What will shape the global supply mix?

Dr. Jonathan Lewis
Senior Vice President, Completion & Production
February 2015
Safe Harbor

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Agenda

Where Are We?

How Did We Get Here?

Demand Outlook

Key Drivers of Where the Industry Will Find and Produce Resources
Where We Are

- Crude oil at 13-year lows
- U.S. rig count down 72%
- Capital spend reduced
- 250,000 energy jobs lost

**U.S. Rig Count Index**

Source: Baker Hughes US Rig Count, through 2/12/16
How We Got Here

Incremental Supply and Demand by Source

Healthy demand growth following global recession

Source: EIA, IHS
How We Got Here

Incremental Supply and Demand by Source

- **2010-11**: Healthy demand growth following global recession
- **2012-14**: N. America production growing faster than incremental global demand

Source: EIA, IHS

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How We Got Here

Incremental Supply and Demand by Source

- **2010-11**: Healthy demand growth following global recession
- **2012-14**: N. America production growing faster than incremental global demand
- **2015**: OPEC increases production to maintain share

Source: EIA, IHS
Is This Downturn Different?

1985 - 1987

Oil price only bottomed after OPEC cut production in 3Q86

Global Production vs. Oil Price

2014 – 2016

Lack of meaningful production declines has weighed on price

Oil price only bottomed after OPEC cut production in 3Q86.
Going Forward – Hydrocarbons Dominate

Economic Growth

Urbanization

Policy

Technology Developments

Source: BP, Exxon Mobil, Statoil, company estimates

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**Time To Revisit Demand Consensus?**

**Global Demand vs. Oil Price**

- **1994 – 2004 low-priced oil**
  - Average demand growth: +1.8% / year

- **2004-2014 high-priced oil**
  - Average demand growth: +0.8% / year

- **YOY Change in Oil Demand**
- **WTI Price**

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How Much New Oil Do We Need To Produce?

Global Demand vs. Oil Production

2015 - 2020

19mm barrels of new supply to offset production decline and meet 1% demand growth

Source: Rystad Energy, February 2016
Resource Availability
Key drivers of where the industry will find and produce oil

Economically Recoverable Resources by Supply Source

- $40 Breakeven
- $60 Breakeven

At $60 Oil
LTO has significant upside production potential relative to deep water

Source: Rystad Energy, February 2016
Light Tight Oil Costs Are Declining, While Production Increases

Cost per horizontal well and per foot of lateral Permian Basin

<table>
<thead>
<tr>
<th>Year</th>
<th>$/M per horizontal well</th>
<th>CapEx per Well</th>
<th>$/ft lateral</th>
<th>CapEx per Lateral Foot</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$12</td>
<td>28%</td>
<td>$0</td>
<td>68%</td>
</tr>
<tr>
<td>2012</td>
<td>$8</td>
<td></td>
<td>$2</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>$6</td>
<td></td>
<td>$4</td>
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<tr>
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<td></td>
<td>$8</td>
<td></td>
</tr>
</tbody>
</table>

Average 90-day IPs, horizontal wells Permian Basin

<table>
<thead>
<tr>
<th>Year</th>
<th>90-day initial production, BOE/day</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>300</td>
</tr>
<tr>
<td>2012</td>
<td>300</td>
</tr>
<tr>
<td>2013</td>
<td>400</td>
</tr>
<tr>
<td>2014</td>
<td>400</td>
</tr>
<tr>
<td>2015</td>
<td>500</td>
</tr>
</tbody>
</table>

Source: Rystad Energy, February 2016, PacWest
North American LTO Production

2010-2016

U.S. shale production has not declined at the rate of rig count, partially driven by increased new barrels per rig.

Source: EIA

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Technologies Enabling North American Shale Efficiency

- Reservoir Insight
- Frac Design
- Surface Efficiency
- Stimulation Materials
- Harvesting Reserves
LTO vs. Deep Water Breakeven Trends

**Light Tight Oil**
U.S. average wellhead breakeven price for horizontal wells by spud year

**Deep Water**
Deepwater project breakeven by approval year

Source: Rystad Energy, February 2016

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Light Tight Oil Expected To Be The Largest Source Of New Production in 2020

Source: Rystad Energy, February 2016

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Light Tight Oil Expected To Be The Largest Source Of New Production in 2020

New Production By Source With Current Breakevens

<table>
<thead>
<tr>
<th>Source</th>
<th>Million barrels per day</th>
</tr>
</thead>
<tbody>
<tr>
<td>LTO</td>
<td>$&lt;20$</td>
</tr>
<tr>
<td>Shelf and Midwater</td>
<td>$20-40$</td>
</tr>
<tr>
<td>Other Onshore</td>
<td>$40-60$</td>
</tr>
<tr>
<td>Deep Water</td>
<td>$60-80$</td>
</tr>
<tr>
<td>Other</td>
<td>$80-100$</td>
</tr>
<tr>
<td>Other</td>
<td>$&gt;100$</td>
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19 million bpd of new supply

New Production By Source with Continued Productivity Gains*

<table>
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<tr>
<th>Source</th>
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19 million bpd of new supply

*Productivity assumptions include:
- 30% total cost reduction for LTO and deepwater from 2015-20
- 40% increase in production from new LTO assets
- 15% increase in production from new deep water assets

Source: Rystad Energy, February 2016
THANK YOU