

Article Title: ARCHIVE | Criteria | Corporates | General: Key Credit Factors: Global Criteria For Rating Oilfield Services And Equipment Companies Data: (EDITOR'S NOTE: — This criteria article is no longer current. It has been superseded by "Key Credit Factors For The Oilfield Services And Equipment Industry," published April 16, 2014. This article is partially superseded by "Corporate Methodology," published on Nov. 19, 2013. The corporate ratings framework section of the "Corporate Methodology" article supersedes references to the relationship between business and financial risks presented in this article. In addition, the references to industry risk in this article have been superseded by "Methodology: Industry Risk," published Nov. 19, 2013, and the references to country risk have been superseded by "Country Risk Assessment Methodology And Assumptions," published Nov. 19, 2013. The sections in this article on management and governance are partially superseded by "Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers," published Nov. 13, 2012.) 1. Standard & Poor's Ratings Services is refining and adapting its methodology and assumptions for rating global oilfield services companies. We define oilfield services companies as firms that derive a majority of their revenues from providing the equipment, systems, and services to companies engaged in exploration, development and production of oil and natural gas. We are publishing this article to help market participants better understand our approach to reviewing key credit factors in the oilfield services industry. This article is related to "Principles Of Credit Ratings," published Feb. 16, 2011, on RatingsDirect. SCOPE OF THE CRITERIA 2. Standard & Poor's is updating its global criteria for analyzing oilfield services company key credit factors and industry risk. These criteria do not cover contract drilling companies. SUMMARY OF THE CRITERIA 3. Key credit factors are now divided into three categories, depending on their relevance and importance in determining the rating outcome. IMPACT ON OUTSTANDING RATINGS 4. We do not expect implementation of these criteria to cause rating changes. EFFECTIVE DATE AND TRANSITION 5. These criteria are effective immediately. METHODOLOGY 6. Our analytic framework for industrial companies in all sectors, including the oilfield services industry, is divided into two major segments. The first is fundamental business risk analysis. This step forms the basis and provides the industry and business contexts for the second segment of the analysis, a financial risk analysis of the company. Summary Of Key Credit Factors: 7. The key credit factors used in analyzing oilfield services companies are listed below, divided into three categories. Category one factors are the most relevant; they ordinarily affect the rating outcome in a meaningful way, and in many instances are critical to our rating conclusions. We view category two factors as being of lesser relevance, but they may, in some instances, still prove critical. Category three factors may be individually meaningful in a few instances, but ordinarily just shape the company's overall profile in conjunction with the other factors. 8. We also consider industry risk factors in our ratings process (see Industry Risk). The oilfield services and equipment industry is composed of multiple subsectors providing services and equipments that vary widely in their degree of industry risk. However, we have identified some common characteristics. We view the industry as highly cyclical, competitive, and dependent on customer capital spending levels, worldwide and regional drilling activity levels, and, ultimately, the outlook for commodity prices. 9. Category one factors for the oilfield services industry include: Degree of geographic and product line diversity, markets served, geographic coverage, and product lines. Technological complexity and sophistication of products and services; R&D; effectiveness; and track-record of new solutions offered to meet changing customer needs including substitution risk. Market position, i.e., market share; reputation; customer concentrations; pricing power; and contractual base. Financial condition, i.e., financial governance, policies and risk tolerance; liquidity management, i.e., capital markets access; cash flow adequacy (working-capital and fixed-capital investment requirements and tax position); and capital structure and leverage. 10. A category two factor is: Government regulation, including environmental regulation and restrictions. 11. A category three factor is: Operating efficiency, including operating risk associated with manufacturing or assembly of equipment; operating strategy; operating business model; and drivers of expected growth. Part I--Business Risk Analysis 12. We subdivide business risk analysis into four categories: country and macroeconomic risk, industry risk, competitive position (including management), and profitability/peer comparisons. We evaluate each category and then determine a score for overall business risk: Excellent, Strong, Satisfactory, Fair, Weak, or Vulnerable. Country risk and macroeconomic factors (economic, political, and social environments) 13. Country risk plays a critical

role in determining all ratings on companies in a given country. Country-related risk factors can have a substantial effect on company creditworthiness, both directly and indirectly. Country risk--i.e., the risk of doing business in a country--differs from sovereign risk, which is the risk of a sovereign defaulting on its debt obligations. As such, sovereign risk may not fully capture the risk applicable to the private sector. We look beyond the sovereign rating to evaluate the specific economic, demographic, political, and other country risks that may affect the entity's creditworthiness. Such risks pertain to the effect of government policies and other country risk factors, including the extent to which the economy is subject to volatile cycles; the regulatory risk and tax treatment of hydrocarbon exploration and production (E&P); and the overall institutional environment, directly or indirectly affecting the hydrocarbon producers' capital spending plans and therefore, demand for oilfield services. 14. Country risk remains a major issue for the whole oil and gas industry because many existing operations and planned new projects are conducted in emerging markets where the political landscape can change rapidly. This contrasts with oil and gas fields in developed countries, where reserves tend to be more mature and country risk is less of a constraining factor. Because of the strategic and politically sensitive nature hydrocarbons have for certain countries, some common country-related risks like taxes, regulation, legal system, and expropriation sometimes are exacerbated in the oil and gas industry compared with other industries. 15. For oilfield services companies, the aspects of country risk that are most directly relevant from a credit perspective include those factors affecting Exploration & Production producers (see "Key Credit Factors: Global Criteria For Rating The Oil And Gas Exploration And Production Industry", published on Jan. 20, 2012). This is because country risk directly affects E&P; producers' capital spending plans, and therefore, their demand for oilfield services. 16. Oilfield services companies also face direct country risk: In some cases, they provide services to large government-owned national oil companies (NOCs), and are exposed to additional risks like delays in collections--just like other government contractors--and more severe risks like expropriation, mandatory changes in contracts, etc. The enforceability of contracts in different jurisdictions is another factor we consider as part of our Country Risk assessment. This factor can be particularly critical in those subsectors of the oilfield services industry where business typically is conducted under contracts. Industry Risk Characteristics 17. In establishing our view of credit risk, we consider how an industry's risk profile compares with that of other industries. Risk categories are broadly similar, but the effect of these factors on credit risk can vary markedly among industries (see table 1). The key industry factors are scored as follows: High risk (H, red), medium/high risk (M/H, red), medium risk (M, orange), low/medium risk (L/M, green), and low risk (L, green). 18. Broadly speaking, the lower the industry risk, the higher the potential rating on companies in that sector. Industry risk identifies the range of business risk profile scores we generally expect to assign to industry participants. Those sectors with lower (less risky) industry risk tend to have higher business risk profile scores than those sectors with higher (more risky) industry risk. However, a high-industry-risk profile does not necessarily limit our rating on a company. Companies can differentiate themselves by adopting a niche position within the industry, and may be able to mitigate certain business risks by adopting cautious financial strategies. 19. Industry risk analysis sets the stage for company-specific analysis. Once key country risk and industry risk considerations are identified, our credit analysis process proceeds to a second phase--company-specific analysis. If we view technology as a critical competitive factor, our analysis typically places greater weight on a company's research and development (R&D;) capabilities. If the industry produces a commodity, production cost is of major importance. Our goal is to develop a robust understanding of the company's external operating environment when evaluating its overall business position. Industry analysis focuses on industry prospects and identifying the competitive factors, risks, and challenges affecting participants in that industry. The degree of business risk facing a company almost always depends on the dynamics of the industry in which it participates. Different industries pose different risks and opportunities for the companies that operate in their sectors. 20. The major integrated oil and natural gas companies, national/government-owned companies, and independent exploration and production companies rely on oilfield services companies to provide the necessary equipment, systems, and services to explore for, develop, and produce oil and gas. We view the oilfield services industry as highly cyclical, competitive, and dependent on customer capital spending levels, worldwide and regional drilling activity levels, and, ultimately, commodity prices. Within the rated universe of oilfield services providers,

companies can range from large international companies with broad product/service lines to smaller, more regionally focused companies that may offer just one or two products or services, with varying degrees of vulnerability to encroachment by other oilfield services companies. 21. The major service companies typically market their services to end-users on the basis of availability, performance, quality, reliability, technical support and service, and price. The oilfield service industry is competitive and subject to rapid and extreme cycles. Although no one company dominates the market, certain ones have or share dominant positions in specific applications. Several are distinguished by their very large scale and global market presence, which significantly enhances their ability to withstand the industry's volatility and cyclical nature. As a result, satisfactory or higher business risk profile assessments are possible for these companies. 22. Demand for oilfield services is a function of prevailing and expected levels of exploration, well development, and production activity, which depend on factors largely beyond service providers' control, including: Global economic growth, particularly in regions where economic development materially increases energy demand; The current and expected supply, demand, and price levels for crude oil, natural gas, natural gas liquids and refined products; OPEC and non-OPEC production levels; Hydrocarbon inventory levels; Hydrocarbon resource and reserve characteristics; Technological advances; Capital availability; Other political and economic factors; Regional environmental regulations; and Actual and projected changes in the supply of oilfield services and equipment. 23. Supply is a function of: Worldwide and regional supply/demand by equipment/service type; Aging of existing equipment and the worldwide attrition rate; The geologic characteristics and technical demands of regional markets both onshore and offshore; The relationship between prevailing day rates (the daily cost to the E&P; operator to lease the drilling rig or other equipment) and those required to justify new equipment builds; The substantial capital cost of providing turnkey services or multi-client surveys; Capital availability; and The availability of skilled labor. 24. Because demand in the oilfield services industry can be volatile, at the cyclical peak, companies are expected to generate credit measures that significantly exceed benchmark averages that would pertain in less volatile industries. At the cyclical trough, underperformance may be equally dramatic. Volatility varies among subsectors. We tend to see those companies deriving their revenues from existing producing wells as more stable to those more exposed to exploration activity. 25. Skilled labor can be the scarcest commodity in a rebound, as can ready manufacturing capacity. When commodity prices go up, demand for development and production-related services tend to rebound first, followed by exploration. 26. Large, well-diversified (by both product line and geographic presence) oilfield services companies can generally maintain satisfactory margins through the cycle, and remain profitable through industry downturns. As such, larger, well-entrenched market participants have scale and diversification advantages, which we view as beneficial from a credit perspective. 27. Smaller, more focused companies can suffer more severely during industry troughs given their narrower product lines and high exposure to specific markets--for example, the U.S. natural gas market. Nevertheless, broadly speaking, relative to the E&P; sector--which must consistently reinvest capital to replenish production and depleting reserves--oilfield services companies are less burdened by fixed costs and have greater flexibility to scale back capital spending during a downturn. 28. The oilfield services sector is made up of several subsectors, described below. In some segments--seen to some extent with hydraulic fracturing-related equipment in North America--a material amount of capacity is owned and operated by the customers themselves on a captive basis (see paragraph 38). This can be a disadvantage for external suppliers, because they are the first to be cut during industry downturns. The products and services provided by oilfield services companies typically fall into one of two categories (see table 2). Table 2 Oilfield Services Sector Categories

EQUIPMENT	SERVICES
Drillbits	Wireline services
Drillpipes, casing, and tubing	Directional drilling, rotary steerable technology, logging while drilling, and underbalanced drilling
Fluids	Pressure pumping; cementing and stimulation (acidizing and fracing)
Compressors and artificial lifts	Plugging and abandonment services
Rig equipment (mud pumps, draw works, top drives, etc.)	Workovers
Downhole products and tools (packers, liners, hangers, etc.)	Seismic data acquisition and processing
Wellhead equipment (valves, trees, blowout preventers, etc.)	Marine support vessels and helicopter transportation
Subsea equipment (manifolds, subsea trees, marine risers, remotely operated vehicles, etc.)	

Source: Company-specific analysis 29. The business risk part of this analysis is divided into three parts: company competitive position (including technological

complexity, product line/geographic diversification and market position); management assessment (including strategic planning and implementation); and profitability (incorporating industry peer group company comparisons). Company competitive position 30. When analyzing an oilfield services company's competitive position, we consider the degree of geographic and product diversity, the technological complexity of its equipment and services, asset quality, and market position. Category One Key Credit Factor: Degree Of Geographic And Product-Line Diversity 31. An oilfield services company that warrants a favorable assessment of geographic and product diversity is characterized by: Geographic diversity of operations and cash-flows, with the majority of services being of significant scale and in relatively low-risk countries/regions; and Participation in multiple product lines mitigating a firm's exposure to the risks of a single market. 32. An oilfield services company that warrants an unfavorable assessment of geographic and product diversity is characterized by: High degree of geographical concentration and/or significant exposure to high-risk countries; and A narrow product base. 33. We believe those companies able to provide multiple services and offer broader geographic coverage are more resilient in the face of inherent industry volatility, cyclicity, and country risk. 34. We generally view oilfield services companies operating in several markets as having superior geographic diversification, allowing them access to more favorable long-term markets and a broader base of customers. But geographic diversification poses some additional risks. As mature petroleum-producing regions, such as the North Sea, continue their decline, larger service companies have strategically shifted their focus to more prolific reserves, but with higher country risk, notably Russia, Central Asia, Latin America, West Africa, and the Middle East. Our diversity assessment encompasses the balance between these two factors. Nevertheless, mature basins will continue providing opportunities for service companies to add value, employing high-technology content products and sophisticated recovery methods to improve recovery, extending the life of an oil and gas field. For example, in the U.S., an increasing focus on unconventional natural gas plays continues to drive strong growth for well stimulation and directional drilling services. 35. Large companies typically are highly valued by operators because they can address needs across the different phases of the E&P cycle. Participation in more than one business line mitigates a company's exposure to the risks of a single market, provides opportunities for related follow-on sales, and creates a platform for growth. When product-line breadth is matched with extensive geographic scope, a service company is well-positioned to meet the oilfield needs of a major international operator. This tends to result in smoother operating cash flow and can mitigate a company's vulnerability to phase-specific demand fluctuations. Also, for an oilfield services company, demand for production-related business is considerably less volatile than for exploration and development-related businesses. Category One Key Credit Factor: Technological Complexity 36. An oilfield services company that warrants a favorable assessment of technological complexity is characterized by: High-technology-content products and services, to help customers tackle more challenging projects, while affording barriers to entry and pricing power; and A good track record of developing successful new products as a result of R&D.; 37. An oilfield services company that warrants an unfavorable assessment of technological sophistication is characterized by: Commodity-type, low-value-added products and services; and Does not contribute materially to improving E&P; producers' success rates and production costs. 38. As worldwide conventional oil and gas reserves decline, exploration efforts continue to target frontier regions such as the deepwater, remote harsh environment locales, in-situ oil sands development, and unconventional resource plays. Maturing reservoirs give service providers the opportunity to help customers improve reserve recovery. Both trends favor service providers that can provide high-technology-content products and services, to help customers tackle more challenging projects and improve recoveries from existing fields. Products within the oilfield services space vary greatly from commodity-type products and services (fluid hauling, drill pipe, routine workover services, and low-technology pressure pumping) to more technologically complex products (logging while drilling, directional drilling, subsea drilling and production equipment, and high quality 3D and 4D seismic imaging). 39. New production technologies mean new revenue growth opportunities for service providers, but also poses operating, technological, and potential regulatory challenges. For example, recent robust market growth in North America has been propelled by greatly expanded use of relatively new hydraulic fracturing (fracking) technology to exploit oil and gas shale deposits that previously were not economical. The outlook for continuing demand growth is

highly favorable; however, leaders in the hydraulic fracturing business have invested heavily to expand pumping capacity, raising the specter of overcapacity beyond the next several years. Moreover, fracking has proven to be controversial, given allegations of ground water contamination, which could result in stricter environmental regulations. 40. In general, oilfield service companies with sophisticated, high-tech product lines that span the different phases of the E&P; cycle should maintain reasonable cash flow levels in cyclical troughs and do well during cyclical peaks. In contrast, local providers of niche services and/or commoditized equipment related primarily to exploration and development are more likely to exhibit volatile cash flow patterns. 41. A company's ability to develop and quickly implement cutting-edge applications help establish it as a technological leader, allow it to build demand and market share, and to establish alliances with producers, possibly without direct competition. The more a technology contributes to E&P; success rates and cost improvement (faster production, reduced drilling rig time, and cleaner processing), the more valuable that company's products and services. Constant improvements in technology let operators lower the costs of drilling and producing wells, and pursue reserves and production in increasingly complicated ultra-deep water, and extreme environments. To create or maintain a competitive advantage, service companies must keep spending on engineering, R&D;, or acquiring niche providers. Product-line entry barriers and price competition vary according to the technical complexity and cost of the services rendered; but proprietary rights (e.g., patents for high-value technical processes or products) pose effective entry barriers for new competitors. Category One Key Credit Factor: Market Position 42. An oilfield services company that warrants a favorable assessment of market position is characterized by: Strong market share in its main markets, products and services; Some degree of pricing power; Strong, long-term customer relationships; Good market reputation and brand recognition; A significant amount of business conducted under contracts with favorable provisions, including protective clauses to difficult the cancel of orders, etc.; and A substantial and diversified backlog that typically adds some predictability of cash-flows. 43. An oilfield services company that warrants an unfavorable assessment of market position is characterized by: Low market share without pricing power; Little or unfavorable operating track-record; Low-value added product offering subject to very high competition; and Lack of or poor contractual revenue base or backlog, including a lack of long-term customer relationships. 44. Service providers compete on value-added capabilities, price, and the ability to deliver under contracted terms. During weak demand conditions, customers will generally demand lower prices. However, a strong customer relationship can potentially mitigate pricing concessions--e.g., allowing a provider to lock in an above-market, longer-term contract throughout the cycle. A strong customer relationship also provides more certainty that contracts can be extended on expiration, providing improved operating visibility. 45. Service companies can also benefit from building strong relationships with providers of complementary services, to provide bundled products and services to customers. Joint ventures allow companies to provide bundled services, integrate technological advances, and share costs. 46. We consider the extent to which companies transact business under long-term contracts, and the extent to which such contracts enhance stability and predictability of revenue and cash flow. We assess such contracts based on their terms; the extent to which they afford protection against increases in such inputs as raw materials costs; payment terms and the extent to which they exacerbate counterparty credit risk; currency; and force majeure and other exit provisions. We also analyze the enforceability of contracts not just in a legal sense, but also in a pragmatic/commercial sense: In some cases, a contract may be legally enforceable, but it is unlikely the company would take legal action against a major customer, rather than agree to renegotiate the contract provisions. For us to view contracts favorably in our business risk analysis, they must have a duration of at least several years, have favorable pricing compared with expected market prices, provide pass-through of possible cost increases, and be enforceable even in an industry downturn. 47. For a company operating under contracted revenues, we monitor its backlog (already contracted products and services that were not delivered yet), size (measured in absolute values and as years of revenues), diversity, potential businesses to be included, and how easy or difficult it is for customers to cancel orders (and potential recourse in case of cancellation). Typically, companies with an order backlog may have some financial cushion during a quick downturn, unlike those that are just service-oriented. 48. Generally, companies with satisfactory or better business risk assessments offer a broad range of services and dominate their markets in

several product and services categories, helping them withstand competitive challenges. On the other hand, companies with a narrow product and service base are unlikely to have satisfactory or better business risk assessments. Product breadth allows larger service companies to bundle services and create solutions for their customers, as a one-stop shop. A broad slate of products and services also helps service providers get access to larger (and potentially more profitable), technically complex projects (i.e., deepwater), and key customer segments like the major, larger independent, and national E&P; operators. Category Two Key Credit Factor: Government Regulation 49. Because of the important role the energy sector plays in the general economy, and its environmental implications, government involvement is extensive, and so has important ramifications for credit quality. While our overall assessment of the regulatory framework is part of our country risk analysis, we pay a special attention to industry specific environmental regulation for oilfield services companies. 50. Government regulations can affect technology used or techniques employed, because of potential effects on the environment. Regulations of the same activity may differ not only between countries but also between states or other jurisdictions in a country--currently the case with hydraulic fracking regulations in the U.S. Governments can also restrict drilling activity and lead to punitive sanctions in the wake of oil spills, affecting not just the E&P; company, but services companies found to be culpable as a result of government investigations and litigation. Category Three Key Credit Factor: Operating Efficiency, Strategy, And Execution 51. An oilfield services company that warrants a favorable assessment of operating efficiency, strategy, and execution is characterized by: A long-track record in executing contracts in accordance with specifications; An experienced operating management team A consistent strategy with organizational capabilities and market conditions; The ability to track, adjust, and control execution of strategy; and Low or controlled risk of manufacturing and assembling of equipment. 52. An oilfield services company that warrants an unfavorable assessment of operating efficiency, strategy, and execution is characterized by: A poor track record in the industry; Inexperienced operating management; and An unclear strategy, or major shifts into new, unproven products or services. Management 53. How we evaluate issuer management is discussed in our "2008 Corporate Criteria: Analytical Methodology," April 15, 2008. Assessing management personnel and practices is an especially significant factor when determining credit-rating assignments. Our rating analysis considers many factors that pertain to management, including track record and competence, management background and reputation, and management depth and turnover. Business strategies that stray from core competencies, initiatives with elevated risk, and actions inconsistent with management's publicly or privately articulated goals can detract from credibility and credit quality. Profitability and peer comparisons 54. An oilfield services company that warrants a favorable assessment of profitability can, during periods of favorable market conditions, generate significantly better return on capital than its peers, and limit any deterioration in profitability during more adverse periods. Companies with well-established products and leading market share in several product service categories hold meaningful competitive advantages. Several large, globally active service providers demonstrate solid profitability (e.g., return on capital in excess of 15% and EBITDA margins of at least 20% through the cycle). These companies are well-entrenched across a number of major product lines. 55. Operating execution capabilities encompasses a service provider's ability to execute for its customer on time, on budget, and to other parameters specified in a contract. Providers with a long operating history in a particular niche, and an experienced management team with strong customer relationships, generally maintain superior operating execution. We consider newer entrants to a particular service or a management team that is distracted by peripheral issues to be vulnerable to poor operating strategy execution. 56. An oilfield services company that warrants an unfavorable assessment of profitability is prone to extreme volatility, typically incurring strong operating losses during periods of robust industry conditions. Weak profitability typically negatively affects ratings as the company reduces its ability to generate internal earnings and to attract external capital. 57. In assessing the profitability of oilfield services companies, our criteria employ the same methodology as with other corporate entities (again, see "2008 Corporate Criteria: Analytical Methodology", April 15, 2008). 58. Oilfield services companies' profitability is inherently tied to industry and business conditions determined by the aforementioned factors. We incorporate profitability and competitive position in our business risk profile analysis. Two key profitability measures for services providers are operating margins (EBITDA to sales) and return on

capital. Companies with a satisfactory or better business risk profile typically maintain more stable margins and return on capital than lower-rated peers with weaker competitive positions and better returns on capital throughout the industry cycle. 59. During peak industry periods, pricing power is at its strongest, because of the potential for supply and demand imbalances for services and products and stronger cash flow for E&P operators, which supports increased capital spending. Conversely, during trough periods, pricing power can erode as spending and oilfield activity moderates. On the cost side, raw material pricing and labor constraints can pressure the margins for services providers. How quickly oilfield services companies pass through cost increases to customers, or how quickly they take offsetting cost-cutting actions, also affect profitability. Part II--Financial Risk Analysis 60. Having evaluated an oilfield services company's business risk, we next look at several financial risk categories. A company's business risk determines the level of financial risk our criteria consider as consistent with any rating category. 61. We assess financial risk largely through quantitative means, particularly by using financial ratios. Because oilfield services companies are volatile, at comparable rating levels we expect them to maintain more conservative financial policies, more moderate financial leverage, stronger cash flow metrics, and greater liquidity (at least at most points during the cycle) than companies in less volatile businesses. (See sections on "Financial governance/policies and risk tolerance" and "Liquidity/short-term factors," below). To warrant an intermediate or higher financial risk profile assessment, oilfield services companies must be able to sustain extended periods of low hydrocarbon prices, weak industry conditions, and constrained capital markets access, i.e., maintain at least adequate liquidity. 62. We analyze five risk categories: accounting characteristics; financial governance/policies and risk tolerance; cash flow adequacy; capital structure and leverage; and liquidity/short-term factors. We then determine a score for overall financial risk: Minimal, Modest, Intermediate, Significant, Aggressive, or Highly Leveraged (see "Criteria Methodology: Business Risk/Financial Risk Matrix Expanded," published May 27, 2009). For how we generally evaluate financial risk, see "2008 Corporate Criteria: Analytical Methodology," April 15, 2008. Accounting characteristics 63. In assessing the accounting characteristics of oilfield services companies, we use the same methodology as for other corporate issuers (see "2008 Corporate Criteria: Analytical Methodology," April 15, 2008). The objective of the accounting analysis is to determine the accounting approaches employed by an issuer. This is a prerequisite for understanding its reported financial performance and condition, and to identify appropriate analytical adjustments. The operating lease adjustment for equipment particularly significant, in our view. 64. For companies with a material amount of revenues under long-term contracts, we put a special emphasis on the accounting policies for revenue recognition, including where the percentage-of-completion method is used, because it particularly relies on management judgment. Where applicable, we also review the recorded and non-recorded environmental liabilities to assess potential future negative cash impacts from such contingencies. Category One Factor: Financial Governance/Policies And Risk Tolerance 65. In assessing the financial governance/policies and risk tolerance of an oilfield services company, we use the same methodology as for other corporate issuers (see "2008 Corporate Criteria: Analytical Methodology," April 15, 2008). 66. Conservative debt levels and low fixed charges strengthen a company's operating flexibility during an industry downturn. This is important because downturns in the oilfield services industry can last for several quarters or years, during which demand for individual product lines can weaken precipitously. A high proportion of variable costs, very low maintenance capital requirements, operational diversification, and the ability to squeeze working capital help large service companies better withstand attenuated demand troughs. A high degree of financial strength also means a strong capital structure and good liquidity to weather adverse factors as fluctuations in market conditions, changes in the customer base, and intensified competition in some product lines. 67. A service provider's approach to a market downturn (inventory liquidation, manufacturing plant closures, and workforce reductions) affects the amount of liquidity needed to meet fixed and variable charges, and the company's ability to respond promptly and credibly to a recovery. This is particularly true for companies that provide technically sophisticated and internally manufactured products. 68. A company's track record is the best reflection of financial policy and strategy. We view companies that maintain a conservative and consistent financial profile throughout the cycle as having stronger credit quality than those with more erratic financial profiles because of significant debt-financed acquisitions.

and/or sizable new builds that have led to high debt leverage during trough periods and more adequate financial profiles during peak up cycles. Companies that used excess cash during peak periods of cycles to reduce debt levels or reinvest in core operations have healthier credit quality than those that increased their dividends, repurchased shares, or made one-time special dividends in lieu of solidifying the balance sheet and liquidity to better operate in a down cycle. 69. Foreign currency risk can be another significant exposure for some oilfield services companies. To the extent companies have operating costs, debt service costs, and sales that are denominated in different currencies, they may be affected by adverse fluctuations in relative currency values, absent hedging. In such cases, we assess oilfield services companies' hedging strategies and techniques as part of our capital structure analysis. 70. An oilfield services company's liability exposure arising from operating hazards--from the risk of equipment failures resulting in spillages, injuries, and/or work delays--is a function of technical operating risk and the legal regime of the country or countries in which it operates. Given the significance of operating hazards faced, it is common for large companies to maintain extensive property and casualty insurance coverage, and in some cases business interruption protection. Where expropriation risk is of particular concern, a company may carry political risk insurance. While property & casualty insurance provides some degree of protection, we assume that, at most, insurance affords incomplete protection against operating hazards. As a result of insurance market conditions, premiums and deductibles for certain insurance products could escalate over time, becoming uneconomic. If significant claims have been filed, a company's future premiums are likely to rise, so the financial protection afforded by the insurance is merely a matter of timing cash outflows. Category One Factor: Cash Flow Adequacy 71. In assessing the cash flow adequacy of an oilfield services company, we use the same methodology as for other corporate issuers (see "2008 Corporate Criteria: Analytical Methodology," April 15, 2008). 72. Working-capital swings in cyclical industries also play a key role in cash-flow generation and its volatility. This has become a particular credit concern for small companies providing low-end equipment to bigger participants. 73. In assessing cash-flow adequacy for oilfield services companies, it is especially important to understand ongoing capital expenditure requirements. We assess oilfield services companies' planned capital expenditures, to understand what portion stems from the need to maintain assets and equipment, what portion relates to growth initiatives, and how flexible the latter is under adverse industry conditions. Growth-related capital expenditures typically includes new equipment and or technology to support new businesses or contracts. Category One Factor: Capital Structure 74. In assessing the capital structure of an oilfield services company, we use the same methodology as for other corporate issuers (see "2008 Corporate Criteria: Analytical Methodology," April 15, 2008). 75. We evaluate the standard capital structure ratios, such as total adjusted debt to capitalization, particularly for companies with intermediate or better financial risk assessments. The capital structure review encompasses the level and mix of debt employed (i.e., fixed/variable rate, maturity, currency, secured/unsecured), and the hedging analysis. This helps us determine a company's financial flexibility, and how leveraged it is. Of course, when we look at leverage, our analysis goes beyond reported debt on the balance sheet and includes items such as leases, pension and retiree medical liabilities, guarantees, and contingent liabilities. 76. Companies with aggressive or highly leveraged financial risk profiles typically have debt to EBITDA of greater than 4x. From a credit standpoint, financial risks in such cases are exacerbated if combined with high principal refinancing risk and/or currency mismatch, which we view unfavorably. Significant movements in market rates could lead to covenant breaches and potential events of default for these entities. Category One Factor: Liquidity 77. The key measures of an oilfield services company's liquidity are explained in "Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers," Sept. 28, 2011. 78. In assessing the liquidity of an oilfield services and equipment company, we use the same methodology as for other corporate issuers. In applying our liquidity criteria, we consider the industry's volatility by applying tougher standards than we apply with more stable sectors. Adequate liquidity (factoring in maintenance capital, fixed charges, R&D, and operating costs) in the form of cash, cash equivalents, and borrowing capacity enhances financial flexibility during cyclical troughs. Most service companies have relatively low fixed costs, but when market activity is strong, working capital needs may be high. In a downturn, the ability to liquidate working capital can materially augment financial flexibility. 79. In the more volatile subsectors or oilfield services companies, such as those with

unfavorable assessment of market position, we typically consider tougher sources-to-uses parameters. For example, to meet our definition of adequate liquidity, we consider a sources-to-uses hurdle of 1.3x instead of the standard 1.2x. By the same token, we consider covenant cushions of 20% instead of the standard 15%.

RELATED CRITERIA AND RESEARCH

Key Credit Factors: Criteria For Rating The Global Midstream Energy Industry, April 18, 2012 Key Credit Factors: Global Criteria For Rating The Oil And Gas Exploration And Production Industry, Jan. 20, 2012 Key Credit Factors: Criteria For Rating The Global Oil Refining Industry, Nov. 28, 2011 Natural Gas Price Assumptions For 2012 And 2013 Revised; 2014 Oil And Natural Gas Assumptions Added, Nov. 16, 2011 Measuring Global Political Risk For Oil And Gas Producers, May 18, 2008 Key Credit Factors: Business And Financial Risks In The Oil And Gas Exploration And Production Industry, Nov. 10, 2008

GENERAL CRITERIA

Methodology And Assumptions: Standard & Poor's Revises Key Ratios Used In Global Corporate Ratings Analysis, Dec. 28, 2011 Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Sept. 28, 2011 Principles of Credit Ratings, Feb. 16, 2011 Criteria Methodology: Business Risk/Financial Risk Matrix Expanded, May 27, 2009 2008 Corporate Criteria: Analytical Methodology, April 15, 2008

These criteria represent the specific application of fundamental principles that define credit risk and ratings opinions. Their use is determined by issuer- or issue-specific attributes as well as Standard & Poor's Ratings Services' assessment of the credit and, if applicable, structural risks for a given issuer or issue rating. Methodology and assumptions may change from time to time as a result of market and economic conditions, issuer- or issue-specific factors, or new empirical evidence that would affect our credit judgment.