CEOCFO Interviews & News!

Allis-Chalmers Energy Has Remained True To Their Vision Of Creating A Multi-Faceted Oil Field Service Company With An International Geographic Footprint

Basic Materials
Oil & Gas Equipment & Services
(ALY-NYSE)

Allis-Chalmers Energy Inc.

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Mr. Munawar H. Hidayatallah
Executive Chairman and CEO

BIO:
Munawar H. Hidayatallah has served as our Chairman of the Board and Chief Executive Officer since May 2001, and was President from May 2001 through February 2003. Mr. Hidayatallah was Chief Executive Officer of OilQuip from its formation in February 2000 until it merged with us in May 2001. From December 1994 until August 1999, Mr. Hidayatallah was the Chief Financial Officer and a director of IRI International, Inc., which was acquired by National Oilwell, Inc. in early 2000. IRI International, Inc. manufactured, sold and rented oilfield equipment to the oilfield and natural gas exploration and production sectors. From August 1999 until February 2001, Mr. Hidayatallah worked as a consultant to IRI International, Inc. and Riddell Sports Inc.

Company Profile:
Allis-Chalmers Energy Inc. is a Houston-based multi-faceted oilfield services company. We provide services and equipment to oil and natural gas exploration and production companies, domestically primarily in Texas, Louisiana, New Mexico, Colorado, Oklahoma, Mississippi, Wyoming, Arkansas, West Virginia, offshore in the Gulf of Mexico, and internationally, primarily in Argentina and Mexico. Allis-Chalmers provides directional drilling services, casing and tubing services, underbalanced drilling, production and workover services with coiled tubing units, rental of drill pipe and blow-out prevention equipment, and international drilling and workover services.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Hidayatallah, there have been some recent changes with the company, what is the vision today?
Mr. Hidayatallah: "When we started this company in 2001 we had a vision of creating a multi-faceted oil field service company that had an international geographic footprint. We have and continue to remain true to our vision."

CEOCFO: What are the services that you currently provide?
Mr. Hidayatallah: "We provide services domestically in the US in directional drilling, casing and tubing installation, coil tubing and wire line services. We provide compressors, boosters, and mist pumps for air drilling as well as a percussion service with air hammer and bits. We also rent drill pipe, heavy weight spiral, auxiliary handling equipment and BOPs. In addition, in Argentina and Brazil, we provide drilling and completion services with drilling rigs and workover rigs. We do all of our own mobilization, we provide Mud services and drilling fluids as well as chemicals under the brand-name Tanus, together with water transportation and logging services to our customers in Argentina."

CEOCFO: Do the companies that buy supplies use your other services?
Mr. Hidayatallah: "In Argentina, which is the international norm, we tend to provide integrated services. Our contracts are sometimes what we call lump-sum integrated services based on footage and other contracts are based on day rates for drilling rigs and workover rigs. Domestically in the US we have both a field sales force as well as a city sales force. Some of our services are sold through the engineering departments of our customers in Houston; other services we provide are sold in the field locations and a prime example of this would be our casing and tubing services. The United States so far has not been a market where integrated lump-sum services have generally been favored by the customer. We do feel go-

ing into the future with the shortage of engineering skills at the customer level as well as the shortage of drilling rigs that will be required in the various shale plays specifically those coming on stream like the Marcellus, Haynesville, Fayetteville, Bakkens and Barnett, there will be greater emphasis on integrated services in the U.S."

CEOCFO: Trained personnel is a problem in your industry. How do you attract or develop the staff needed for your success?

Mr. Hidayatallah: "As of today we do not provide drilling rigs in the United States. Based on our perception of the development of the Haynesville specifically, and the Marcellus, we intend to gain access to drilling rigs. We are building currently four new generation drilling rigs earmarked for a customer in the Haynesville, and we will enter into what we consider integrated services contracts. What I think differentiates us from the other services is that we provide the highest quality of equipment. We've spent approximately $250 million over the last three years in new state-of-the-art equipment to meet the growing needs of mature oil and natural gas fields in the United States. As we improve efficiencies and grow productivity, market penetration and market share will continue to grow. In addition to this, we try to hire the most highly skilled operators and we put retention programs in place to continue to retain and hire this quality of personnel. In directional drilling, we believe that the anchor of differentiation in companies is the skill of the directional driller. In addition to directional drillers being part of a shrinking universe, as the shale play continues to grow, demand for skilled directional drillers will increase further exacerbating the problem of an available skilled labor pool. As such, we are executing and implementing a training program so that we can maintain the quality of the operators. In Argentina where we provide contract drilling and completion services, we have been in the business over the last forty years, and are clearly recognized as the high-quality service provider. We also believe we have the highest skill of operators including supervisors and tool pushers. In addition to this, we have invested in sixteen new workover rigs, which were delivered this year and are currently operating and we have also delivered this year one new mechanical seven-fifty horsepower rig and one new electrical seven-fifty horsepower rig. These rigs are highly mobile as well as increase production on a footage basis. Worldwide Allis-Chalmers is developing a reputation as a good place to work because you are a person, not a number."

CEOCFO: Would you give me an example of your newer technology that sets Allis-Chalmers apart?

Mr. Hidayatallah: "If you take the services that we provide, for example our coil tubing unit, within the next sixty days we will have fourteen coil tubing units operating; twelve have been delivered in the last year. They are the latest state-of-the-art technology within the coil tubing field. If you take casing and tubing installation equipment, we have ten new CRT units delivered over the last twelve months. We have ordered or built catwalks for casing and tubing installation, which are automated lay-down machines. What we move towards is the greatest marketing aspect of our services, which is safety through automation and technology specifically in casing and tubing installation where there is a fair degree of exposure on the rig floor. We try to have less personnel on the floor and that improves our safety record. It also gets us to a new level of customers that feel investment in safety, automation and new technology is a great advantage. The same with drilling rigs and workover rigs; the new drilling rigs are far more mobile than the older generation rigs. Some rigs don't even require cranes, they just require forklifts. We are investing in a brand-new truck fleet so that we can move these rigs, improve mobilization times, and reduce downtime. In our underbalanced drilling, we have entered into a long-term supply agreement and hope to convert that into a joint venture where we are buying synthetic diamond inserts for our bits from China. In our airhammer and bit operations, we are clearly number one and we believe that our airhammer and bit has the highest rate of penetration of any bits worldwide. Also the use of synthetic diamond inserts that are available to us from China, have a far higher rate of penetration and we believe that economically there is a great benefit to us as well as our customers because of the cost."

"When we started this company in 2001 we had a vision of creating a multi-faceted oil field service company that had an international geographic footprint. We have and continue to remain true to our vision."

- Mr. Munawar H. Hidayatallah

CEOCFO: What is the financial picture like for Allis-Chalmers today?

Mr. Hidayatallah: "Today we have $540 million in debt. Part of this is in the form of high-yield eight to ten year bonds that mature in 2014 and 2016; they are interest only until maturity. The 2016 bonds are at eight and a half percent, and 2014 at nine percent. Book equity is around $450 million. Our net debt to total capital is running at 55%. Our net debt EBITDA ratio is around 3 to 1. Our net interest coverage to EBITDA is at around 5 to 1. We believe our capital structure has improved substantially since we first went to the market, where we had a net debt to total capital employed of about 67% and we had an EBITDA to net debt coverage of 3.7 to 1. At this stage we went before the rating agencies and set goals of 50% net debt to capital employed, and in addition set a target of three times net debt to EBITDA. We have moved in the right direction and our ratings have been improved by both Standard & Poor's and Moody; we have a positive stable outlook. In the future we want to continue to improve our ratios and when the markets pick up we will increase the equity in our company."

CEOCFO: What do you see ahead in terms of new areas geographically or possible acquisitions?

Mr. Hidayatallah: "Our vision has always been to increase the product and services that we provide as well as expand our geographic footprint. We think that the capital markets today are restricted and we are proud of the fact of the growth that we have achieved with the capital markets open to us. We will continue even under these circumstances to expand depending on the capital markets with bolt on acquisitions that give us technology, expand the products and services we provide and expand our geographic footprint. We operate today in Columbia, Argentina, Mexico and we have been prequalified by Aramco and want to provide services in the oil-producing nations of the Middle East. We hope to start bidding for our rental services in these areas and use that as an anchor to further expand. Domestically in the United States it is our intention to take advantage of what we perceive as the need and requirement for drilling rigs by expanding through a new generation of drilling rig in the United States. We have been through a six-month effort that did not materialize to acquire a drilling rig company. As such, based on the change of the capital markets, we have a slight change in strategy by making a decision to really build with our own resources a rig fleet for domestic markets."

CEOCFO: There are many companies to choose from; why should potential investors pick Allis-Chalmers out of the crowd?
Mr. Hidayatallah: "As an investor I see the strength of Allis-Chalmers in the foundation that we have built and in the future cash flow potential. In the September 29^{th} issue of Fortune, Allis-Chalmers was rated as the third fastest growing company in the United States. We were the fastest growing company as far as revenues growth. We were fifteenth in earnings per share growth and 28^{th} in annual rate of return growth. Allis-Chalmers has executed its vision by creating the foundation that will allow us to continue to grow the company profitably. In addition to this, our interests are directly aligned with all our stakeholders, our management, our employees, our customers and our vendors. Basically the management of the company, its associates and affiliates control nearly 10 million shares of the total issued and outstanding shares of about 35.5 million shares."

CEOCFO: Final thoughts; what should readers remember most about Allis-Chalmers?
Mr. Hidayatallah: "Allis-Chalmers having executed its strategy successfully will continue to work in the interest of all its stakeholders. Today we represent tremendous value for the investors as we are trading at multiples well below our peer group."

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