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WFT - Q2 2015 Weatherford International PLC Earnings Call

EVENT DATE/TIME: JULY 23, 2015 / 12:30PM GMT

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PRESENTATION

Operator

Good morning. My name is Lori and I will be your conference operator today. At this time I would like to welcome everyone to the Weatherford International second-quarter 2015 earnings call. (Operator Instructions) As a reminder, ladies and gentlemen, today's call is being recorded. Thank you.

I would now like to turn your conference over to Ms. Karen David-Green, Vice President, Investor Relations and Corporate Communications. You may begin your conference.

Karen David-Green - *Weatherford International PLC - VP IR & Corporate Communications*

Thank you, Lori, and good morning, everyone. With me on today's call from Geneva we have Bernard Duroc-Danner, Chairman, President, and Chief Executive Officer, and Krishna Shivram, Executive Vice President and Chief Financial Officer.

Before we start our comments, I'd like to remind our audience that some of today's comments may include forward-looking statements and non-GAAP financial measures. Please refer to our second-quarter press release for the customary caution on forward-looking statements and a reconciliation of non-GAAP to GAAP financial measures.

And now I'd like to hand over the call to Krishna.

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Thank you, Karen, and good morning, everyone. I would like to start by commenting on our second-quarter results.

Loss per share before charges and credits was $0.10. The revenue of $2.39 billion for the quarter decreased 14% sequentially and 36% year-on-year. Excluding the impact of the divestitures of 2014, revenue declined 29% year-on-year.

Operating income margins before R&D and corporate expenses declined 365 basis points sequentially to 4.9%. The US bore the brunt of the down cycle, coupled with the seasonal breakup in Canada, while international operations continued to be resilient despite weakening fundamentals. The land drilling rigs business stayed profitable in the face of reducing rig utilization.

Let me now detail the results by reporting segment. North America revenue of $808 million reduced 30% sequentially. Operating margins deteriorated 1,061 basis points to negative 11.5%, reflecting the activity-led drop in US land rig count, further aggravated by the seasonal breakup in Canada and a full quarter of pricing declines across all service and product lines, with pressure pumping suffering the most.

While our cost-reduction efforts were aggressive, they could not keep pace with the drop in revenue. However, they did cushion sequential decremental margins, which came in at a low 23%, about half of what they were during the previous down cycle of 2009 and less than half of the first-quarter decrementals of 49%.

International revenue of $1.4 billion declined by 2.7% sequentially and 16% year-on-year. Our revenue performance internationally suggests we have begun to gain market share. Operating margins of 14.7% were down 190 basis points sequentially and 93 basis points year-on-year.

Let me now examine the international results by region. Latin America revenue of $463 million declined 5% sequentially and 11% year-on-year. The sequential revenue decline reflected several weeks of activity shutdowns in Colombia as a result of industrial action due to the implementation of a headcount reduction plan during the second quarter. While things are back to normal now, a lower level of activity will persist in Colombia, reflecting customer spending cutbacks.

Latin America margins declined by 184 basis points sequentially, but were ahead by 367 basis points year-on-year to reach 18.4%, reflecting the revenue decline partly offset by cost reductions. Despite the sequential decline, Latin America margins continue to be excellent.

The Europe/Caspian/Russia/Sub-Sahara Africa region revenue of $418 million was essentially flat sequentially but declined 25% year-on-year. Sequentially, activity reductions in Romania, Kazakhstan, Poland, Gabon, and Congo were completely offset by seasonal improvements in Norway and Russia. Operating margins of 15.7% declined by 129 basis points sequentially and by 346 basis points year-on-year, reflecting the revenue mix, with a stronger Russia and a weaker Sub-Sahara Africa.

Middle East/North Africa/Asia Pacific revenue of $516 million declined 3% sequentially and 11% year-on-year. Excluding the almost academic Zubair EPF project, revenue was flat, with improvements in the Middle East offsetting declines in Asia Pacific. Operating margins deteriorated by 241 basis points sequentially and by 246 basis points year-on-year to 10.6%, principally due to startup costs on new contract wins and an unfavorable activity mix.

Drilling rigs revenue of $185 million was 6% lower sequentially and 53% down year-on-year. Sequentially, rig activity declined in Romania, Australia, and Bangladesh. Our focus is to stay profitable and cash positive in this difficult environment.

Below operating margins, both our R&D and corporate costs show sequential declines, reflecting cost-reduction steps that were taken during the first half of the year. Going forward, both R&D and corporate costs will trend slightly but not materially down from second-quarter levels.

Foreign exchange losses consumed $0.02 of EPS this quarter, which is $0.01 more than the first quarter. The tax benefit booked in the second quarter reflects the geographical mix of earnings, with tax benefits on large book losses in North America more than offsetting a normal tax charge on international profits.

Pretax charges recorded in the second quarter were $492 million. The main items included the following.

A charge of $112 million to reflect the settlement of a lawsuit related to the restatement of our historical financial statements in previous years: With this settlement all the litigations related to the restatement will have been settled, with only the SEC investigation still ongoing.

A charge of $223 million primarily for the impairment of part of our US pressure pumping asset base: with only 44% of our fleet active at the end of the second quarter, we ran an impairment test on the carrying value of our pressure pumping business in the US, resulting in this charge.

I would now like to update you on the cost-management actions taken to date and our self-help plans going forward. In April we announced an increase of the reduction in force exercise to 10,000 employees or 18% of last year-end's headcount of 56,000. As of July 15, we have released a 9,936 employees, generating annualized cost savings of $754 million.

The savings have begun to have effect, evidenced by the benign decremental experienced to date. These savings will roll over into the second half of the year, with larger numbers -- larger effect than in the first half.

Based on the prognosis we have of the North American business environment and our cost base, we have decided to increase the size of this exercise to 11,000 employees, which is 20% of the workforce at the beginning of the year, with the increase concentrated in North America and on support positions. Our support ratio has dipped to 41.7% from 45% at the start of the year. We continue to target a sub-40% support ratio by year-end and low to mid 30%s by 2017.

We ended last year with 56,000 employees, and we ended the first quarter with a headcount of 49,000. The second quarter ended with 45,000 employees. Of this headcount, rigs represented 6,000 employees, while our core business had 39,000 employees at the end of the second quarter.

We had also planned to shut down seven of our manufacturing facilities this year. Two of them were closed in the first quarter and three more in the second quarter. The last two will be closed in the third quarter.

Separately, we have shut down and consolidated 60 operating facilities across North America to date, and we expect to close 30 more in the second half of the year.

Our procurement savings initiative is also on track and helping to reduce input costs. Overall, continuous focus on costs has resulted in reducing the number and value of purchases and capital spending significantly, which has resulted in inventory and CapEx reductions. We now have a leaner and more focused organization, setting us up for strong incrementals when activity levels increase over time.

Moving on to net debt and cash flow now, net debt reduced by $107 million to reach $7.2 billion at the end of the second quarter, reflecting positive free cash flow of $104 million. Our free cash flow performance improved by $370 million sequentially despite larger operating losses, net cash outflows of $13 million on the Zubair contract, and $39 million of severance payments.

Working capital balances reduced by $110 million, with reductions in inventory and accounts receivable balances partly offset by lower accounts payable balances. CapEx at $187 million reflected the continuous control on our capital spending.

Looking ahead, working capital will continue to generate positive cash flow through to the end of the year, mainly through inventory reductions. Our capital expenditure plan for the year has now been revised down by another $100 million to $750 million, which is about half that of 2014.

In the second half of the year, we expect severance payments to reduce substantially, while the Zubair project will be cash neutral as milestones that are achieved trigger additional cash payments. Working capital will continue to reduce and CapEx will be curtailed, as evidenced already by our first-half performance.

The combined effect of these items coupled with improving results will secure positive free cash flow in both the third and fourth quarters. As a result, we expect to be free cash flow positive for the full year.

During the second quarter, we successfully extended our revolving credit facility of $2.25 billion by one more year on a proactive basis. This facility would have expired in July 2016 but is now valid until July 2017. We experienced no difficulty in this extension process, and our bank group continues to support us completely.

As of June 30, available liquidity was $1.9 billion, meaning we have a large borrowing cushion still available to us. In terms of long-term bond maturities, nothing matures in 2015, only $350 million mature in 2016, and $600 million mature in 2017. We believe we can repay these maturities with free cash flow without needing to refinance this debt.

In summary, we have plenty of available liquidity. Our ability to generate positive free cash flow from operations, as borne out by our second-quarter performance, will reduce our debt levels going forward.

In summary, we believe that we have managed the down cycle well, with overall decrementals that are comparable with the best of our peers and about half the decrementals experienced during the last down cycle. With that I will now turn the call over to Bernard.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Thank you, Krishna, and good morning, everyone. Q2 earnings per share is a loss of $0.10. Taxes reflected the fact operating losses were in US and Canada, which are efficiently tax effected.

We took $0.02 foreign-exchange losses, noncash. As a synthesis, operations delivered results consistent with reported earnings.

Q2 was a tale of two segments. Geography explains the quarter.

International continued to do well. Margins declined modestly, profitability remained strong, overall revenues was near flat. North America deteriorated further, both cyclical and seasonal -- Canada -- reasons.

We showed amidst reported losses, developing strengths in operating performance. Revenues held up well considering the overall market conditions. Total revenues dropped sequentially by only 14%.

North America revenues declined by 30%. By comparison, rig activity, combined US and Canada, declined 40% -- let alone the concurrent pricing declines. International was near flat, down [less than] 3%, which significantly outpaced activity and pricing declines in its markets. (Company corrected after the call) Overall we gained share, particularly internationally.

Free cash flow was $104 million, regardless of severance, etc. Excluding severance and Zubair, quarterly free cash flow was $156 million. This is from operations, not proceeds from sale of assets. Net income loss made this more virtuous of a performance, which also means as profitability returns quarterly free cash flows will grow.

Q2 unfolded essentially as we expected in NAM. Our assessment of Q2 as shared last April was as follows, quote: NAM market dynamics will weaken further in Q2. The rate of decline will flatten out by the end of Q2 for what would be the market's nadir in June. End of quote.

Our Q2 earnings loss are all about NAM. It is the market, of course, but also a US operation historically less efficient than the international segment and not as well positioned.

We have more of a land position [than offshore]. In US today, offshore is only 15% of the region's revenues, which is half what it should be. (Company corrected after the call)

This isn't inevitable, wasn't the case historically, and isn't desirable. Land, of course, was order of magnitude weaker than the Gulf of Mexico.

Our client base in the US is mostly a Tier 2 and Tier 3 in size. This isn't desirable or inevitable either. This isn't at all the case internationally or in Canada. The second and third tier clients have dropped their activity much faster and further than Tier 1.

The US had a heavy cost structure, many layers, and overly spread out. Too many locations.

Although traditionally the US lift acts as a moderating factor in down cycles, two factors held this back. We engaged in a reduction of lift inventory at suppressed margins; and of course we had the Canadian breakup removing the lift effect.

Lift is very large in Canada. Our lift business was just about born in Canada 25 years ago, which brings me to Canada. Many of you will remember this: our NAM is for historical reasons very Canadian, more than our peers.

Canada went through its seasonal low in Q2. Combined with its ongoing massive cyclical decline, activity in Q2 was extraordinarily weak. This was going to severely impact our NAM results, and it did.

In light of all the above, Q1 on Q2 30% revenue decline and decrementals of 23% was good operating performance and a clear sign of progress. By comparison, Q1 on Q2 2009 decrementals were just about twice this level or 44.6%.

Good performance, but for the US -- but the US for one could do much better even in this environment. This is why we are doing fundamental efficiency work in the US, addressing the structural as well as the cyclical and the talent bench.

The US will be a transformed operation when we're finished. The US was never well-managed at Weatherford, whereas the two other Western Hemisphere regions, Canada and Latin America, were and are.

US is changing, and in all its segments. Land exposure, client mix, and cost structure all are being addressed as thoroughly and as fast as we can.

Coming out of this recession our NAM segment will be an entirely different operation. I'll also add that North America reached in the course of Q2 what we believe will be its low point this year.

International continued to perform well in the quarter. We also expect international to have reached its low point in Q2, albeit in the case of international at solidly profitable levels.

International segments showed strong performance in Europe, Caspian, and Russia. SSA and Asia Pacific, as expected, weakened. MENA booked much incremental business in Q2. Overall, our international business remained near flat sequentially.

The sequential decline in operating income came from product mix, which will always move a little from quarter to quarter. There was one notable exception in the case of Latin America, Colombia, which is a Q2-specific event.

Latin America more than held its own in Brazil, Argentina, Venezuela, and even Mexico versus Q1. It was affected by events in Colombia.

Strikes in Colombia shut down operations for one month in the quarter. The issue was resolved at quarter end and operations resumed, but the quarter was impacted. We have a large presence in Colombia.

Taking stock of the first half of the year as a whole, our international segment is only marginally down year-on-year. Operating income for our international segment is down just $39 million first half of 2014 versus first half of 2015. Numbers are actually $443 million versus $482 million, which is very marginal of a decline; it's less than 10%.

Operating income margins are actually up. International is performing very well and will hold up.

Cost reductions. As Krishna mentioned, at the time of this call the planned 10,000-position reduction in force is substantially complete. We have reduced our global headcount by almost 20%. The US alone is above a third of reductions.

We'll take the cost reduction a little further, to 11,000. Our core headcount will dip further below 39,000 employees, with rigs representing the balance of total headcount.

This is translating into dollars. Personnel expense reductions exceed the headcount drop in all regions.

We're not cutting into muscle. In fact, we are adding muscle by high-grading internally. Also, we are selectively adding new hires for specific positions to strengthen our bench.

By way of illustration, from January to date we have changed six out of our eight regional Vice Presidents, of which four were internal high-grading and two were outside hires. And we have changed three out of our five formation evaluation product-line leaders, again a combination of internal high-grading and outside hires. The entire operating leadership is going through this strengthening process.

Throughout this cost-reduction exercise, we have been very focused on understanding and improving the efficiency of our support structures. There are structural gains to be achieved through managing efficiently and through cycles our support resources.

The ratio of support versus direct headcount costs is a good measurement of our ability to offset activity reduction both cyclically and structurally. Direct will ebb flow with activity; support doesn't necessarily.

We started 2015 at a ratio in excess of 45% support to direct employees. As of July, we have moved fractionally to 41.7%. We are targeting to be at 40% by year-end.

Given the sharp decline in direct costs, this is more of an achievement than the simple math of 45% to 41% would suggest. Ultimately, we plan on 35% support level -- and this without compromising administrative integrity.

Again, this has everything to do with efficiency and productivity. It will pay off at a company like Weatherford, who never pushed this as far as it could go.

Outlook to year-end 2015. The prognosis assumes no significant change in market circumstances through year-end. It is derived by an operating assessment of our market position, contractual wins, and cost structure.

Q2 financial results will end up being the low point for North America. Q3 for Weatherford will show modest improvements driven by cost cuts and some activity pickup in Canada. Q3 international financial results will be flat on Q2, both revenues and margins.

The Company will be free cash flow positive in Q3. We will be free cash flow positive for the full year, and as a result net debt will decline further.

Taking a regional view, MENA will play an important role as it unfolds its turnaround. The progression will come from incremental business in the three largest Gulf markets, Abu Dhabi, Saudi, and Kuwait. MENA will be progressively stronger in quarters ahead.

Russia is severely hit by the ruble exchange rate. But from incremental business volume standpoint, our Russian region will do well, driven by contractual gains in formation evaluation and well construction. All-in, Russia will not be a headwind; Russia will in fact progress year-on-year, but held back by client liquidity and foreign exchange.

European activity will be steady from present levels. There will be some countercyclical areas of seasonal improvements, but essentially client activity will remain muted.

Within Europe, the Continental margin will be the most affected. The UK and Norway for us will be the most resilient. This year is a market penetration and cost efficiency drive for us.

SSA will experience activity slowdown and project delays. Our operations, though, will continue to build on broad technological successes in a number of product lines and overall market penetration. This will cushion the near-term headwinds.

Asia is the one exception in the Eastern Hemisphere: Asia will experience substantially lower activity for the balance of the year, driven by severe budgetary cuts in Malaysia, Indonesia, and Australia, while China will remain anemic. Our aggressive cost actions underway in that regional market should mitigate the decline.

Latin America, finally, should move sideways for the balance of the year. The industrywide weakness in Brazil will affect us less than our peers, while we have pockets of strengths throughout the region.

Both Eastern Hemisphere and Latin America will overperform throughout the 2015 market decline. We will also sow the seeds for a markedly stronger performance in 2016. For us, North America is the issue in 2015.

As a synthesis, the oil industry is substantially underfunded and substantially underinvested. At current prices, the industry will be challenged to deliver needed oil supplies in 2017.

This means oil demand will not be met by oil capacity by 2017, which is unthinkable. We are quite sure of this.

Notwithstanding the above, we do not wait for better times. The present state of industry depression offers great opportunities.

We will position Weatherford with selected markets and clients. We will use the brutal recession to gear up in cost, culture, and talent capabilities for what will be a strong upward cycle of required capacity expansion.

We reiterate the best assessment we can provide for the second half of this year: our international performance will be resilient; NAM will remain challenged, but gradually more constructive.

From a direction standpoint, this is the kind of market in which we can make fast and deep costs progress and structural changes to effectively redirect a culture and rebuild a strong bench. Our action centers around improving three things and doing so in a perennial way: one, lower cost structures through cycles; two, capital allocation and cash generation as a company-wide discipline; three, leapfrog talent bench and talent development as a culture.

Industrially, we are focused exclusively on three missions: well integrity; lower drilling and completion cost curve; and sustained production rates. We do not have a strategic need to add or change our product line breadth or depth.

Our measurement of success will not be size or an attempt to emulate some of our larger peers. Our path takes us towards operating excellence and strict focus on our industrial mission. We can grow and prosper as we are to the great benefit of shareholders and clients.

We are taking strong action and take this market as an opportunity as much as a punishment. We are making operating, organizational, and marketing progress. Weatherford will be efficient, lean, client-driven, and organizationally flat.

With that I will return the call to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jim Crandell, Cowen Securities.

Jim Crandell - *Cowen Securities - Analyst*

Thank you and good morning. Bernard, both you and Krishna mentioned that you are beginning to gain market share, particularly international. Can you talk about where that may be? And do you think that the gains in market share are at all a reaction to some of the -- due to the big consolidation move in the industry?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

I think they are widespread. It's not in one particular place.

I don't think they are necessarily that correlated to the consolidation underway, insofar as in a number of instances we don't really compete with the three, or we compete with one of the three. So it's not clear that it has very much to do with that.

I think it has more to do with us. Has to do with some of the technologies we put on the market; has to do with the fact that we were not as aggressive and as focused in some of the markets in the past as we are today. I think it has more to do with us than it has to do with industry events, at least for now.

And also, Jim, it's not in the end -- because we're not that large of a company -- it's not big numbers. It's not dramatic. But it is happening.

So it's widespread, affects a number of different markets, a number of different product lines, and I wouldn't say there's a particular theme as to who is losing the share. Krishna, do you want to add to that?

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Yes, thanks, Bernard. Jim, just to elaborate a bit further on what Bernard said, the numbers speak for themselves. If you look at the sequential revenue differential between the first and second quarters -- and in fact even between the fourth and the first quarter of this year -- you can see that it's a gradual gain internationally right across the board in every region versus our peers.

So I won't go through the numbers, but the numbers speak for themselves. They are quite evident.

Jim Crandell - *Cowen Securities - Analyst*

Okay.

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

We also have a slew of contract wins right through in the second quarter for which revenues will be recognized starting in the third quarter. And we are quite comfortable to say that this trend will probably continue.

Jim Crandell - *Cowen Securities - Analyst*

Okay. As a follow-up question, it doesn't sound like, given your comments about the markets themselves, that they'll give you enough that you could reach breakeven by the fourth quarter. Can you talk to that?

And then could you also address what you think will be the outlook in a -- let's just say in a $55 to $60 Brent crude environment for international E&P spending in 2016?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

When you say, Jim, breakeven, what breakeven are you referring to?

Jim Crandell - *Cowen Securities - Analyst*

Breakeven on a P&L basis.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Oh, before -- I don't think we know. Q4 is three months from now, so we'll be taking one quarter at a time. So that's probably a question that's better asked in October rather than now.

I don't think it's -- it's not in -- we don't know either way if it's in the realm of the possible. This is the first answer.

The second question, which is $55, $60, presumably -- is that Brent or West Texas? Hate to be specific.

Jim Crandell - *Cowen Securities - Analyst*

Brent, Brent.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Brent? $55, $60 Brent at year-end, and I'll view it as being the prevailing environment for next year, I would have to say that the E&P overall plans, some would be up, some would be down. I think they would be actually -- will go sideways, 2015 on 2016 internationally.

It really depends what part of the world. I think offshore and deepwater will tend to be affected, because when you have a sharp decline like we had typically land gets hit across the board everywhere, because it's much easier to curtail land than offshore; and of course things get postponed.

So I think that it will go sideways. Land may be a little bit better, and offshore will do a little bit worse; but it will go sideways otherwise overall at that level will be my guess.

Jim Crandell - *Cowen Securities - Analyst*

Okay. Thank you.

Operator

Angie Sedita, UBS.

Angie Sedita - *UBS - Analyst*

Thanks, guys. Good morning or good afternoon. Can we talk a little bit about Zubair? Just walk us through what's happening in the market as far as your target.

My understanding is you have essentially three different physical locations, right? And three different targets. So can you talk us through where you stand on those targets, and does the current environment in Iraq make achieving those targets any more difficult?

And then where you are on -- how does the cash play out as far as the cash payments? Is that backend loaded for those final targets?

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Yes, Angie. I'd like to say that the very first mechanical completion milestone for the first two sites will be close to completion next week. By the end of the month, we expect the first site to be certified and then very early in August the second site.

So it's a little bit slightly behind the previously communicated schedule, mainly because of logistical and security reasons which continue to abound in Iraq. Having said that, we are quite comfortable to say that we will hit the mechanical completion milestones within Q3 and we'll start hitting the RFC milestones at the end of Q3, going into Q4, for one of the sites.

So the cash flows related to the achievement of these milestones will flow steadily back to us. And, as I said in my prepared comments, we think we'll be cash flow neutral in the second half of the year for Zubair.

Angie Sedita - *UBS - Analyst*

So does that imply that hitting the targets could fall into early 2016?

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Well, there are three milestones; mechanical completion, ready for commissioning, and performance acceptance certification, and we will hit all the milestones by the end of the year. The cash flow related to the very last milestone may slip into first-quarter 2016. Despite that, we should be cash neutral during the second-half operations for the year.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Not to minimize the importance of every single stage, Angie, but mechanical completion in the first stage is really the most, I think, demanding and difficult. That's the one which is upon us in a matter of days.

Angie Sedita - *UBS - Analyst*

Okay, okay. That's very, very helpful. Then as a follow-up to Jim's question on market share, and if you think forward about the closing or potential closing of the Baker Hughes-Halliburton merger, certainly you could talk a little bit if you would on where you think the potential easy opportunities could be.

But I think you've also stated in the past that you have some growing up to do to capitalize on other opportunities. And maybe you can talk us through on the steps you are taking to continue that grow-up process to capitalize on more than what you could easily take advantage of.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

We're quite internally focused, Angie, when it comes to getting ready to capitalize on opportunities. There is the events in the industry -- that one that was extraordinarily interesting. Certainly from an analyst perspective they are captivating, and they're very, very important.

We really are not that involved, obviously in the process. And we're not -- we really don't spend too, too much time looking at the various sequences of events.

It will be important to everybody in the industry, not only us. So I think we'll with that unfold the way it will, without speculating too much on it.

We are focusing a lot on -- well, it's all about efficiency. A lot of it has to do with delayering the organization, operating with fewer people but better people, operating in a much leaner, faster, more disciplined manner also. We're focused a lot on that, focused a lot on training, people development.

Focused also a lot and sales and marketing and re-engaging with our clients the way we used to. All these things that should make up the fabric of a company which has no more distractions.

We have no more internal distractions. The only focus we have is simply our operations, our clients, and progressing.

It really isn't whether we can gain share from this or that particular company. The point of fact is that we try to do the best we can in the few product lines which we are in.

Again, our frontline is not as broad at all as some of our larger peers. We have fewer product lines. We are trying to do the best we can with those product lines, and there are many markets in which we're very, very underrepresented. So we focus on that.

And that's it. We're trying to do it more efficiently with a higher quality of people.

It's as simple as that. It's not very spectacular. It's all about having far better execution than we've ever had. That's it.

Angie Sedita - *UBS - Analyst*

All right. Fair enough. I'll turn it over.

Operator

Jim Wicklund, Credit Suisse.

Jim Wicklund - *Credit Suisse - Analyst*

Good morning, guys. I remember the third quarter of last year you were expecting to get a refund of deposit basically from Iraq. But the Southern Iraqi Oil Company in Baghdad wasn't signing much of anything. And now we understand that that process may be improving a little bit.

What ever happened, or what's going to happen, with your stranded $250 million in Iran? I mean Iraq.

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Jim, you're talking about the potential claims on the cost (multiple speakers) the variation orders on the Zubair project, right?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Yes, he is.

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Yes. So, Jim, the situation is that we have commenced an arbitration proceeding against our customer and made the claims. And right now at this present moment we have stayed the arbitration so that we can complete the project in a cooperative manner.

This arbitration is just in abeyance but will come back if we don't get a settlement offer from the Iraqis and through our client. So I think the dialogue on this will continue once we complete the milestones and deliver the project.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

The judgment, James, is as follows. So you have three poles to this triangle: you have the operator, which is ENI; you have the ultimate reservoir owner, which is SOC; and you have us. I think it's sort of difficult to have a constructive relationship and also be arbitrating at the same time, so we decided that the compromise or the least -- or I think the least bad way forward -- I wouldn't say -- nothing is terribly good about Zubair. The least bad going way forward was to finish the project as quickly, as efficiently, as professionally as we could.

For that, I think a constructive relationship with the operator was useful. To that effect, we by common agreement froze the arbitration process and we're finishing the project.

The project will be finished this year. Fine.

As I said, it will be finished in a professional and quality manner. Fine.

Once that is done, then we will either negotiate a settlement and/or concurrently we initiate the arbitration process. I think -- so that's the sequence of events.

Yes, it will take longer to collect whatever is coming our way from the settlement. But we will do that, Jim, purely as a negotiation or a legal procedure with all the operating work and all of the actual construction on the ground being behind us, which will be, I think -- take more time but will be also far, I think, much healthier.

Jim Wicklund - *Credit Suisse - Analyst*

Makes sense; okay. I appreciate that. Second, if I could, you noted that pressure pumping was abysmal in the quarter. On the first-quarter call, Bernard, you made it sound like the first consolidator who rang your doorbell might end up owning that business.

Is that still the case? Is there a love interest still with pressure pumping, or is that a dispassionate potential divestiture if somebody comes knocking on your door?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Well, first of all, I'm not sure there are many people knocking on anyone's door when it comes to pressure pumping in the US. I think this is the number one.

Jim Wicklund - *Credit Suisse - Analyst*

That's a good point, yes.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

I think very much, like in the case of Zubair, we try to be as brutally realistic about what we need to do as we can. So first, what we have done with pressure pumping -- and you can see some of the results in month by month at Weatherford -- is we've learned how to run it better.

Which, all things being equal, can only be a positive, whether it becomes -- stays part of the core and so forth, or whether it does not. So we have learned how to run it better, and then you can see it in the numbers.

Those numbers are not good because the market is not good. It's vastly oversupplied. You know all of this.

However, we have come to the successful achievement of running the pressure pumping operation in the US with half the revenue of Q1 -- this is in Q2 -- but essentially the same dollar amount of losses. So the losses have not increased.

And as we move forward into Q3, we are EBITDA positive. And I think in terms of quality of operations we upgraded our client list, and I think we have a gradually more successful operation.

Jim Wicklund - *Credit Suisse - Analyst*

Excellent. That's very helpful, and the comments about your restructuring of North America I think are very helpful too, Bernard. Thanks, guys, very much.

Operator

(technical difficulty) West, Evercore ISI.

James West - *Evercore ISI - Analyst*

Hey, good morning, guys. Maybe, Krishna, first for you. If I'm doing the math correctly here, you took out $500 million in cost last year; you talked about cost savings so far this year of $754 million. I believe there's another $300 million in procurement costs over this year and next year; maybe some of that is already in that $754 million.

But we're looking at a cost-savings number that's somewhere in -- well, definitely over $1 billion, but maybe in the $1.5 billion range. Am I in the right area at this point?

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Yes, I think it's over $1 billion for sure. I would hesitate to say $1.5 billion. It's somewhere in between those two numbers, yes.

James West - *Evercore ISI - Analyst*

Okay, great. Then my follow-up to that -- and I think you'll see what I'm trying to get at here -- is, how much of the cost savings of that -- let's say it's a little over $1 billion -- would you perceive as structural in nature versus more just cyclical cost savings due to the downturn?

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Well, I can only give you a rough estimate. A lot of it has to do with the cyclical downturn, clearly. With the drop in activity, your direct costs are just a function of that.

But we've taken structural cost measures, cost-saving measures, to quite a drastic level as evidenced by the drop in our support ratio, which started last year at 59% and we are just shy of 42% right now.

And we are relentlessly focusing on getting that to the 30%s now. So I think I would say probably a one-third, two-third: one-third support and two-third direct would be a good mix rule of thumb.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

I think, James, that's a very good question you're asking. We don't have for a conference call sort of type of dialogue numbers down to a soundbite. I would have to say that it is north of $1 billion, the overall costs being taken out; I totally agree with that. Cash; cash numbers.

James West - *Evercore ISI - Analyst*

Right.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

I also think that a third being perennial is actually, I think, a very reasonable -- I would say probably I would have used the number 40% myself. We are very obsessive about the perennial and the structure. Very, very obsessive, precisely the same reason you're asking the question.

This is the quality of the numbers coming out of this Company when the business improves. It's very, very important that the -- and furthermore, with a more efficient structural cost basis you will run the Company better. Forget about the P&L being better; we're just running it better.

The delayering, you're making the organization not as heavy, decision-making very disciplined, very responsible, but not hiring behind layers of people, I think makes for a better Company. We're trying to be a better Company. It's as simple as that.

James West - *Evercore ISI - Analyst*

Absolutely. Makes complete sense. and if it's 40% or a third or so, significant earnings leverage as we come out of this. So thanks, Bernard; thanks, Krishna.

Operator

Scott Gruber, Citigroup.

Scott Gruber - *Citigroup - Analyst*

Good morning. I want to continue on James's line of inquiry. I realize that you're continuing to delayer the organization. But overall can you give us a sense of what level of activity you're targeting in terms of sizing your US organization today?

I don't know if you can dimension that relative to a rig count, or maybe a North American revenue number overall. But as you think about sizing the organization, how you're thinking about that in contrast to the market size and your opportunity set.

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Well, right now we think that, Scott, we think activity levels are going to flatten, maybe slightly tick upwards but not materially for the rest of the year. We still have 1,000 more people that we are targeting, mainly in the US, to take out; and we mentioned that in our prepared comments.

Again, the focus is going to be more on the support side. So at this point I think that's pretty much it. I think our organization is well sized now going forward with just the 1,000 more to go really.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

The support function, which is -- support is broad. I think it covers a lot of activities that we're designing -- and not only for North America but company- wide -- it's designed to be the same at the present level of activity and also some level of activity that's higher than that. It's the whole point.

So that we're hoping to have the Company operate with a level of activity which would be -- I can't give you exact numbers because we don't want to do anything irresponsible -- but quite a few percentage points, high levels of activity with the same support structure and do it very efficiently.

But in terms of scaling it to where it needs to be, to help North America have more constructive numbers, we're getting there. With the other 1,000, we'll be there.

We will be at a level of cost structure where -- with the present level of the business, understanding that we are more land than offshore, which I think in the long run is not desirable, but in the short run actually it is not that bad because land took it on the chin. Offshore will take it on the chin now.

Which means that all things being equal for us in the US, it's likely to be a little bit smoother sailing for us going forward. Cost structure and also market exposure.

Scott Gruber - *Citigroup - Analyst*

Got it. Then unrelated follow-up, Bernard, you mentioned no need to expand the product offering. However, with the DOJ potentially pushing back on Halliburton's bid to buy Baker, would you consider issuing $8 billion, $10 billion of equity, whatever's needed; buying a large collection of assets; establishing yourself as the number three competitor in drilling and completion offshore; and deleveraging your balance sheet all at the same time?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

I think that if the capital market valuations on field service is very, very different, that might be a conversation we would have. Today I think the cost of capital we have is extremely high. This is first answer, meaning that its size feels prohibitively expensive.

The second answer is that we really don't know what will happen after the Halliburton-Baker combination. There is one set of assets. We don't have much of an opinion today on the level of interest we might have or not. I think a lot of people are interested it.

So the answer is that we're very content with what we have. We're not obsessive at all about what's going on with those two companies. Many other people are.

I think our time is better used focusing on what we have than on sort of daydreaming about what we could be adding or not. Very difficult for us. Even if we did daydream, very difficult for us.

Scott Gruber - *Citigroup - Analyst*

Sounds like a sound strategy. Thanks.

Operator

Brad Handler, Jefferies.

Brad Handler - *Jefferies LLC - Analyst*

Thanks. Good morning. I guess I'll play market watcher a little bit and just respond to what's happening during the course of the call, if you'll allow me. If we try to put together the thread of questions with respect to the cost savings, and building through realizing those cost savings in the second half of the year, relative to your comments around this very stable international outlook and an improving North America outlook, is it hard to craft a view that the fourth quarter would be breakeven or even slightly positive EPS?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Krishna, you can answer it. For my own part, I'd say we think it is possible. I think we would rather answer that question in October. I don't know, Krishna, you want to get a --?

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Yes, I think, Brad, in this market environment, it's a bit hazardous to start forecasting that early. It is in the realm of possibility, yes.

Brad Handler - *Jefferies LLC - Analyst*

Okay. Fair enough. I guess an unrelated follow-up that's a lot more granular: can you just because little bit to the project delays that you cited in Sub-Saharan Africa? How pernicious is that and maybe how widespread is it?

How much taken by surprise are you? Just maybe a little bit more color around that comment would be helpful.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

You probably know as much as we do about it, Brad. We're not surprised in the least. When pricing of oil goes from $110 to a $50 the first business to go to pot is land, across the board.

Land is much easier to stop. Land is much easier to basically cancel, right?

Offshore and deepwater is much harder to cancel in short order. Now, first thing that you do postpone is anything that's not actually physically taking place; so anything that's on the drawing board gets adjourned. That happens.

Now, what is already physically taking place, you can't just pull the plug in those. In simple terms, you can't. Anything that's offshore, and let alone deepwater, you just wait until the first opportunity where you can pull the plug.

And that inevitably happens if the price of oil doesn't correct, which it isn't. We are at that point today. So I think you see a rash of cancellations, delays, and so forth all over West Africa and in all the hotspots of activity.

We are not in the least surprised. I think for us it simply means that the prognosis, which was so bullish for us in SSA, have gone from very bullish to subdued. But they're not bad, simply because we did have a large play at all in that geographic market.

We were getting it by recovering market shares we had lost and gaining new market shares based on technology. Well, the numbers won't be what we were hoping for them to be, but we will not at the same time experience great reversal of economics, simply because it was prospective as opposed to something that we have already in our P&L.

So to summarize, it is very material. It will be increasingly material as time goes on. And the prospect of having another year in 2016 of very, very low oil pricing, you will see deepwater and anything offshore basically weaken. That's absolutely normal.

Land paradoxically will not weaken as much because it already has happened, which is -- again as if you look at the chronology of events in our industry, this is how it unfolds.

So we're not surprised in the least. And yes, it's disappointing for us but I don't think I would characterize it as painful when it comes to SSA. It's just something that will happen later and not something that we had in our P&L to begin with. We were prospectively hoping to have it in our P&L, okay?

Brad Handler - *Jefferies LLC - Analyst*

Understood. Thank you.

Operator

Ken Sill, Seaport Global.

Ken Sill - *Seaport Global Securities - Analyst*

Yes, thank you. Good afternoon to you people in the nice environments of Switzerland versus Houston, which is up to 100.

I wanted to talk about -- is being a land -- heavier on the land side good or bad in the current price environment? Obviously in the current price environment people are having to rethink where the economics are, and we've been in a market where the deepwater has been the target of more spending and more spending and more spending.

But with the ability of North America to grow production and what's clearly rising spending in the Middle East, I guess long-term strategically do you think being onshore is actually a negative going forward, given how quickly onshore can respond to price changes?

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Ken, I think that -- neither one. I think that we obviously are smaller than our larger peers, but we are not small. That's an overstatement. I wouldn't say that.

And given the breadth of what we have -- we say we're content with what we have, but given the breadth of what we have, we really have a place both on land and offshore in deepwater. So for us really we need to be represented in both.

I wouldn't make an exclusive bet at this point in time, though, on one or the other. I think that would be -- I would not recommend that.

I wouldn't just ride one, because you're likely to pick the wrong one. So the answer is it has to be much more balanced because the prognosis is actually -- to make it clear, the prognosis has been equally -- in a better environment of course -- equally encouraging for land than it is for deepwater.

Today, nothing is encouraging. But eventually -- the point being, eventually -- I think some of the luster that deepwater plays have had may, as of the turn of the market, they may come back; but they won't be exclusive. They will be shared with some of the land plays. That's as much as I can say.

But for us really we need to be in both. Tactically today, tactically today, because the land people took it on the chin first -- that would be people like us -- it is true that in the land markets you're probably tactically a little bit better off today than the offshore market. But it's just a question of the misery spreading. That's all.

Ken Sill - *Seaport Global Securities - Analyst*

Okay. That's a good answer. It makes a lot of sense. Then one final question. I was a little bit surprised by the impairment charge in pressure pumping. Clearly a lot of assets stacked.

But you guys are the first ones to announce something like that. Could you go through the process and how the impairment was determined relative to your asset base?

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Well, Ken, it was purely determined from an accounting standpoint. We had more than half our fleet stacked; and when such an event happens, we do test our assets periodically for impairment, and there was a case to do that. And when we did perform the impairment test, we found that, barring some extraordinary assumptions, we would not be able to support the carrying book value of the assets.

So we decided to take an impairment charge. We think that's a quite responsible way to do it given the market conditions in North America.

The impairment charge was purely related to the US pressure pumping assets. It was just in one country.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

And I think the book value now is very reasonable of our pressure pumping assets.

Krishna Shivram - *Weatherford International PLC - EVP, CFO*

Yes, they are quite -- a lot more realistic.

Bernard Duroc-Danner - *Weatherford International PLC - Chairman, President, CEO*

Quite low. With that, I think -- thank you, Ken.

With that, I think we will close the call and thank you for your time, because I think the hour is over and there is another company call which is scheduled now, if I am not mistaken. Thank you very much.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.