

National Oilwell Varco, Inc.

Second Quarter 2016 Earnings Conference Call Remarks

LOREN SINGLETARY

Vice President, Investor and Industry Relations

Thank you, and welcome, everyone, to the National Oilwell Varco Second Quarter 2016 Earnings Conference Call. With me today is Clay Williams, President, CEO and Chairman of National Oilwell Varco and Jose Bayardo, Senior Vice President and Chief Financial Officer.

Before we begin this discussion of National Oilwell Varco's financial results for its second quarter ended June 30, 2016, please note that some of the statements we make during this call may contain forecasts, projections and estimates, including but not limited to comments about our outlook for the Company's business. These are forward-looking statements within the meaning of the federal securities laws, based on limited information as of today, which is subject to change. They are subject to risks and uncertainties, and actual results may differ materially. No one should assume that these forward-looking statements remain valid later in the quarter or later in the year. I refer you to the latest Forms 10-K and 10-Q National Oilwell Varco filed with the Securities and Exchange Commission for a more detailed discussion of the major risk factors affecting our business. Further information regarding these as well as supplemental financial and operating information may be found within our press release, on our website at www.nov.com or in our filings with the SEC.

Please be aware that our use of the term EBITDA throughout the call this morning will correspond with the term "Adjusted EBITDA" as defined in our press release. We also use other non-GAAP measures as described in our press release.

On a US GAAP basis, for the second quarter of 2016, NOV reported revenues of \$1.72 billion, and a net loss of \$217 million, or \$0.58 per share.

Now, let me turn the call over to Clay.

CLAY WILLIAMS

Chairman, President, and Chief Executive Officer

Thank you, Loren. In the second quarter of 2016 National Oilwell Varco posted revenues of \$1.7B, down 21% from the first quarter of 2016, and down 56% from the second quarter of 2015. Revenues declined more than expected, due mostly to offshore drilling contractors further delaying acceptance of new builds. The \$26 crude oil prices we saw in February inflicted new agony on the oilfield- sending second quarter expenditures further downward, and driving U.S. rig counts to record lows, going back seven decades.

NOV generated a loss of 30 cents-per-fully-diluted-share, excluding severance, facility closure costs and other items totaling 28 cents-per-fully-diluted-share in the second quarter. EBITDA was \$25MM for the quarter, and operating loss was \$153MM, excluding \$117MM in other items from both. Operating cash flow was \$128MM for the quarter. Our managers continued to aggressively downsize our business to match the available market, enabling NOV to manage to decremental EBITDA leverage, ex-other items, of only 22% sequentially. Our workforce was reduced 10% and SG&A declined 16% during the quarter- solid cost-reduction results in the face of continuing pricing and absorption pain. EBITDA leverage ex-other items has been 30% on the 70% revenue decline since the present cyclical downturn began.

We continue to manage costs aggressively, but we are also maintaining our investment in the promising, new opportunities we see for our business when prosperity returns. New technology and lower costs will lead to higher incrementals and margins in the eventual recovery, and I will speak to our efforts in both areas.

First, on costs- our team is resolute in our commitment to improve efficiencies, reduce capacity, and generate higher profitability. During the second quarter we detailed additional cost reduction steps that total over \$400MM in annualized savings that will flow in over the next few quarters. Plans developed and actions taken during the second quarter are on top of considerable work performed already, having reduced our annual personnel costs well over \$2B from peak levels. Since the downturn began we have closed or are closing over 250 facilities to reduce capacity in view of lower demand. We have also insourced work being previously outsourced to retain as many of our employees as possible and to help with absorption. Importantly, we do not believe we have sacrificed our ability to ramp up and respond to the eventual recovery.



In a moment Jose will take you through our detailed operating results by Segment, but overall we expect these specific actions to lead to modestly higher EBITDA in the third quarter, on a modest decline in revenues, with more savings driving higher EBITDA in the fourth quarter on flattish revenues. Like others in our space we believe we are seeing some isolated “green shoots” of activity, and we are encouraged that NAM rig counts have begun to increase. We have seen demand rise in recent weeks for certain products and services for NAM- rod guides for artificial lift, solids control jobs in West Texas, and drilling motor rentals. On the other hand our rig equipment business, and many international markets, continue to decline. At or near the bottom of the cycle we see considerable cross currents, price pressure and shifting mix within our business. And frankly we are not ready to call bottom yet. Our near-term outlook calls for modest revenue improvements in the Wellbore Technologies and Completion & Production Solutions Segments, offset by another quarter of declines in our Rig Systems Segment, which we expect to flatten thereafter. We expect Rig Aftermarket Q3 to be down only slightly from Q2.

Laser focus on efficiency is part of our DNA and cost savings measures evolve continuously with our market outlook. Jose, Loren and I are grateful to serve with experienced, competent business leaders who roll up their sleeves and do the tough, grim work of downsizing when this industry demands it. Better days lie ahead for NOV, and this team will help us navigate the present storm. When it passes we will emerge lean and tough. The oil industry has been decimated by a generational downcycle, but record low levels of rig activity will inevitably lead to production declines, higher oil prices and higher activity. In the meantime, we plan for this to be a slow grind, and we still have a lot of swamp to traverse until we get to full recovery.

When the market turns NOV will have used the present downturn to improve its efficiency, and, importantly, advance promising new initiatives for the industry we serve. The Company has a diverse, robust portfolio of critical technologies the industry needs to drive better efficiencies in a low-oil-price world, a portfolio which we improve day-by-day as we continue to invest in our optionality to recovery.

We believe recovery will drive higher demand for completion tools and hydraulic fracture stimulation and pressure pumping equipment, where NOV occupies market-leading positions. Our outlook for technology proven by the shale revolution is robust- shale technologies will migrate to new basins on new continents, requiring new sophisticated Tier 1 land rigs, bits, downhole tools and new drillpipe designs. Again, NOV occupies formidable positions in these markets. Rising drilling efficiencies enabled by NOV’s technologies will increase well counts vis-à-vis rigs counts, with fewer days of drilling required to create each new wellbore. This will spur incremental demand for well-count-driven products and services, like the production chokes, sand separation, and oil separation equipment, markets where NOV also occupies leading positions. And high rates of drilling per day will equal high rates of consumption of the bits, tools, drillpipe, and rigs we make, per day.

We acquired Trican’s completion tools business into our Completion & Production Solutions Segment a couple of weeks ago, which brings promising new sliding sleeve and coiled tubing frac technologies to our mix. The business plan here is simple- we can manufacture completion tools in our existing, underabsorbed factories. We can expand sales through the 67 countries we already operate in with our existing infrastructure. We see opportunities to add other completions technologies to our mix through M&A and organic investment. We expect the application of hydraulic fracture stimulation to continue to grow in an upturn and the acquisition enhances NOV’s exposure to this trend.

Drillers and service companies will bring more attention to efficient management of their assets in the upturn. So within the Wellbore Technologies Segment we are advancing our new Trac-ID™ life-cycle management system, which utilizes RFID technology to provide customers with the complete life history, including hours-in-service, of drillpipe, BHA components, and drilling risers. Over 40,000 of these chips are in service globally, but the unpenetrated market is literally millions of components. The system tracks manufacturing and inspection history of each drillstring component through our inventory management system. We can install the Trac-ID RFID chips at our drillpipe and downhole tools factories, or in the field. And once installed the system can automatically tally strings on every trip, when used with instruments mounted in the rotary table. This makes for more efficient drilling operations, in addition to more efficient life-cycle management of assets for our customers.

Operators will continue to push longer laterals with smooth profiles, tightly geosteered within the sweet spots of the shale stratigraphy. In the first quarter we acquired Toltec, which brought us a mud pulse MWD system, which fits well with the BlackStar electromagnetic wave MWD™ system that we have offered for many years. We are now investing to add resistivity measurements, and to combine mud pulse and electromagnetic wave capabilities into the same tool, thereby positioning NOV to offer a unique, low cost MWD tool that can be used together with our new low-cost rotary-steerable system we developed and introduced earlier this year. Together this combination will enable our directional drilling service customers to provide cost-effective geosteering on longer horizontal wells.

We will be introducing a new rotating control device for managed pressure drilling in the second half of 2016, and are investing in rental kits for the launch currently. We see more and more customers interested in rigs that are “MPD-ready”, to drill more efficiently and safely, and NOV is developing the kit to fulfill this need.

In Q1 we acquired a unique, remote, unmanned gas analysis unit that provides high-speed ratio measurements up to C5. The GEOgas Analyzer™ product transmits critical geologic data in real time, which enables operators to reduce wellsite personnel to lower costs. This fits well with the rig instrumentation business we have been engaged in for decades.

Today we have three eVolve™ closed loop automated drilling jobs underway, and we expect to spud two more jobs soon, with dozens more operators interested in this emerging technology. Our eVolve closed loop drilling automation service has proven the ability to reduce spud-to-TD times by a third or more. Drilling programs in new basins experience learning curve effects well by well. Closed loop automated drilling accelerates this process. The recovery will see new, green drilling crews going back to work— the closed-loop automated drilling service illuminates the drilling mechanics downhole and enables computers to control surface equipment on a microsecond basis to optimize drilling performance. The service



works with our new NOVOS™ rig operating system, which we introduced this quarter and won our first upgrade order. It also works with our proprietary IntelliServ™ wired drillpipe, to provide the high-speed data link with downhole, real-time drilling instrumentation. NOV is uniquely positioned to capitalize on this exciting technology, given that we have the world's largest installed base of drilling equipment, the most proven, stable, capable rig operating system, the wired drillpipe, and the experience of already having drilled hundreds of thousands of feet under our belt. Our rig-of-the-future is here today, and operating in the field with high efficiency.

Our installed base of drilling equipment also uniquely positions NOV to capitalize on Big Data in the oilfield. We have monitored hundreds of rigs in real time around the globe for over a decade through our eHawk™ system. This year we launched our enhanced RIGSENTRY™ system, and we saw a significant increase in revenues for our subsea RIGSENTRY BOP monitoring service in the second quarter. You may recall that we announced last quarter our success in predictive analytics- we successfully forecasted certain component failures weeks in advance, based on analysis of years of operating data. Condition based monitoring and Big Data will provide step-change improvements in reliability and maintenance practices for sophisticated oilfield equipment, and NOV is positioned to lead the way. We are pursuing additional opportunities to host real-time remote monitoring centers in the Middle East, which will enable customers to reduce costs by permitting their experts to simultaneously monitor drilling progress across multiple rigs, in real time.

Our Q2 saw Rig Systems orders decline further, and we expect orders to remain depressed for the foreseeable future. With no new offshore rig builds on the horizon, we are investing in new products to enhance efficiency and safety of existing rigs- products which will enable drilling contractors to differentiate their rigs in a crowded marketplace. For instance, we expect to introduce a new, ROV retrievable BOP pod this year for subsea stacks, which would enable drilling contractors to replace pods on the seafloor, avoiding an expensive and time-consuming round trip of the stack. Drilling contractors can retrofit their stacks with this. On land we are set to introduce a new lower guide arm product, which will work in conjunction with our existing Stand Transfer Vehicle™ racking arm on land rigs to bring further mechanization (and potentially automation) of pipe tripping activities.

We are developing ways to improve the efficiency of contractor's existing operations by, for example, exploring opportunities to reduce SPS costs and disruptions by using condition based monitoring. We are working with the major classification agencies to develop a way to continuously certify drilling equipment in the field, using condition based monitoring. It is early days but this new model could significantly reduce drilling contractor costs.

We were pleased to announce a few weeks ago a cooperation agreement with GE within our Completion & Production Solutions Segment to work jointly to improve costs and speed of execution on FPSO topside projects. We are in detailed development work around integrating GE's market-leading power generation and compression capabilities, with our own offering of turret mooring systems, swivel stacks, seawater piping systems, pumps, fluids processing, treatment, cranes, and deck machinery. By reducing the number of complex interfaces between multiple vendors, NOV and GE are vastly simplifying the supply chain- jointly engineering and costing FPSO topside modules across varying sizes and capabilities, which we will offer to the marketplace by early 2017. Final designs can be refined quickly to fit specific customer field needs, reducing time to first oil, reducing complexity, and reducing costs.

NOV is unique in our considerable experience in successful execution of complex vessel construction in dozens of projects with every major shipyard around the globe. While deepwater development projects remain challenged from a returns perspective, the opportunity to pioneer a new, efficient vessel construction model, together with initiatives being advanced by the deepwater wellhead companies, together with subsea processing and boosting advancements (including our Seabox™ technology), can materially improve the economics of developing the vast reserves that have been discovered in the deepwater. Our initial plans focus on smaller FPSO vessels targeting marginal discoveries in mature basins.

In short, NOV continues to pivot into promising technologies that will disproportionately benefit in the upturn, even as we shrink our productive capacities and reduce costs. Hydraulic fracture stimulation, completion tools, remote operations, Big Data, deepwater advancements, and horizontal drilling will all play key roles in supplying an energy-hungry world in the twenty-first century. NOV is investing, both organically and through M&A, in each of these areas. Brighter days lie ahead and NOV will be there to lead the way.

To our team at NOV let me tell you that I know these are difficult times, and I appreciate your resolve and your professionalism. We are laying the groundwork for future prosperity of the great company that you and I are blessed to be a part of. You have my heartfelt thanks.

Jose?

JOSE BAYARDO
Senior Vice President and Chief Financial Officer

To quickly recap our consolidated results, revenues for the second quarter of 2016 were \$1.7 billion, down 21% from the first quarter of 2016 and in line with the 19% sequential decline in global rig counts. Revenues declined 23% in North America and 20% internationally as the North American and International rig counts fell 35% and 7%, respectively.

Adjusted EBITDA was \$25MM, down \$102MM from the first quarter of 2016. Sequential decremental EBITDA leverage was limited to 22% as efforts to resize the business and reduce our cost structure had their intended effect. Operating loss, excluding other items, was \$153MM.



Looking at select other line items of the P&L, SG&A decreased by \$56MM or 16% sequentially and by \$125MM or 30% year over year. SG&A is down \$944MM on an annualized basis since Q4 2014.

Interest and other financial cost expense increased \$5MM sequentially mostly driven by incremental interest costs of approximately \$2.5MM attributable to a large capital lease we booked in late Q1 as well as other charges we do not expect to repeat next quarter. Therefore, we anticipate interest expense to be between \$27MM and \$28MM for Q3.

Other expense for the quarter increased \$13MM sequentially driven primarily by a greater loss on disposals of fixed assets. Our GAAP effective tax rate was 35.8% for the quarter and our rate excluding other items was 41.5%. As a reminder, in the current environment, relatively small changes in the split between domestic and international results can have a disproportionate impact on our tax rates. In the third quarter we expect the tax rate to be approximately 38%.

Turning to the balance sheet and cash flow, working capital decreased \$253MM from the first quarter of 2016. The decrease in working capital was primarily the result of:

- A \$247MM reduction inventory levels;
- A \$190MM reduction in customer financing (which is the decrease in cost in excess of billings netted against the decrease in billings in excess of costs and customer prepayments); and
- A \$168MM reduction in accounts receivable.

The reductions in working capital were partially offset by decreases in accrued liabilities and accounts payable.

While working capital decreased by over \$250MM, we continue to carry more working capital than required to support the business at today's activity levels as converting inventory and receivables to cash remains challenging in the current environment.

Cash flow from operations totaled \$128MM.

After deducting:

- \$77MM in capital expenditures
- \$19MM in dividend payments
- \$15MM for acquisitions; and
- \$14MM in other items, we were essentially break even from a cashflow perspective for the quarter.

Therefore, net debt remained mostly unchanged at approximately \$1.6B.

During the quarter, we paid down our commercial paper by \$100MM, leaving us with a balance of approximately \$110MM.

At June 30, 2016, we had a cash balance of \$1.7B, \$3.3B in total debt and our debt-to-capitalization was 16.8%.

Our Rig Systems Segment generated revenues of \$564MM during the second quarter of 2016, down 39% sequentially from \$926MM and down 71% from the \$1.9B posted in the second quarter of 2015. Sharp revenue declines were anticipated in the second quarter due to reduced backlogs and more projects approaching completion; however, the fall-off in revenue was stronger than expected as customers who lack contracts or face pressures from operators to delay projects do what they can to defer deliveries.

Second quarter EBITDA for the Rig Systems Segment was \$49MM. Efforts to resize the Rig Systems business and reduce the cost structure to mitigate the effects of the fall-off in revenues had the intended result leading to decremental margins of only 24%. EBITDA margins fell 610 basis points to 8.7% of sales. Operating profit, excluding other items, was \$30MM or 5.3% of sales.

For Q2, the split between offshore and land-related revenue was roughly 2/3 offshore and 1/3 land. New construction of offshore rigs accounted for \$213MM in revenues, or 12% of NOV's consolidated revenues.

New orders were down \$31MM sequentially to \$66MM in the second quarter, representing a ten-year low. Book-to-bill was 15% when new orders are compared to the \$441MM shipped out of backlog during the quarter. Q2 bookings primarily consisted of pressure control systems and other replacement equipment. For the third straight quarter, we received no new rig orders.

Near-term demand for offshore remains almost non-existent outside of replacement equipment. Discussions continue regarding mid-term opportunities which include one-off specialized 20k drill ships and speculative mid-water semi-submersibles; however, we do not anticipate these orders materializing in 2016.

The land markets appear much more promising as conversations with customers in North America, the Middle East and certain other international markets are increasing regarding equipment upgrades and new-build opportunities. More and more operators are demanding modern, pad optimal,



tier 1 AC rigs for potential upcoming projects and contractors are seeking to upgrade and expand their capabilities in order to position themselves to capture incremental market opportunities.

While offshore opportunities will remain limited for the foreseeable future, we believe our land business will bottom in Q3 and begin to recover as we enter 2017.

We continue to work diligently on restructuring and resizing the business for anticipated future volumes. Our focus is on standardizing processes, optimizing structures and eliminating all redundancies in our global operations. This focus is designed to ensure the flexibility and agility needed to respond to a recovery with significantly reduced costs and lead times.

We anticipate revenue out of our current backlog will fall another \$81MM in the third quarter to \$360MM and anticipate an 18 to 20% fall-off in total Segment revenue as we continue to work off our backlog on existing projects. Decremental margins should be in the low 20% range, as we expect normal decrementals to be partially offset by \$15MM in cost savings resulting from our efforts to cut costs and improve efficiencies as we restructure the business.

Our Rig Aftermarket Segment generated \$364MM of revenue during the second quarter of 2016, down 7% from \$391MM in Q1 2016 and down 45% from \$657MM in Q2 2015.

EBITDA for the Segment was \$73MM or 20.1% of sales, down 11% sequentially and down 55% from the prior year. EBITDA decremental leverage was limited to 33% as cost controls were able to partially offset the decline in total revenue and an unfavorable mix shift as sales of spare parts continued to decline while lower margin service and repair work began to improve. Operating profit, excluding other items, was \$67MM, or 18.4% of sales.

Spare part sales continued to decline during the second quarter; however, bookings on spares began to solidify as we entered the third quarter. Customers have depleted existing inventories and are now getting to the point to where they must order new parts in order to support their existing operations.

Service and repair work rebounded during the second quarter as reactivations in the U.S. began to take place and the number of Special Periodic Survey projects increased by 30%. While the number of projects and associated revenue are increasing, strained customers continue to reduce the scope of projects and associated purchases as much as possible.

Our condition based monitoring services continue to gain traction and deliver value for our customers. Our RIGSENTRY service which was introduced last quarter identified potential failures of subsea BOPs before they occurred on four separate occasions, potentially saving our customers millions of dollars in unplanned down time. The operational success is driving commercial success as our monitoring service revenues increased by over 50% during the quarter.

We expect the pace of stacking offshore rigs will continue to accelerate, a difficult process which will ultimately help rebalance an oversupplied market.

In the current environment, Rig Aftermarket remains focused on providing industry leading OEM parts, service and support that we have delivered over the years to take care of our customers' operating needs anywhere in the world. We also continue to partner with our customers to develop innovative solutions for their most pressing needs.

Today, our customers cannot afford extra downtime and need to be optimally positioned to capitalize on any new opportunities. As previously noted, we are seeing strong demand for our condition based monitoring solutions which allow contractors to predict failures and address problems before they occur. We are also seeing growing demand for other recently introduced offerings designed to address the stress our customers are under in the current environment. Some of these offerings include:

- In field certification services for which we travel to rigs anywhere in the world to provide required certifications on active locations resulting in substantially reduced down time;
- Rig performance services in which we assess and review a customer's equipment to identify opportunities for improving operational efficiencies and minimizing down-time; and
- Storage, preservation, and reactivation services, which lowers the cost of stacking equipment and enables faster reactivation of rigs creating a competitive advantage for contractors in securing new contracts.

Notwithstanding the remaining challenges in the offshore space, conversations with our customers leave us cautiously optimistic that we are at or near a bottom for our Rig Aftermarket business. While we anticipate a tepid near-term recovery driven by reactivation related business in the U.S. and pent up demand for offshore parts, service and repair work, we could still see revenue decline in the third quarter by a couple hundred basis points. We also anticipate realizing roughly \$5MM in cost savings during Q3 which should more than offset decrementals associated with the revenue decline.



Our Wellbore Technologies Segment generated \$511MM in revenue during the second quarter, down 19% sequentially from \$631MM and down 47% sequentially from \$956MM in the second quarter of 2015. Revenue mix by destination was 43% North America and 57% international. North America revenue declined 24% compared to the 35% decline in rig count and international revenue fell 13%, exceeding the decline in the international rig count as drilling activity in the Middle East registered its sharpest decline since this down cycle began.

EBITDA was \$1MM, down \$42MM from the previous quarter and \$156MM from the prior year. Sequential EBITDA decrements were 35%. The Segment reported an operating loss, excluding other items, of \$96MM for the quarter.

Throughout this cycle we have been intensely focused on what we can control. We aggressively pursued the declining number of business opportunities that were available and continued to invest in and drive innovation with our customers' interests at heart - meaning our focus is on improving oilfield efficiencies by reducing time and cost while improving well productivity. We have also been relentlessly focused on resizing the organization, lowering our cost structure, and optimizing our processes. Additionally, we have repositioned our people and operations to focus on the customers and basins around the world which we believe will be the most active throughout the next cycle.

These actions have taken place across all four of our operating Segments and in all 15 of our Business Units, but today I will highlight a few representative examples from within our Wellbore Technologies Segment.

In our Dynamic Drilling Solutions Business Unit we have streamlined our operations, enhanced relationships with old and new customers, and we continue to execute well with our legacy offerings. We recently displaced a primary competitor across the fleet of one of the largest private rig contractors in North America with our data acquisition and information management systems.

Additionally, we have continued investing in delivering innovative solutions to better serve the current needs of our customers, including:

1. Building out capabilities and executing revenue generating contracts associated with real-time drilling data acquisition, visualization and optimization technologies;
2. Delivering substantial drilling improvements for customers with our eVolve optimization and closed loop drilling automation services;
3. Introducing a new MWD tool; and most recently,
4. Introducing our GEOgas Analyzer, the first patented Fourier Transform Infrared Spectrometer specifically designed to provide real-time gas ratio analysis for formation hydrocarbon identification that helps maximize contact with the desired pay zone and minimize wellsite personnel.

In our Drilling and Intervention business, in addition to launching a number of literally ground breaking technologies such as our rotary steerable tool, and multiple, innovative new drill bits and motors, we have substantially improved our product development and manufacturing capabilities.

Investments made in streamlining processes, leading edge manufacturing equipment, and repositioning operations have us well positioned for the future.

Changes implemented in our drill bit business have reduced the time it takes to take a new drill bit design from concept to finished product down to 6 weeks from over 16 weeks as recently as 1 year ago. These changes will also allow us to reach prior peak volumes with a 25% lower head count and will allow us to maintain substantially lower inventory levels, reducing working capital and the potential for obsolescence.

In our field service related operations, we have numerous examples of how we've repositioned our assets and our personnel to become much more intimate with customers focused on regions that will be the most active in the future. Our WellSite Services business has added to its capabilities in Argentina, which positions us well for the anticipated long-term ramp in activity within the Vaca Muerta field. Here recently, an operator utilized our WellSite Service Business Unit's PETROS Fluid System and solids control services, in addition to a myriad of other NOV products and equipment, to drill the deepest horizontal well yet in the Loma Campana block of the Vaca Muerta field.

Circling back to our Drilling and Intervention business, we have reduced the average turnaround time for repairing bits and redressing motors in certain key basins around the world, including the Permian, from three weeks to one week by expanding our field service and repair facilities. This type of improvement significantly enhances our ability to take care of our customers and reduces inventory requirements.

As you can tell, we haven't simply reacted to a sharply deteriorating market over the past 6 quarters, we have and will continue to play offense.

In May, the U.S. land rig count was down 80% from the prior peak and the past two quarters have had successive declines of approximately 20%, but it appears things have begun to stabilize, at least within the North American market place.

While there is cautious optimism about rigs getting back to work, the extent of declines have induced a level of trauma that likely delays a meaningful recovery until next year.

For the third quarter, we expect our Wellbore Technologies Segment's top line to increase a couple hundred basis points with mid 30% incremental EBITDA margins. We also expect to realize an additional \$15MM benefit in Q3 due to our ongoing cost cutting and operational efficiency initiatives.



Our Completion & Production Solutions Segment generated \$538MM in revenue during the second quarter, down 4% sequentially from \$558MM and down 38% from \$873MM recognized in the second quarter of 2015.

EBITDA was \$57MM, or 10.6% of sales, an increase of \$9MM from the previous quarter but down \$91MM from the prior year. The Segment reported an operating profit, excluding other items, of \$5MM for the quarter.

EBITDA improved on lower revenue, due to cost cutting initiatives, operational efficiencies, and strong improvements in our Subsea business, as the operation benefited from high absorption in both of its manufacturing facilities and it executed well on existing orders.

We took in \$269MM of new orders, down \$59MM sequentially, and shipped \$333MM in revenue from backlog, resulting in an 81% book-to-bill. The Segment ended the quarter with a backlog balance of \$947MM, \$47MM lower than the prior period.

While our Subsea Business Unit had strong levels of activity this quarter and our plants should remain busy through at least year-end, the outlook for offshore related projects remains challenging and pricing pressures persist. These challenges extend into our other offshore oriented businesses including our Floating Production operations where there is limited visibility into additional projects outside of our existing backlog for the remainder of the year. We do however remain optimistic regarding mid-term prospects as we continue to have strong dialog regarding FPSO opportunities with customers and our new relationship with GE is contributing toward rapidly advancing our efforts to engineer and offer integrated topside solutions with standardized interfaces, which should materially improve the economics of deepwater production development.

With the average price for WTI still hovering below \$50/bbl during the quarter, new order intake remained soft through much of the quarter. While certain operators have slightly increased activity related to working down the inventory of drilled but uncompleted wells in the U.S., it has not yet translated into an increase in activity for our Well Intervention and Stimulation business and other completion related offerings, but conversations regarding plans to step-up activity have increased. Additionally, we are seeing slight increases in production and infrastructure related offerings; something we see as a good indication operators are preparing to get back to work as they cannot complete wells without having production infrastructure in place.

For the third quarter, we expect revenue to increase around 10% as we execute on certain large projects booked earlier in the year and see continued improvement in our production related businesses. We should see 30% incrementals on the increase in revenue and expect to realize an additional \$10MM benefit from the ongoing cost savings and efficiency enhancing initiatives which are occurring across the Segment.

While market conditions have proved challenging through the first half of 2016, we have been able to generate cash flow from operations of approximately 3/4 of a billion dollars, more than twice the amount produced during the first half of 2015. With a current cash balance of \$1.7B and undrawn capacity on our credit facility of \$4.4B, we have total liquidity in excess of \$6B. So, from a financial standpoint, NOV is very well positioned.

We hope our commentary this morning also provided you with insights into how well NOV is positioned from an operational and strategic standpoint. We are working hard to continue our long history of pioneering the critical technologies which drive the oil and gas industry; and the entire team at NOV remains laser focused on reducing our cost structure and fine tuning our ability to execute more efficiently regardless of the market environment.

