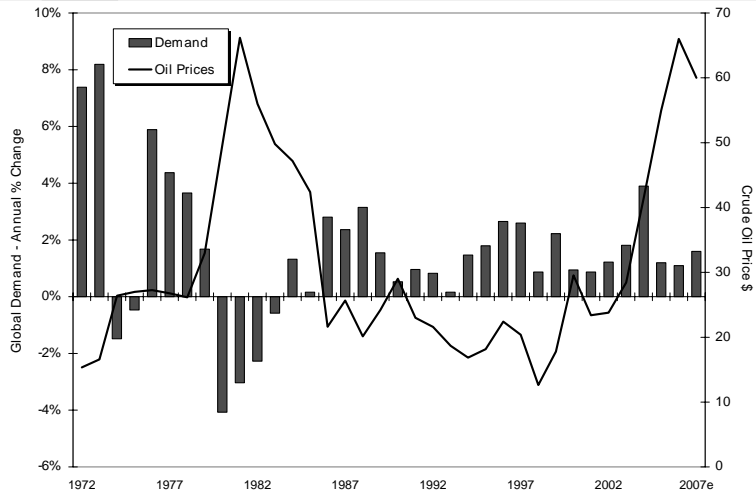
Excess Capacity



Total OECD Inventories



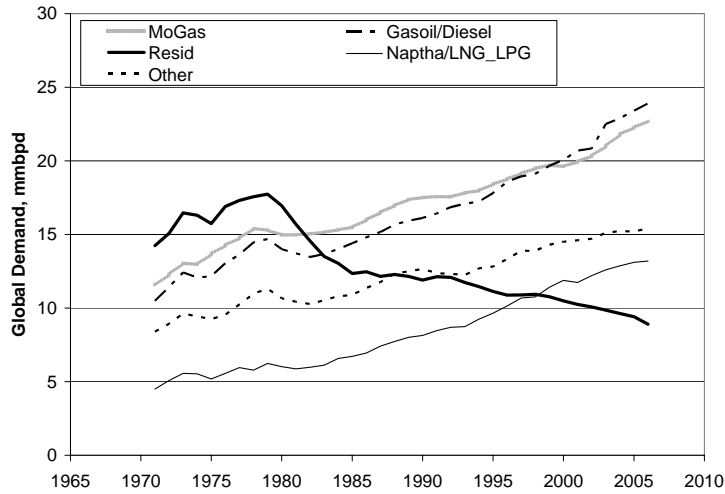
Demand Is THE Cycle Driver/Killer



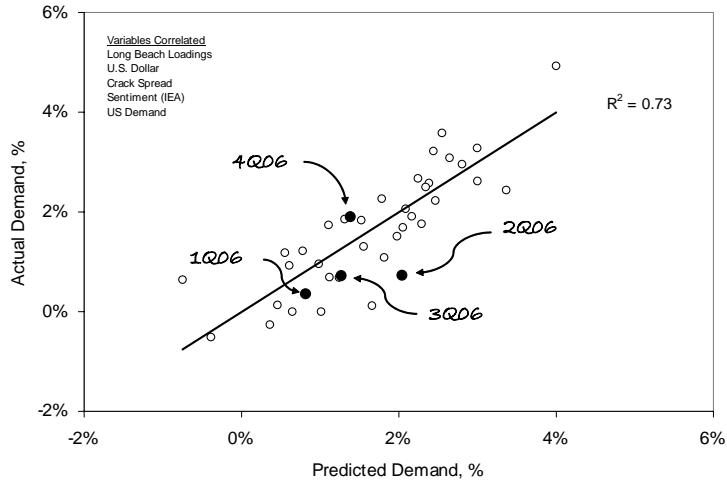
The Crux Of The Good And Bad



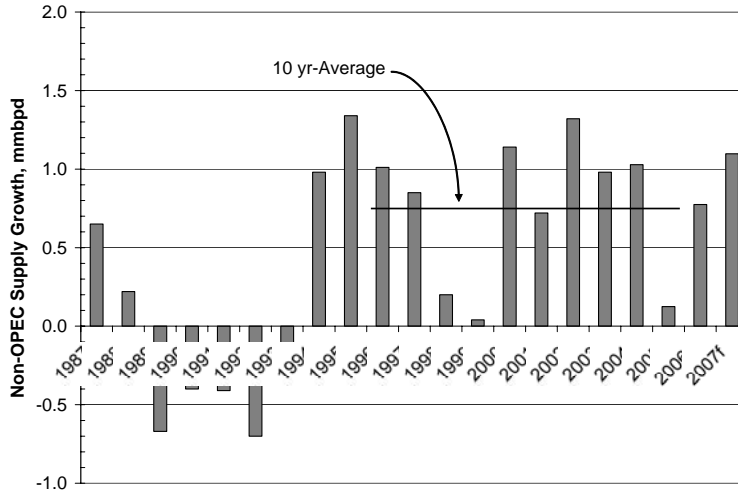
Oil – Much More of a Transportation Fuel



Global Demand Indicators - OK



Non-OPEC Supply Growth

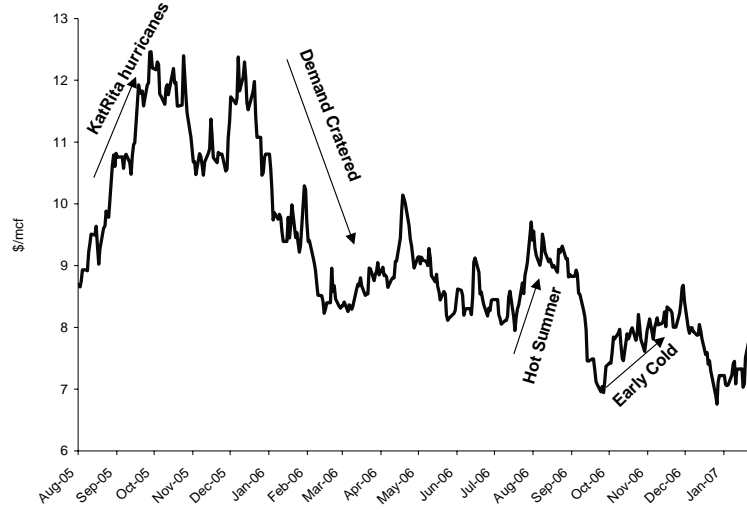


Gas Thoughts/Outlook

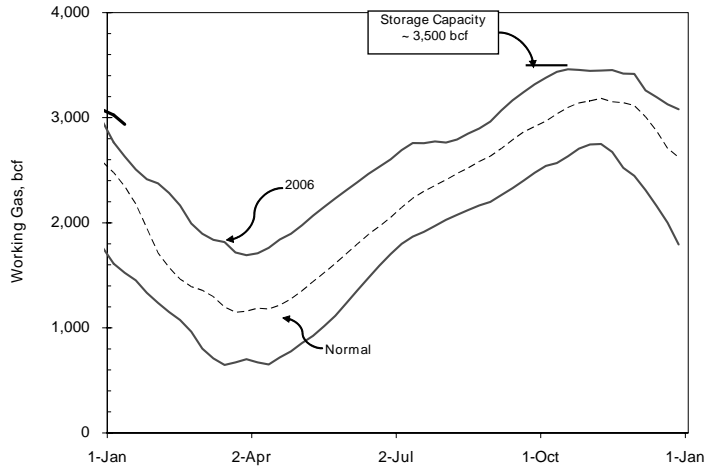
- Storage At Record Levels
- Supply Growing
- Price Volatility
- Pain Before Gain
- Weather Matters
- Treadmill Says Don't Panic

\$7/mcf
really volatile!

Natural Gas 12 month strip

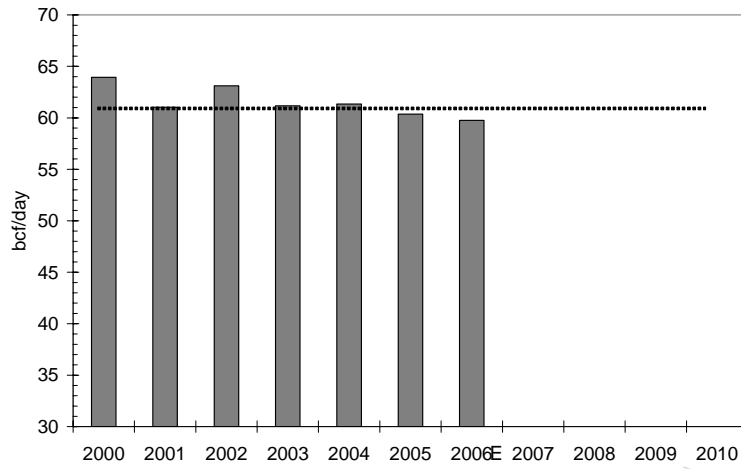


Lots of Gas in Storage



Natural Gas Demand Isn't Growing

U.S. Natural Gas Demand



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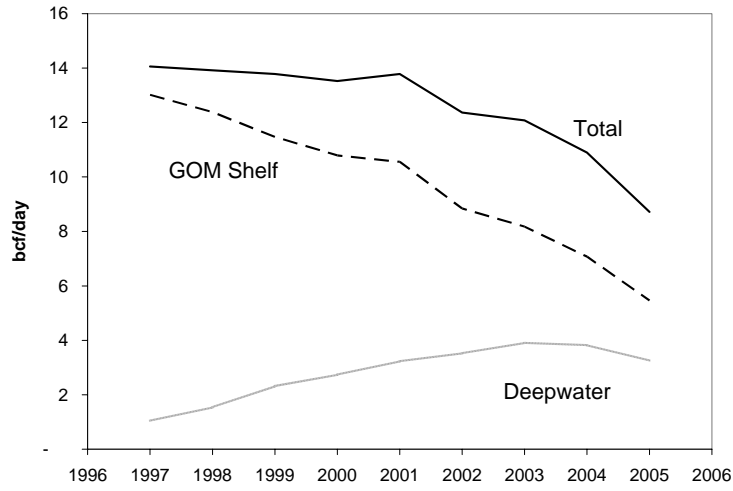
15

Gas Supply Details...if Rigcount Doesn't Fall

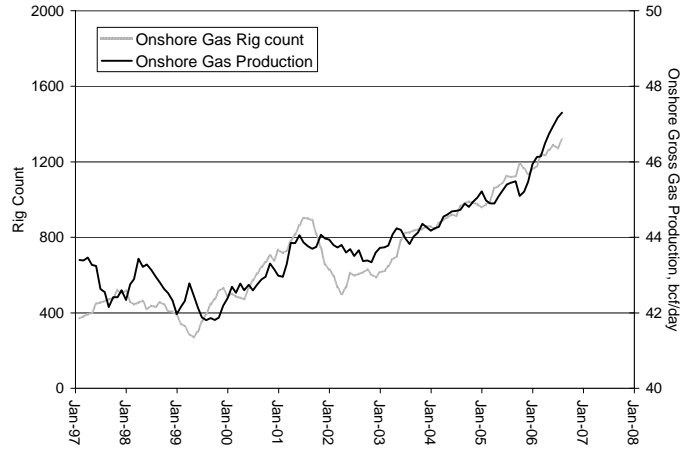
	2006E			2007E		
	Production	Change	Percent Change	Production	Change	Percent Change
US Onshore	43.2	1.5	+3.6%	44.7	1.5	+3.5%
US Offshore with hurricanes	7.7	(0.7)	-8.3%	7.0	(0.7)	-9.1%
LNG	1.6	0.0	+0.0%	1.8	0.2	+12.5%
Canada Imports	8.1	(0.2)	-2.4%	8.0	(0.1)	-1.2%
Total Supply	60.6	0.6	+1.0%	61.5	0.9	+1.5%

Acceleration at current rigcount

GOM Production Trends – “Free Fall”

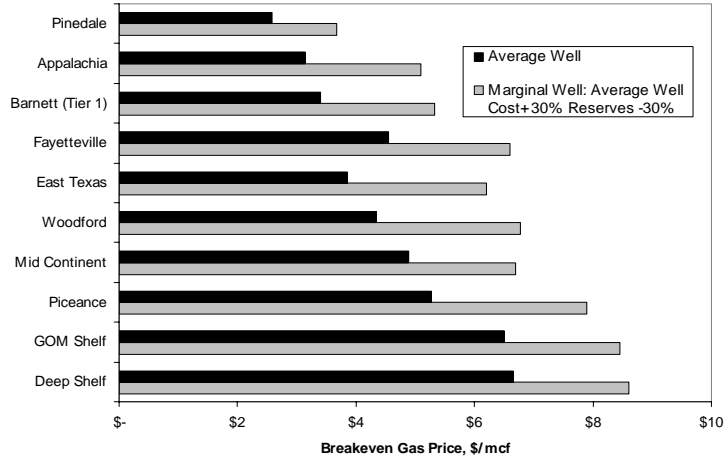


Onshore Supply Follows Activity

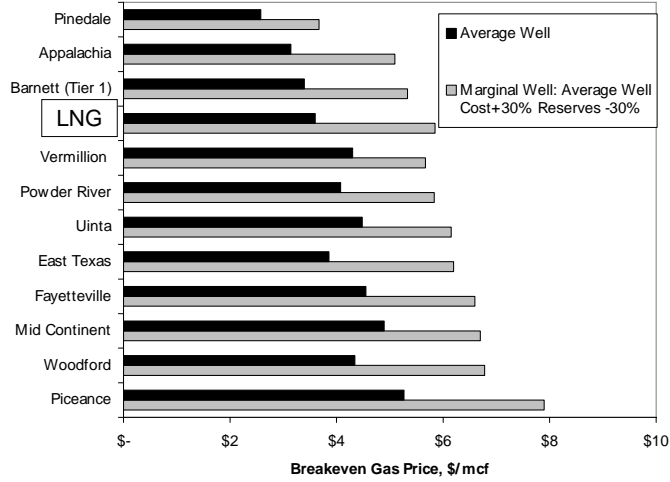


Source: BHI & DOE

Basin Economics - Natural Gas



LNG: Too Soon To Matter, But...



[E&P Companies]

- **Swimming In Cash**
- **Dwindling Reinvestment Opportunities**
- **Rising Costs**
- **Political Pressure**
- **Financial Barrels Cheaper Than Drilling**

Land Grab

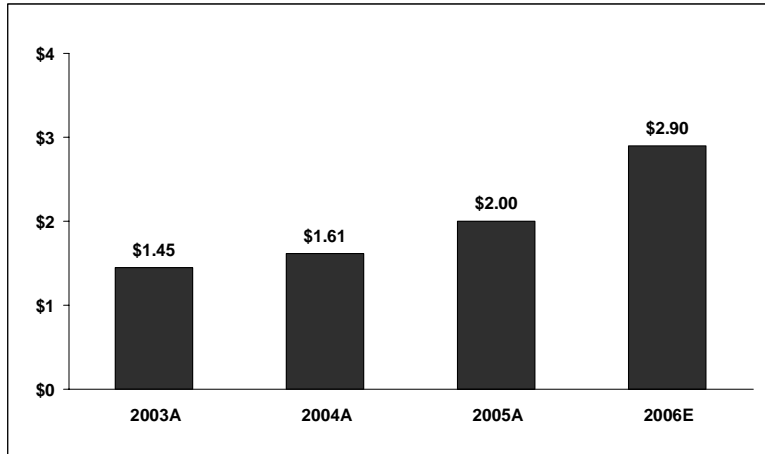
Industry Consolidation

Resource Plays



Rising Costs To Find Reserves

F&D Cost Trends



Source: PEP E&P Universe

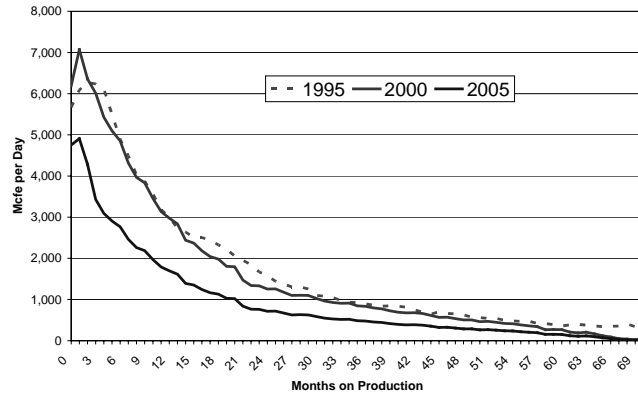
[Offshore Outlook]

- Still *The Place To Be*
- Rig Constrained
- Rigs On The Way
- Moderating Cost Inflation
- Two Distinct Markets
 - Gulf of Mexico Shelf
 - Everywhere Else

GOM - Geologic Maturity

- GOM Shelf Deteriorating Prospect Quality

GOM - Production Rates per Well



[Oil Service Capacity Adds]

- Land Rigs +30%
- Offshore Rigs +30%
- Pressure Pumping +30%
- Coiled Tubing +25%

Will Soon Be Cheaper/Easier To Drill Wells

Conclusions

- **Be Optimistic...But Not Foolish**
- **Your Conviction Will Be Tested**
- **2007 Won't Be The Last Good Year**
- **Cycles Peak With A Crescendo**

The Energy Music Is Still Playing!



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