

Oilfield Services Seminar

The International Perspective for Oilfield Services

February 1, 2017

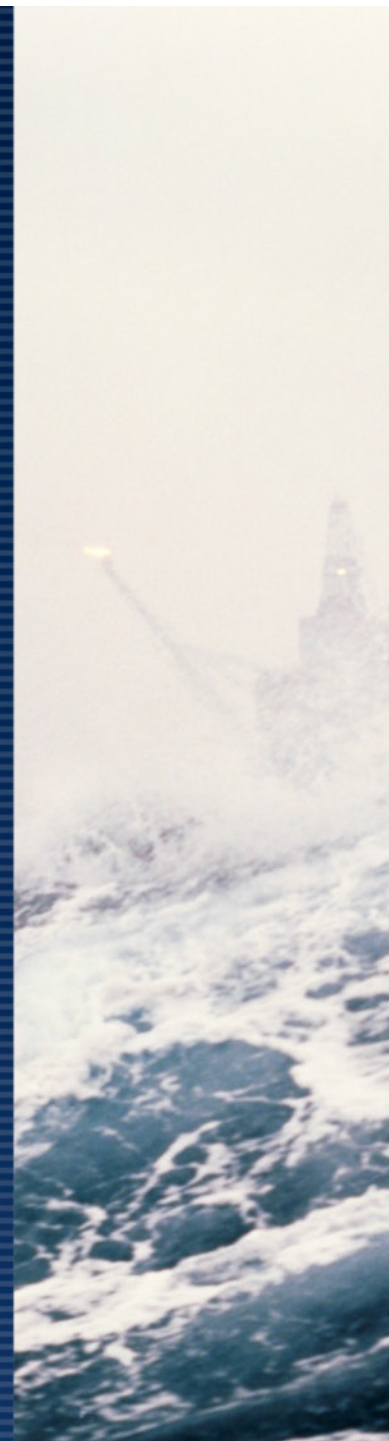
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‘The International Perspective for Oilfield Services’

Finally at the bottom, but still a lot of noise...

February 1, 2017

 **Fearnley Offshore**





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There is a lot of noise - difficult to forecast the outcome for the offshore space

Politics



Oil Price

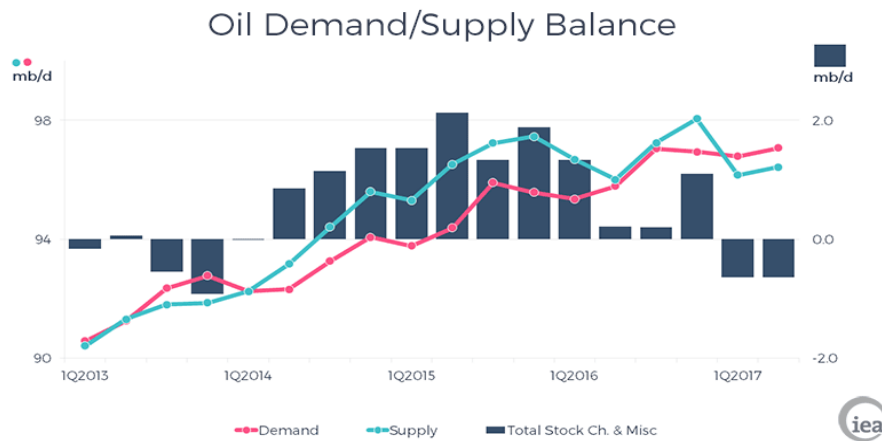


Shale Oil

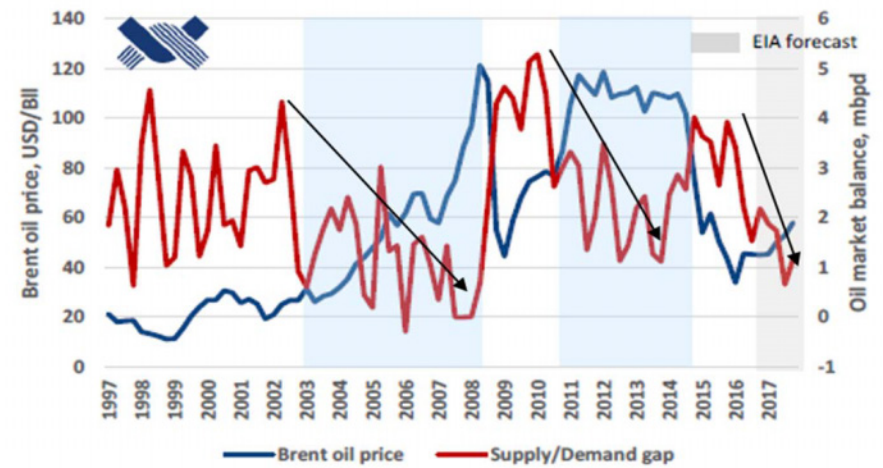


Oil prices are set to increase into 2017 & 2018

IEA: Demand set to outpace supply early 2017



Supply/demand gap vs. Brent oil price

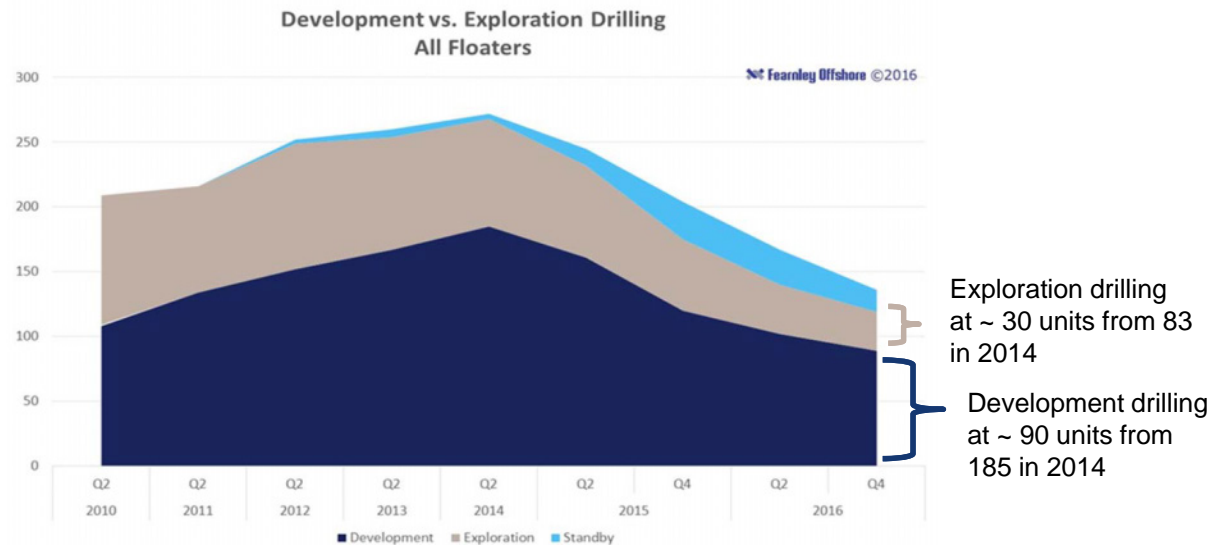


Historically, when the balance between supply and demand have narrowed oil prices have increased as were the case in the mid-2000s, as well as for the early 2010s where oil prices remained consistently high over a longer period

As the supply demand balance is again narrowing, we believe we are approaching the same tight balance as we have seen before where oil price climbed above \$100/bbl

Depletion will become the major issue in 2017/2018

- In 2014 about 180-185 floating units were engaged in production and infield drilling worldwide. Today, this has been reduced by more than 50%
- By our understanding, the oil companies are consciously engaged in “value destruction” of mature fields to reduce cost
- Without constant managed depletions, production from major offshore fields can drop as much as 3m/b – per year

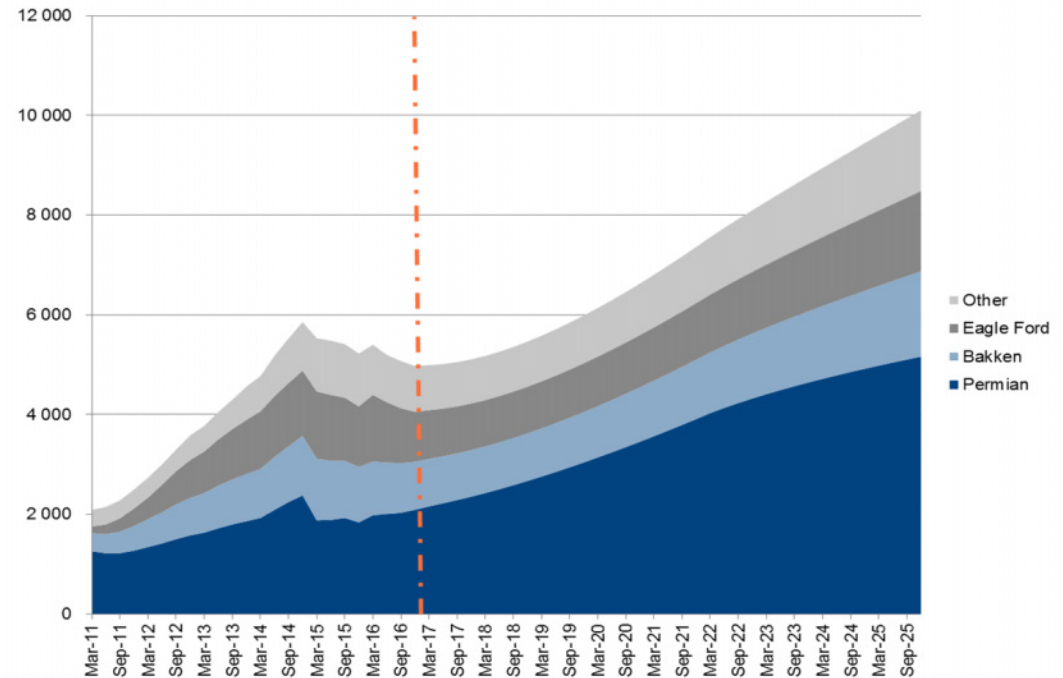


At the current activity levels Fearnley Offshore believe production from current fields could drop off the cliff within a year.

Shale potential not enough to offset depletion from existing fields

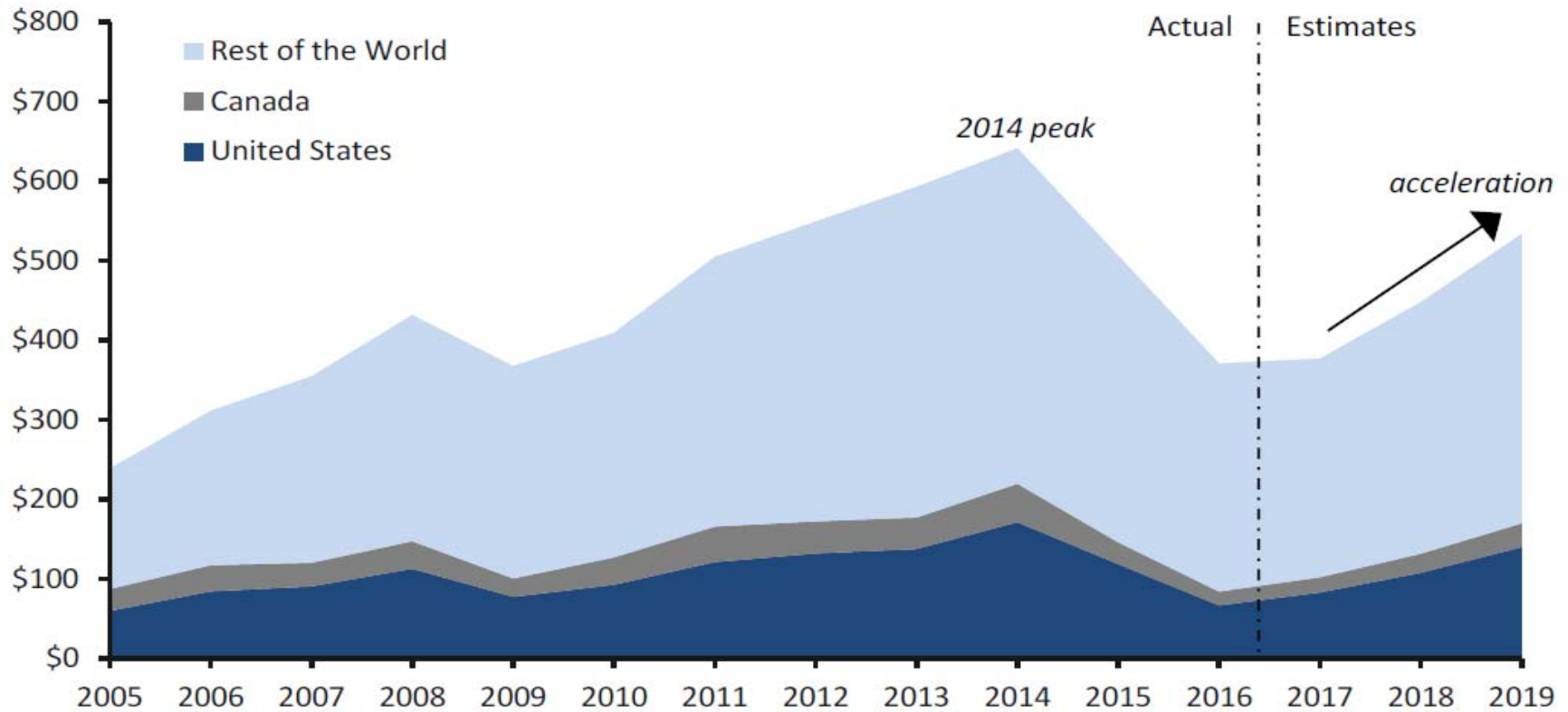
- WoodMac predicts: 25 million barrels per day by 2025:
 - Shale oil: ~9 mbpd
 - Conventional sources: ~4 mbpd
 - **Undiscovered resources: ~12 mbpd**
- Shale oil production reduction ~76% in 2016 (~600 000 b/d from peak Q2 2015)
- Shale could grow from 4.9 mbpd to ~9/10 mbpd
 - Still not enough to offset global expected production declines and demand growth

Expected US shale production with Rig Count Recovery



Source: Fearnley Securities

Slowly turning around - global E&P spending set to start increasing in 2017



Source: Evercore ISI

Forecasted growth sideways in 2017

Market Status - a picture to sum up 2016...

Floaters:

Scrapped: 27

Cold stacked: 93

Old units off contract in 2017: ~25

Jackups:

Scrapped: 8

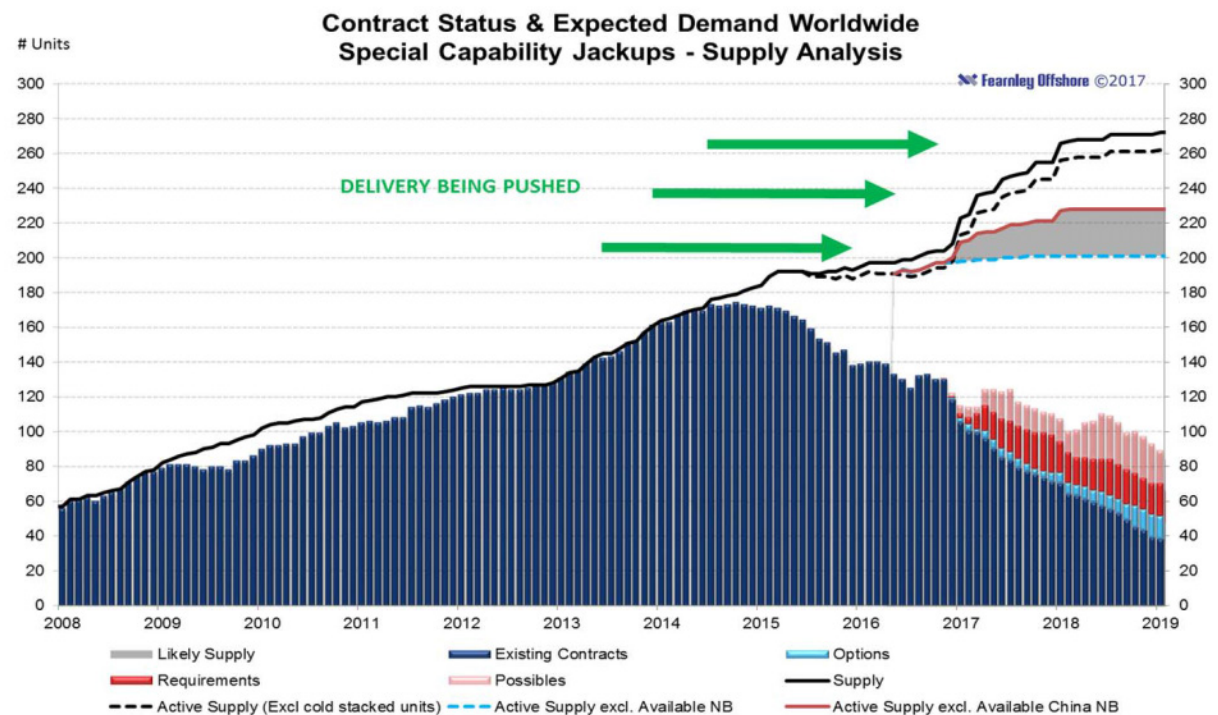
Cold stacked: 76

Old units off contract in 2017: ~35



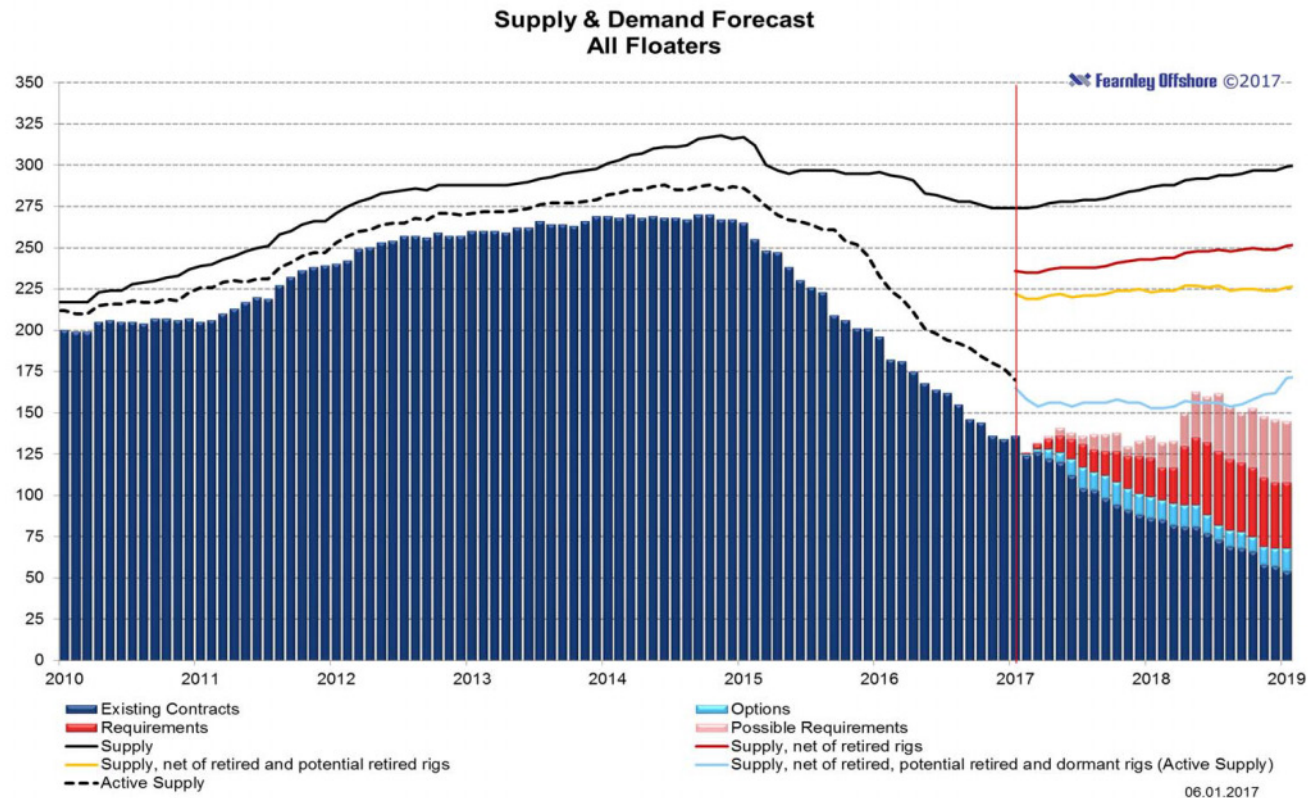
Jackup demand bottoming out in 2017, rates there already

- As of January 2017: 76 jackups stacked, this number is likely to increase throughout the year
- Aging fleet: The majority of the non-SCJU fleet is between 30-45 years old
- Majority of deliveries of 72 newbuilds without contract will be pushed ~18 months or more
- Limited availability of warm modern units
 - ~ 40 % of SCJU fleet are stacked or available



Demand bottoming out in 2017 - Expect new activity will materialize in 2018

- Very hard to identify new requirements at the moment.. But also very early on in 2017...
- Need sanctioning in 2017 to see increased activity in 2018
- We are left with a bottoming out in the active supply in the market of ~155 units in mid-2017
- Demand bottoming out around ~115 units





To sum up

- ✓ We believe in oil price recovery
- ✓ Continued oil demand growth and consumption
- ✓ Reserve depletion from existing fields
- ✓ Continued fleet attrition of older units (jackup and floater)
- ✓ ~35% of modern fleet will need significant investments to reactivate
- ✓ Expect new demand/increased activity in 2018/2019

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Oilfield Services Seminar
The Provider Perspective

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What We've Seen...

“Despite the positive sentiment surrounding the North American land market, it is important to remember that our world is still a tale of two cycles. The North America market appears to have rounded the corner, but the international downward cycle is still playing out.”

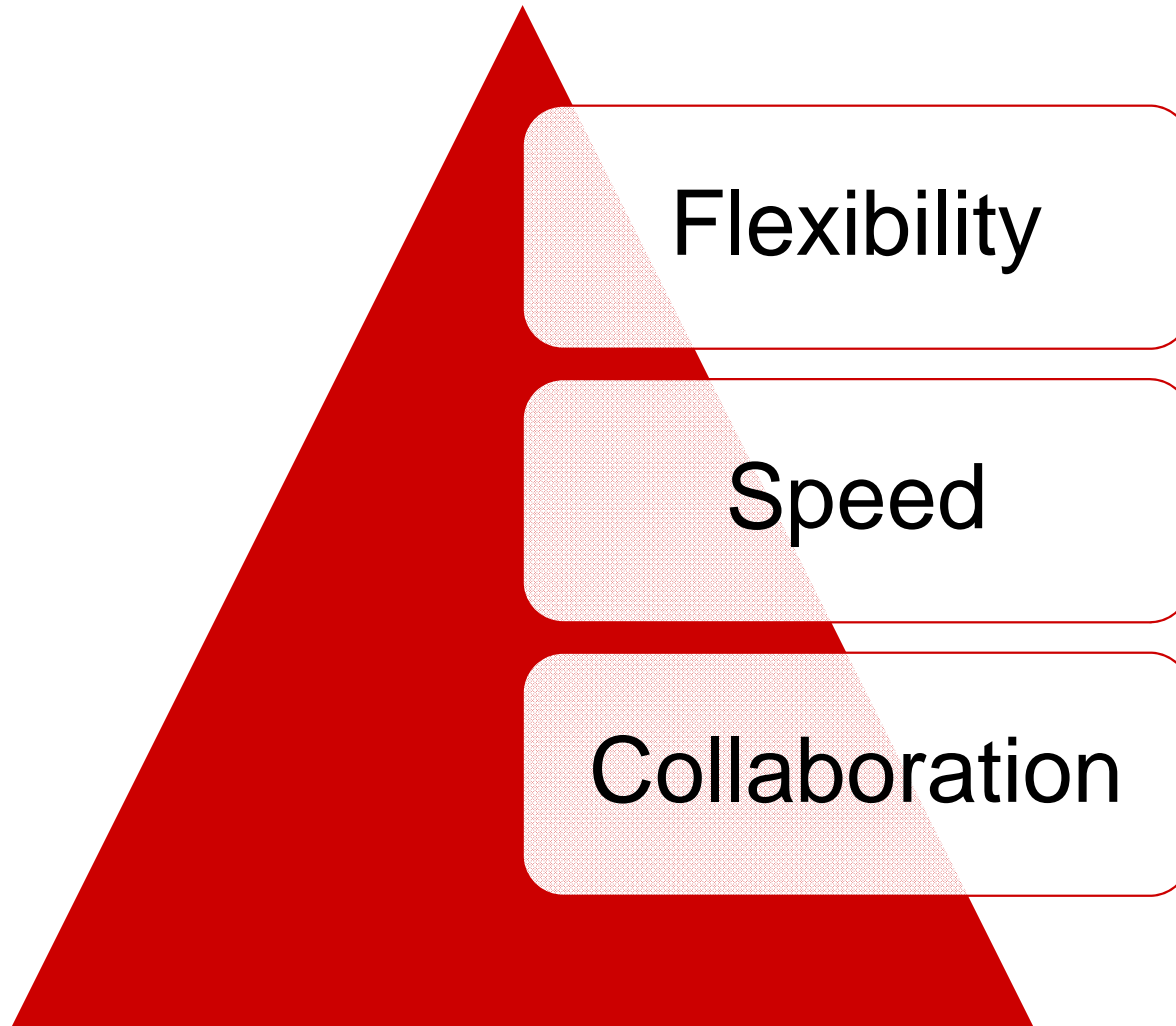
“In the international markets, low commodity prices have stressed budgets and have impacted economics across deepwater and mature field markets, which led to decreased activity and pricing throughout 2016.”

Dave Lesar, Halliburton Chairman & CEO

HALLIBURTON ANNOUNCES FOURTH QUARTER 2016 RESULTS
January 23, 2017



What We're Seeing...



What We're Expecting...



THANK YOU

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Making the most of Leaner Times

Current Insights & a Guide to the English
Law Approach in the Sustained Lower Oil
Price Environment

James Brown and Andreas Dracoulis

February 1, 2017

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Introduction

I. Current state of the market? Future prospects?

II. Common commercial scenarios facing contractors and the English law approach.



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Current state of the market? Future prospects?

Context :

- substantial projects/long lead times
- necessitating long term oil price forecasting
- not always right

Previously:

- premiums paid for early slots in yard construction schedules
- pressure to deliver
- claims for delayed delivery



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A. Rig construction contracts now

1. Lack of new construction projects
2. Instead buyers cancelling (for excessive delay/failure to deliver to contract and specification)
3. Leading to high value cancellation disputes
4. Or renegotiating the contracts – postponed delivery (albeit with an increased contract price!)
5. We are not seeing new projects yet



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B. Drilling contracts

1. Significantly reduced day rates
2. Greater commercial risk on contractors
3. Exercising of termination for convenience clauses
4. Renegotiation of contracts
5. Movement away from long term contracts to well-by-well contracts.
6. Some green shoots of recovery?



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II. Making the Most of Leaner Times

English law approach to:

- clients looking to exit negotiations for *prospective* contracts;
- clients looking to avoid *existing* contracts and obligations thereunder; and
- clients defaulting under existing contracts.



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Failed Negotiations for *Prospective Contracts*

a) Can your counterparty walk away without consequence from negotiations?

- Generally yes
- “Letters of intent”, “heads of agreement” generally not legally enforceable
- Problems with “agreements to agree”
- “Lock out” agreements – see *Walford -v- Miles* [1992] 2 A.C.128



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Failed Negotiations for *Prospective* Contracts (cont.)

b) Can a contractor recover its wasted costs from failed negotiations with its counterpart?

- Fact sensitive question
- Typically no redress
- Consider making provision for this (but: commercial realities and how to provide for this)



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Failed Negotiations for *Prospective* Contracts (cont.)

c) Might there already be an agreed contract?

- Requirements:
 - Intent to enter into legal relations
 - Offer
 - Acceptance
 - Certainty
 - Consideration

- No need for writing
- You could have an oral contract!
- Analysis can be complex – negotiations “subject to contract”?



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Take care with offers!

- A party is free to withdraw an offer even if open for a period of time (no consideration for a promise to not withdraw).
- No redress therefore if withdrawn.
- Do not delay accepting.
- Do not leave offers open if no longer intent to contract.



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2. Issues in respect of *existing* contracts

- Express provisions addressing changed economic circumstances
- *Force Majeure* Clauses
- Frustration
- Variations
- Termination for breach



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(a) “Force Majeure” Clauses

- Intended to excuse one or both parties from further performance of the contract in specific circumstances beyond the party’s control.
- No meaning as a matter of English law – need to expressly provides for what is *force majeure*.
- Burden of proof on claiming party.
- Need to follow contractual procedure to invoke.
- English courts are generally reluctant to excuse parties from performing bad deals.



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(b) The English Law Doctrine of Frustration

- Operates (to discharge an existing contract) when something takes place after the formation of the contract which either:
 - i. makes it physically or commercially impossible for a party to perform its obligations; or
 - ii. transforms an obligation into something radically different from that which the parties have contractually agreed.
- Doubtful that a party could successfully claim the oil price collapse has frustrated its pre-fall contract.



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(c) How might a sympathetic contractor agree to revise his contractual arrangements with an existing client?

- Long term commercial rationale for alleviating the burden.
- Negotiate on a “*subject to contract*” basis to avoid unintended consequences.
- Pay attention to required methods on varying existing terms e.g. in terms of form, authority to agree etc.
- Failure to adhere may not invalidate a variation but may lead to a long expensive dispute.



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Default Under Existing Contracts

- Potential exit route for your client.
- Breach of term of the contract where that term is either:
 - i. A *condition*; or
 - ii. An *innominate term* and the breach is sufficiently serious so as to deprive the innocent party of substantially the whole benefit of the contract.
- Not when the breached term is a *warranty*



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Beware of the doctrine of renunciation!

Where a party:

- by words or conduct evinces an intention not to perform his obligations under a contract; or
- expressly declares he is unable or will be unable to perform them in some essential respect.

We have recently successfully obtained a substantial damages award for a client whose counterparty was refusing to perform unless commercial terms were revised.



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Key Points:

1. Seek legal advice.
2. Be sure you are entitled to terminate to avoid being in repudiatory breach and facing a damages claim.
3. Act promptly!
4. In the meantime, make sure you do not affirm the contract and lose your right to terminate.



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Any Questions?



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About the Speakers

James Brown (Partner) James Brown has more than 15 years of experience as a disputes lawyer in London. His primary focus is litigating and arbitrating complex, high-value engineering/construction disputes for international clients operating in the shipping and offshore oil and gas sectors. He is a recommended lawyer in the Transport (Shipping) section of the 2016 UK edition of *The Legal 500*, Legalease, a leading legal directory.



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Andreas Dracoulis (Partner) Andreas Dracoulis is a partner and disputes lawyer in London. He has extensive experience of working with international clients in the shipbuilding, offshore construction and energy sectors, helping them to resolve complex and often high stakes disputes. Andreas' practice is focussed on international arbitration and court litigation and he regularly acts for owners, shipyards and offshore contractors.



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