

# DELIVERING ON OUR STRATEGY

## LETTER TO SHAREHOLDERS

Basic Energy Services operates in a dynamic and competitive environment that requires dedicated employees, a steadfast commitment to customer service excellence and financial discipline.



**T.M. "Roe" Patterson**

President and  
Chief Executive Officer

"Basic is unique in that our operations are decentralized... Our local leadership enabled us to be nimble, keeping our fingers on the pulse of our customers' needs and challenges, at all times."

I am pleased to say that throughout 2014, these strengths, on which our company was founded, provided the means to reach our goals for the year and prepare for the challenges of 2015.

### PRUDENTLY EXPANDING OUR CAPACITY

With high customer activity at the beginning of 2014, we embarked on a growth program to meet those needs. We expanded capacity and front-loaded our investment early in the year while demand was at its greatest.

Our expansion capital spending included \$119.5 million for the Completion and Remedial Services segment \$16.6 million for the Fluid Services segment, \$10.7 million for the Well Servicing segment, and \$1.7 million for the Contract Drilling segment. This included increasing our Pumping Services hydraulic horsepower from 297,000 HHP to a total of 443,000 HHP and expanding our Saltwater Disposal network from 81 to 85.

Other capital expenditures were mainly for facilities and IT infrastructure. Most assets purchased were in the field by the end of the third quarter, allowing us to benefit from these investments for a large portion of the year. We continued to increase our footprint and service offerings, expanding into the California market and initiating our tubular rental business.

### POSITIVE PERFORMANCE

Basic's business segments performed admirably throughout 2014. Our Completion and Remedial Services segment, led by its frac services, showed the strongest performance over the course of the year, operating at near record utilization rates. Our Fluid Services and Well Servicing segments showed steady utilization and margins even in oily markets, which were crowded by numerous competitors who had migrated from relatively flat natural gas markets.

Throughout the year, we benefited from the growing number of horizontal wells and pad drilling across our footprint. New well drilling and completion activity in oily markets continued to be the focus for many of our customers. With our equipment allocated in the right geography, we were able to take advantage of this environment. We also benefited from recompletions, workovers and an increasing number of maintenance projects,



Basic's modern well servicing fleet is matched to the needs of the local markets.

as several customers also dedicated capital to development and production programs. Expanded horizontal drilling programs combined with legacy vertical drilling programs made the Permian Basin the busiest drilling market in the U.S. The Permian Basin is our largest operating market; therefore, this region led our company's growth in 2014.

#### LOCAL LEADERSHIP DELIVERS RESULTS

Basic is unique in that our operations are decentralized. Our field leadership has a great deal of input into decisions that drive our business. This past year was no different. Our local leadership enabled us to be nimble, keeping our fingers on the pulse of our customers' needs and challenges, at all times. In addition, our strategy of making equipment available to all customers, regardless of the size of their operation, has created strong customer loyalty, which is especially important when markets are competitive.

#### A YEAR OF SOLID GROWTH

All told, 2014 was an outstanding year for Basic. We reached record revenues of approximately \$1.5 billion up 18% from 2013. We had our best safety performance ever in the company's history. We maintained a significant cash position. And we strengthened our capabilities and market share.

#### PROACTIVELY PLANNING FOR 2015

By the end of the fourth quarter of the year, when commodity prices dropped worldwide, pressure was put on margins. However, Basic is well positioned for the downturn. We have initiated plans to deal with an environment of diminished customer activity. We will maximize utilization and protect market share using competitive rate reductions where needed. Our business segments are scalable, and we are quick to reduce input costs and shrink capital spending to match cash flow.

With drilling activity slowing down over the coming months, customers will be focused on maximizing their production through maintenance and workover services. Our "Life of the Well" strategy enables us to shift with them and provide the necessary service assets. This strategy will also provide a steady base of business even in a slow drilling market. A downturn tends to put pressure on companies that can't sustain themselves in a low margin environment. We will review the landscape at an appropriate time and actively seek acquisition opportunities for modern equipment and talented personnel.

In conclusion, I'd like to express my appreciation to our employees, the Board of Directors and the entire management team for their dedication in making 2014 a very good year for Basic. I would also like to thank our customers and shareholders for their steadfast loyalty. 2015 looks to be a difficult year for our industry, but our Mission will remain the same. We look forward to the challenge.

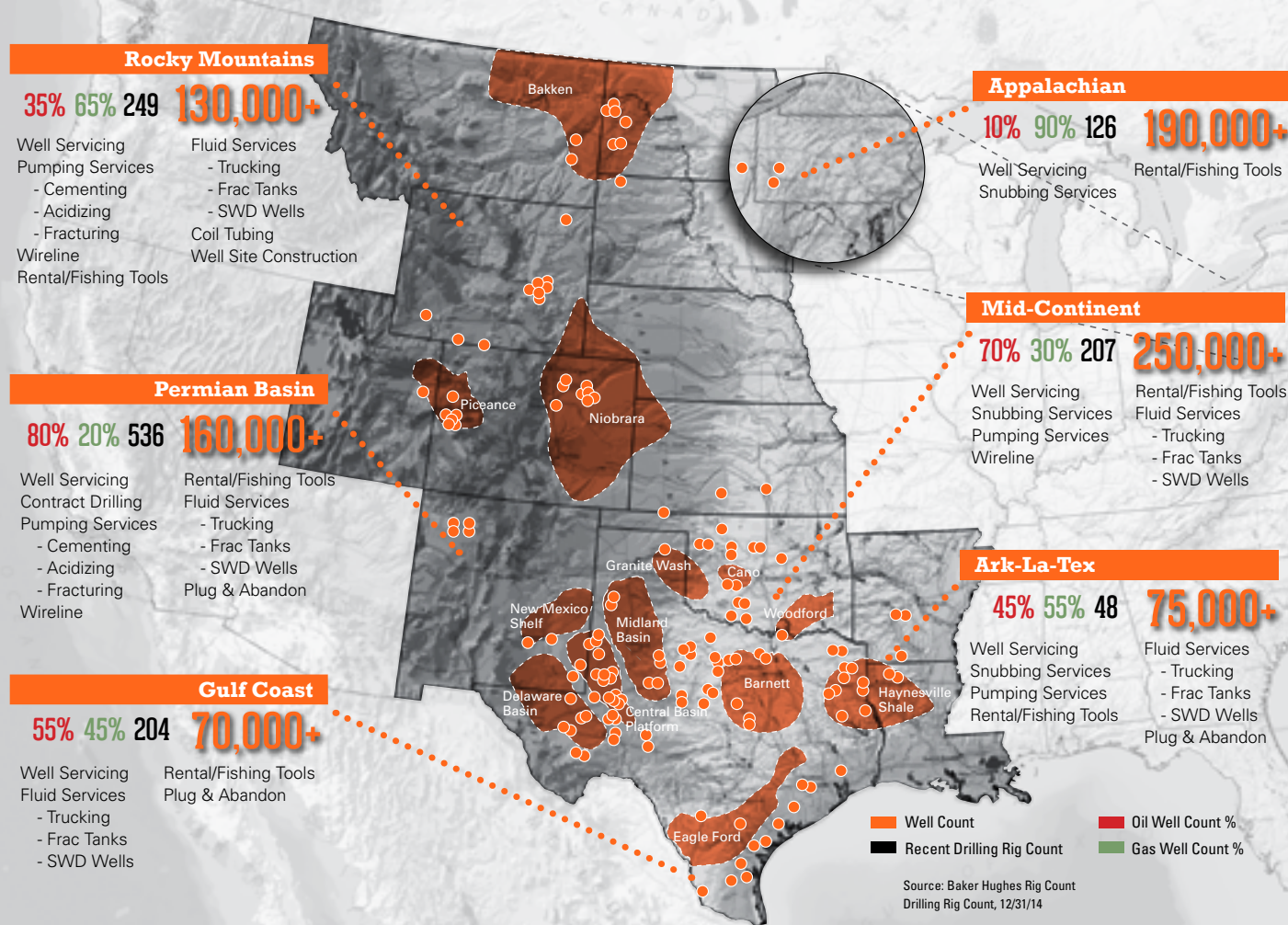
Sincerely,

T. M. "Roe" Patterson  
President and Chief Executive Officer





## Extensive Footprint in Prolific Basins





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fig. 01 | MANAGEMENT

*Our decentralized management strategy allows Basic's local leaders to be nimble and react quickly to market conditions.*



# NAVIGATING WITH A CLEAR DIRECTION

Since inception, Basic Energy Services has leveraged a proven strategy that has guided us through every cycle.

With a business model that is based on well counts in the nation's most active oil and gas regions, we provide the right services and the right people in the right basins. We establish and maintain market leadership positions within our core operating areas by maintaining close customer relationships. We offer high quality services and modern equipment that meet the scope of customer specifications and requirements. And we ensure fast responsiveness by having our operations managed locally by experienced leaders with intimate knowledge of their customers' specific needs.

With our diverse geographical footprint, technology and systems, and wide range of service offerings, our services are in demand across the life of the well, during any market cycle.

## OPERATIONS DIRECTED AT THE MOST PROLIFIC BASINS

Basic holds a leading position in the nation's most active energy-producing regions, including the Texas Gulf Coast, the Ark-La-Tex region, the Permian Basin, the Mid-Continent and the Rocky Mountain and Appalachian regions. Of these, the most significant is the Permian Basin, which represents more than 45% of Basic's current revenue stream and is the region where more than 25% of the U.S. land drilling rigs are located.

## BUSINESS SEGMENTS AND PERFORMANCE IN 2014

### PERFORMANCE GUIDED BY OUR VISION AND VALUES

At Basic, we strive to be the oilfield services company of choice in all segments of our business. We work closely with our customers in customizing our services to meet their continually changing technical requirements and to improve performance. Everywhere we operate, our people work hard to deliver the performance, the safety and the integrity that our customers have come to expect from us.

### Revenue Percentages

**47%**

Completion and  
Remedial Services

**25%**

Fluid Services

**24%**

Well Servicing

**4%**

Contract Drilling



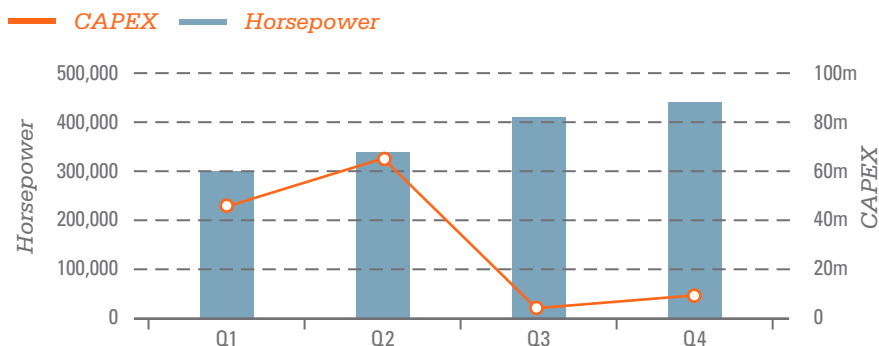
In hydraulic frac'ing,  
Basic works closely  
with operators to define  
the right solution.

### COMPLETION AND REMEDIAL SERVICES

From our modern fleet of stimulation assets, coil tubing units and snubbing units to our rental and fishing tools, we have the equipment—and experienced employees with a vast knowledge of the region—necessary to meet our customers' needs.

In 2014, our Completion and Remedial Services delivered the most impressive growth, led by our stimulation business. Completion-oriented demand for our services during the year was very strong, which drove our utilization rates higher and gave us a full calendar of activity. Pricing in our Pumping Services including frac work, went up during the year as we added new build capacity and increased horsepower from 297,000 HHP to a current total of 443,000 HHP, which we quickly put to work.

graph 01 | HYDRAULIC HORSEPOWER & PUMPING SERVICES CAPEX





## fig. 02 | FOOTPRINT

*Strategically positioned in the industry's most prolific basins, our vast footprint covers the majority of all existing onshore oil and gas production in the U.S.*

Within our Completion and Remedial Services, the Coil Tubing business achieved the highest margins. Our coil tubing portfolio includes a full set of downhole tools, as well as body-load and trailer units supported by NOV CTES coil tubing modeling software and data acquisition system. With high market demand, we rightsized our coil tubing fleet to better serve our customers. Our Rental & Fishing Tools business experienced similar growth in terms of rates and CAPEX as our stimulation services. Throughout the year, our network of 23 Rental & Fishing Tools facilities provided customers with our extensive lineup of rental and fishing tools.

#### FLUID SERVICES

Our Fluid Services strategy is largely centered on leveraging the combination of our Salt Water Disposal (SWD) network and trucking capacities. Although competition was high, utilization was steady during the year as we maintained market share and added capacity. We made significant progress expanding our SWD network, adding four facilities for a total of 85 SWD sites, and also added 44 new vehicles to our Fluid Services truck fleet, to end the year at 1,047 vehicles.

The logistics of sourcing freshwater, transporting all types of water, recycling and, finally, managing the disposal of water is a growing business segment. Our strategy to meet this logistical demand has been to take an integrated business approach. We provide our customers with the best options to fit their individual needs by using our extensive footprint of assets and facilities in addition to maintaining experienced local operating teams to help customers manage the process.



**Our breadth of capabilities makes us a one-stop source for fluid services equipment and expertise.**

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fig. 03 | UPTIME

*Basic's diverse "Life of the Well" services ensure we are active, regardless of the market cycle.*





### WELL SERVICING

Our Well Servicing fleet is versatile to meet customer challenges throughout the life cycle of a well, ranging from completion, routine well servicing and complex workovers, to plugging & abandonment. We operate a modern fleet that is well equipped to meet the needs of the growing number of horizontal wells. At our 44 Well Servicing locations nationwide, we bring together the best equipment and the best crews.

Competition was fierce in 2014 due to the limited number of natural gas related well servicing activities. In addition, labor costs have risen in the Permian Basin, which put downward pressure on margins. However, activity levels in busy markets like the Permian Basin ensured continued demand for our rigs in horizontal completions, workovers and routine maintenance activities.

### CONTRACT DRILLING

Whether working on shallow wells or deeper, more complex horizontal wells, Basic's drilling rig fleet was well utilized in 2014. Most of our vertical drilling operations active in the Permian Basin are involved in legacy drilling programs with some of our largest customers. With demand for horizontal drilling increasing, our 1200 horsepower electric drilling rigs are well equipped to participate in the newest fields emerging in the Permian Basin.

### DRIVING TO SAFETY EXCELLENCE

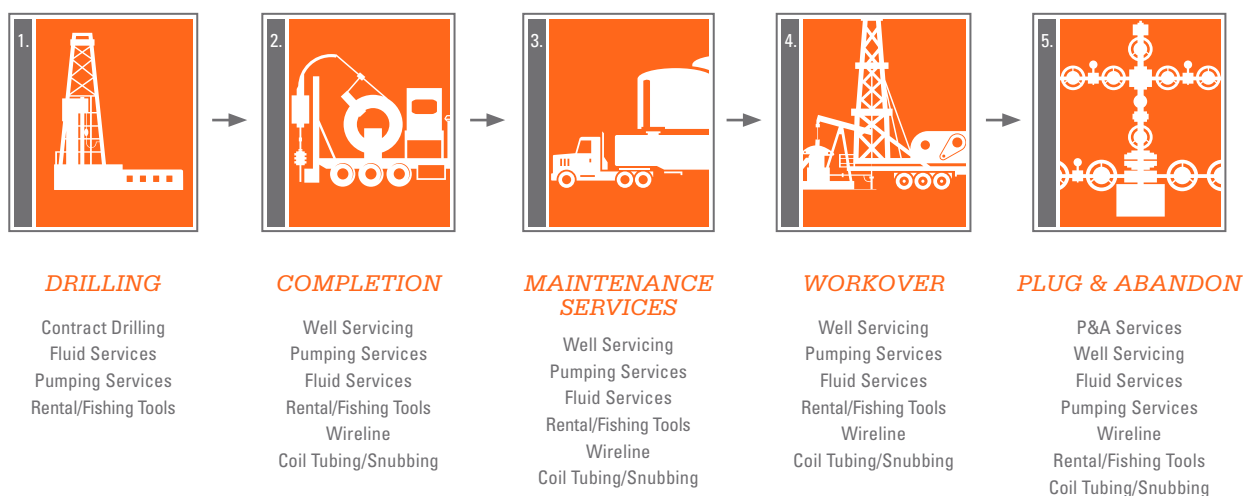
Of all we strive for, the most important is the safety of our employees, our customers and our partners. Safety is an integral part of our Mission. Through our many safety initiatives, we are confident we will achieve increased worksite safety and continuing improvement of Basic's safety performance.



Pre-job daily meetings and Job Safety Analyses (JSAs) are vital parts of Basic's culture of safety.

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## graph 02 SERVICES FOR THE LIFE OF THE WELL





Our network of Rental & Fishing Tools facilities ensures quick response to customer needs.

ELEMENTS OF OUR SAFETY POLICY THAT SUPPORT OUR MISSION INCLUDE:

- Our employees are our most valuable assets
- All accidents are preventable
- Our employees' primary job responsibility is the safe completion of their assigned work
- We enable our employees to fulfill that responsibility by providing the appropriate training, equipment and work environment
- Our employees are granted the authority to slow down or shut down an operation they believe may jeopardize the safety of people, property or the environment



NEW SAFETY MANAGEMENT SYSTEM

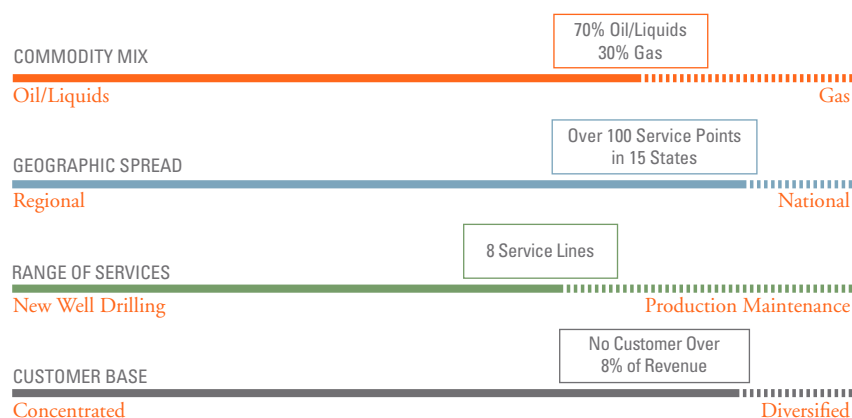
During the year, we charted a new direction to improve safety even more with our New Safety Management System. This behavior-based program empowers employees to take personal ownership of safety through proactive measures that include observation M.E.D.S. (Management and Employee Driven Safety) cards, which are completed if a potential hazard is observed.



## fig. 04 | DIVERSITY

*With no single customer accounting for more than 8% of revenue, our customer base provides Basic with a steady and diversified source of returns.*

## graph 03 | A STRATEGY OF DIVERSITY



## MOVING AHEAD TOWARDS OPPORTUNITY, TOGETHER

In 2014, we achieved record revenues and geographic growth. While it was a successful year, by the fourth quarter the industry had witnessed a significant drop in commodity prices, which was accompanied by customers pulling back on activity. Regardless of market changes, Basic can be counted on to meet the challenges these market forces bring. We have a team of dedicated people, an extensive footprint, a diversified customer base and a wide range of service offerings that will remain in demand throughout any phase of the business cycle. As the months ahead unfold, we will continue to monitor market conditions closely and adapt with agility. As always, our people will continue to be at the core of our success as we define the way forward.



Basic performs in-field drilling and horizontal drilling for customers both large and small.





**RECONCILIATION OF NET INCOME TO ADJUSTED EBITDA**  
(in millions)

	2014	2013	2012	2011	2010
Net Income (Loss)	\$(8)	\$(36)	\$21	\$47	\$(43)
Goodwill Impairment	35	-	-	-	-
Loss on Early Extinguishment of Debt	-	-	-8	49	-
Gain on Bargain Purchase	-	-	(1)	-	(2)
Income Taxes	-	(20)	11	32	(25)
Net Interest Expense	67	67	62	52	46
Depreciation & Amortization	217	210	187	154	135
Loss on Disposal of Assets	2	3	3	1	3
Loss on Severance	-	1	-	-	-
Loss on Legal Settlement	5	8	-	-	-
Loss on Sales and Use Tax Audit	-	2	7	-	-
Refund on 2008 Texas Margin Taxes	-	-	2	-	-
Loss on Relocation of Corporate Office	-	-	8	-	-
Adjusted EBITDA	\$318	\$235	\$308	\$335	\$114

**RECONCILIATION OF REPORTED DILUTED EARNINGS  
PER SHARE TO ADJUSTED DILUTED EARNINGS PER SHARE**

	2014	2013	2012	2011	2010
Reported Diluted EPS	\$(0.20)	\$(0.89)	\$0.51	\$1.14	\$(1.10)
Impact of Executive Severance & Non-Compete Benefits, After Tax	-	0.01	-	-	-
Impact of Non-Cash Goodwill Impairment Charge, After Tax	0.56	-	-	-	-
Impact of Early Extinguishment of Debt, After Tax	-	-	0.12	0.77	-
Impact of Reserve for Legal Settlement, After Tax	0.07	0.13	-	-	-
Impact of Gain on Bargain Purchase, After Tax	-	-	(0.01)	-	(0.04)
Impact of Sale of Office Complex, After Tax	-	-	-	(0.04)	-
Impact of Relocation Liability, After Tax	-	-	0.12	-	-
Impact of Sales and Use Tax Audit, After Tax	-	0.04	0.09	-	-
Impact of Texas Margin Tax Refund, After Tax	-	-	(0.03)	-	-
Adjusted Diluted EPS	\$0.43	\$ (0.71)	\$0.80	\$1.87	\$(1.14)