

**CUSTOMER SUPPLIER APPRECIATION DAY 2008**  
**15<sup>TH</sup> ANNUAL PREMIER PIPE CUP**

**COVER SLIDE**  
**SLIDE 1**

**1) Tony's Remarks**

**2) Thanks to all of you for taking the time to attend our 15<sup>th</sup> Customer/Supplier Appreciation Day.**

**We have a couple of the original founders of this event with us today; Mr. Mark Kays and Mr. George Adams. It's great to have you both back attending for the 1<sup>st</sup> time in a while and a special thank you to both of you.**

- As always, we have a fantastic course to play, a beautiful day, and if you look around, a world class group of athletes.**

**Again, thanks to all of you for joining us.**

**I will be joined in this year's presentation by Paul Vivian and Rick Preckel from Preston Publishing Company. I believe their expertise in pipe and tube, in particularly OCTG, will provide additional insight into the future supply of tubular products.**

**Quickly – Paul's background is**

**and Rick's is**

**Since we did not give our presentation last year I have no forecast to grade, but we'll remedy that this year.**

**The end of 2007 and year-to-date 2008 have proven to be a year in which we've obviously all witnessed fundamental structural changes occur in our industry and in our world.**

**These changes will dictate the future of Exploration and Production, as well as, the supply of OCTG.**

**Consequently, this year the title of our presentation is:**

## **SLIDE 2**

### **PLAY LIKE A CHAMPION**

**With that, let's look at current market fundamentals and use those to forecast what we believe will occur in the future marketplace.**

## **SLIDE 3**

### **2008 ENERGY MARKET STATUS**

## **SLIDE 4**

### **WEST TEXAS INTERMEDIATE OIL POSTED PRICE**

**West Texas Intermediate**

**1999 – July 2008 = Point to Point 2002 – 2008 = 385%**

**20% rigs in USA drill for oil**

## **SLIDE 5**

## **HENRY HUB NATURAL GAS**

**80% of rigs drill for natural gas**

**Point to Point 2002 – 2008 = 200%**

### **SLIDE 6**

#### **FOCUS ON 2008 COST CONTROL**

- **Reviewing 10 of the most active OPERATORS**
- **INCLUDING LOE (Lease Operating Expense)**  
**DD&A = Depletion, Depreciation, and Amortization**  
**G&A = GENERAL AND ADMINISTRATIVE**  
**NET INTEREST**

**We find an average cost of \$4.73/mcfe**

**Average Henry Hub Gas Price - \$10.01 Jan/Sept 08**

**Internal Rate of Return = +50 – 75% on overall drilling projects**

### **SLIDE 7**

#### **US OIL COMPANIES' REVENUES / Earnings**

- **Broader Picture**  
**2004 – 2007**  
**Revenue Increase = +70%**  
**Net Income = +82%**

## **SLIDE 8**

### **US DRILLING COMPLETION SPENDING**

**2004 = \$62.7 Billion - Following Incremental Changes of Cash Flow to  
Forecast 2008 = \$143.5 for an increase of 129%**

## **SLIDE 9**

### **UNITED STATES AVERAGE RIG COUNT**

- **Expect to average 1900 in 2008 (+133 rigs) +7.5%**
- **154 tons/rig/mth 1981 and 232 tons/rig/mth 2008 (+50%)**
- **Tubular equivalent 3000 rigs today**

## **SLIDE 10**

### **NATURAL GAS PRICE WITH STORAGE**

- **Winter Ending Storage Last Winter 2007 dropped from 1619 Feb – 1228 TCF March**
- **Prices increased driving rig count in 2008**
- **80% rigs drill for Natural Gas**
-

## **SLIDE 11**

### **US RIG COUNT AND 4-WEEK AVERAGE PERMITS**

- **Rig Count should remain 1970-1980 (2031 high point for year)**
- **Downward pressure developing on rig count but 2 week average in October = 1,895**

## **SLIDE 13**

### **ENVIRONMENT SURROUNDING RAW MATERIAL SOURCING**

**Factors other than supply / demand balance that were anticipated to effect 2008 and beyond**

- **Oligopoly of Sources**
- **Resource Nationalism**
- **Stronger Currency of Resource Exporting Countries**
- **BRICS – Brazil/Russia/India/China**

## **SLIDE 14**

### **PIG IRON**

- **\$354 Av. 2007 to \$700 = 98% increase**

### **IRON ORE**

- **3 Major Players (Exporters) Vale / BHP Billiton / Rio Tinto**
- **Demand China 700-800 million tons of raw materials by 2015 from 493 million tons 2007**

## **SLIDE 15**

### **COKING COAL**

- $\$95 - \$300 = +\$202$  (210%)

## **SLIDE 16**

### **NO. 1 HEAVY MELT SCRAP**

- Exports +32% since 2006
- International Steel Growth
- Weak Dollar
- Electric Furnace Steelmaking Growing

## **SLIDE 17**

### **FUEL SURCHARGES AND DIESEL**

- $\$3.20$  to  $\$4.20 = +24\%$  & Fuel Surcharge 41.75%  
January to 68.8% in July (+65%)

## **SLIDE 18**

### **OCTG RAW MATERIAL COSTS**

- July 2007 – June 2008 = +95% (1 year)
- .73 to .63 = -14% (\$ strengthening now)
- Commodities became a safe haven to attain asset value appreciation

## SLIDE 20

### US OCTG DEMAND 2007

- From 2002 – 2007 Tubing -8” grew from 1.7 million tons to 3.4 million tons = +1.7 million (+100%)
- From 2002 – 2007 = 8”–12” = 800,000 tons to 1.2 million = +400,000 tons (+50%)
- 4-1/2” & 5-1/2” = 40% of Demand 2007
- Finally 4-1/2” & 5-1/2” larger tonnage in total than 7”-20”
- .75 tons / joint to .60 tons / joint reduces capacity by 20%

## SLIDE 22

### OCTG PRICING TREND VS. INVENTORY SUPPLY

- Review Chart
- Drilling activity
- Raw material costs
- Change in OD demand – production mills
- Inventory at extremely low levels

### MILL CONSOLIDATION 5<sup>th</sup> and FINAL VARIABLE

## SLIDE 24

### GLOBAL STEEL CONSOLIDATION

- Late 90’s 1 billion tons capacity 220 million surplus = 22%
- 2007 = 1.3 billion tons capacity 50 million surplus = 4%

## **SLIDE 25**

### **DOMESTIC HR COILS**

- **\$270 equilibrium 03**
- **\$550 equilibrium 05/06**
- **Reached \$1200/ton by June 2008**
- **Currently \$900 and probably reaching equilibrium near \$850 (+50%)**

## **SLIDE 28**

### **NORTH AMERICAN OCTG MILL CONSOLIDATION**

## **SLIDE 29**

### **ACTIVE M&A IN US TUBULAR INDUSTRY 2006-2008**

## **SLIDE 30**

### **OCTG SUPPLY AND CONSUMPTION YEAR-OVER-YEAR COMPARISON**

## **SLIDE 31**

### **STRATEGY TO EMPLOY TO WIN THE GAME**

## **SLIDE 32**

### **WORLD ENERGY DEMAND TO 2030 (MILLION BARRELS/DAY OF OIL EQUIVALENT)**

- **By Sector = 2005-2030 = 1.3%**
- **By Fuel = 2005-2030 = 1.3% (alternate fuels 1.7%; natural gas 1.7%)**

## **SLIDE 33**

### **WORLD OIL DEMAND**

- **Growth = .6% in 2008**
- **Industrialized Nations down 1.2%**  
**non-OECD +3.3% (China +5.4% and Middle East +6%)**
- **Growth 2009 = Flat to Down 84.2 million bbl/day**  
**Possible 1<sup>st</sup> decline since 1980-1983**
- **Global Growth 2010 = .7 to 1%**

## **SLIDE 34**

### **GLOBAL OIL DEMAND WILL DICTATE 2009 OIL PRICES**

- **Believe accurate area is between slowdown and recession for 2009 with oil \$80-\$85 with a flat to slightly negative demand**

## **SLIDE 35**

### **SHARE OF TOTAL CHINESE POPULATION**

- **In 1980 = 80% lived rurally**
- **Open-door policy 1994 = crossover 2010**
- **By 2020 60% of Chinese population will live in urban centers**

## **SLIDE 36**

### **WORKFORCE SET TO SWELL NEXT 10 YEARS**

- **2005-2015 = 159 million new jobs**
- **U.S. total population slightly over 300 million**
- **From 2010-2015 = Global oil demand will rise to 90.9 million bbl's/day**
- **Oil replacement 5.9 million bbl – size of U.S. production**

## **SLIDE 37**

### **U.S. GAS DEMAND**

- **U.S. gas demand will increase to 23.6 tcf in 2008. This will be an increase of 3% due to higher power generation consumption**
- **Natural gas demand is expected to stay intact with a 2.5% growth factor in 2009 and 3.0% in 2010.**

## **SLIDE 38**

### **U.S. GAS PRODUCTION (TCF)**

- **U.S. gas production this year will grow 19.1 to 20.4 TCF for an approximate 7% increase.**
- **Gas production is forecasted to increase by approximately 3.0% - 3.5% in 2009 and 2010 to around 22TCF**
- **Increased production will be offset by sizeable decreases in LNG and Canadian imports**
- **No doubt we will enter this winter at full storage and with gas production outstripping demand.**

## **SLIDE 39**

### **WHAT WILL OSX DO IF RIG COUNT ROLLS?**

- **Historically – 7 months after steep decline in gas prices the rig count drops**
- **40%-50% decrease in natural gas price should equate to a 10-15% drop in rig count**
- **Current rig count 1,990**
- **We expect the rig count to exit the year at approximately 1,945 – 1,950 rigs and decline to around 1,715 in 1<sup>st</sup> Qtr. The average for the year should be 1,754**

## **SLIDE 40**

### **U.S. GAS MARKET ANNUAL GAS PRODUCTION BY TYPE OF WELL**

- **In the U.S. 85% of gas wells are low volume producers and 15% are high volume producers**
- **High volume producers (those 15%) account for 78% of gas production**
- **First year gas wells produce 35% of all U.S. gas production**

**Let's analyze what this tells us. The rig count in 2007 averaged 1,767 rigs and in 2008 it will average 1,900 rigs for an increase of 7.5%. We added 1.3 tcf of gas production with this increase or 3.6 bcf/day. Therefore each 1% rig count increase accounted for a .48 bcf/day increase. If we drop back to an average rig count of 1,754 in 2008 or approximately 7.7% we will see a decline of 3.7 bcf within 9 months to 1 year (depending on the winter). In essence we will eliminate the production build of 2008 while gas demand will increase by 3%. Prices will firm quickly and 2010 will move to a much stronger market.**

**Late this year it appears we will start the decline process. However, long-term analysis indicates we are in a strong growth business and in fact natural gas prices will increase dramatically within a short period after a slowdown.**

**Playing like a champion means looking 2 or 3 plays ahead. Those who understand and cultivate their supply chains during this period will have paramount success when the economic pause ends in late 2009. Those that do**

**not make their suppliers part of a strategic team will be making a bad and I believe long term costly decision.**

**Paul, with that, tell us where steel and in particularly OCTG is headed over during this period.**

### **SUMMARY OF PLAY LIKE A CHAMPION**

**Obviously this is probably the most difficult time we've ever had to predict the future. However, Champions work to perfect their implementation of the fundamentals. In our business, especially OCTG, that has become operating effective supply chains.**

**That is fundamental to the success of every company in this room.**

**The oil and gas industry is vibrant and after what will be a retrench year in 2009, it will rebound much more quickly than in the past. This in turn will create financial returns that will allow the stock prices of virtually all companies in our industry to rebound strongly and become excellent investments after the 2009 pause.**

**We thank each and the companies in this room for the opportunities give us over the past year. We continue to pledge to do all that we can to enhance mutual profitability and to play as A Champion inside the supply chain each and every day.  
Thank you.**

**Turn back to Tony.**