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Costs at a Crossroads

Are Project costs still increasing?

Or

Are they finally on the Decline?

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Current Situation



Latest News

Long lead times for Oilfield Equipment

Oilfield equipments and services companies are Under extremely pressure to get orders out

Korean shipyards receive Orders of \$2.5 bil.

Investments in Korea exceed \$2.5 bil. for all types of vessels

New Build backlog

Even though the order backlog stands at over 100 units, new orders continue to firm up ever week and new builds are changing hands almost as often

Current backlog of 12 drillships, 68 Jackups and 37 semis, 117 units in total

Drop in Gas Prices Slows Projects

The reduction in gas prices means that some of the projects planned no longer met the economic returns required

Larger Oil Companies Focusing on Deepwater

The demand for large Independents and mid-size independents For drilling of deepwater projects has increased demand on the higher class of drill rigs and ships. These projects require considerable investment levels and challenging technology.

Jack-Ups on the move

The drop in Jack up day rate this year has lead operators relocating rigs to the Middle east, & West Africa to exploit higher drilling day rates

Upstream Costs Keep Pace with Oil Price Increases

Increased costs for new oil and gas developments have risen to such an extent that the increase in prices is not showing the initial expected increase in project Investment values initially anticipated.



The Problem as We See It

- Project construction costs have escalated dramatically
- We need understand these trends
- We need to identify variables associated with project construction



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Market Trends



Input Markets Tracked and Forecast

Markets directly affected by Oil Prices

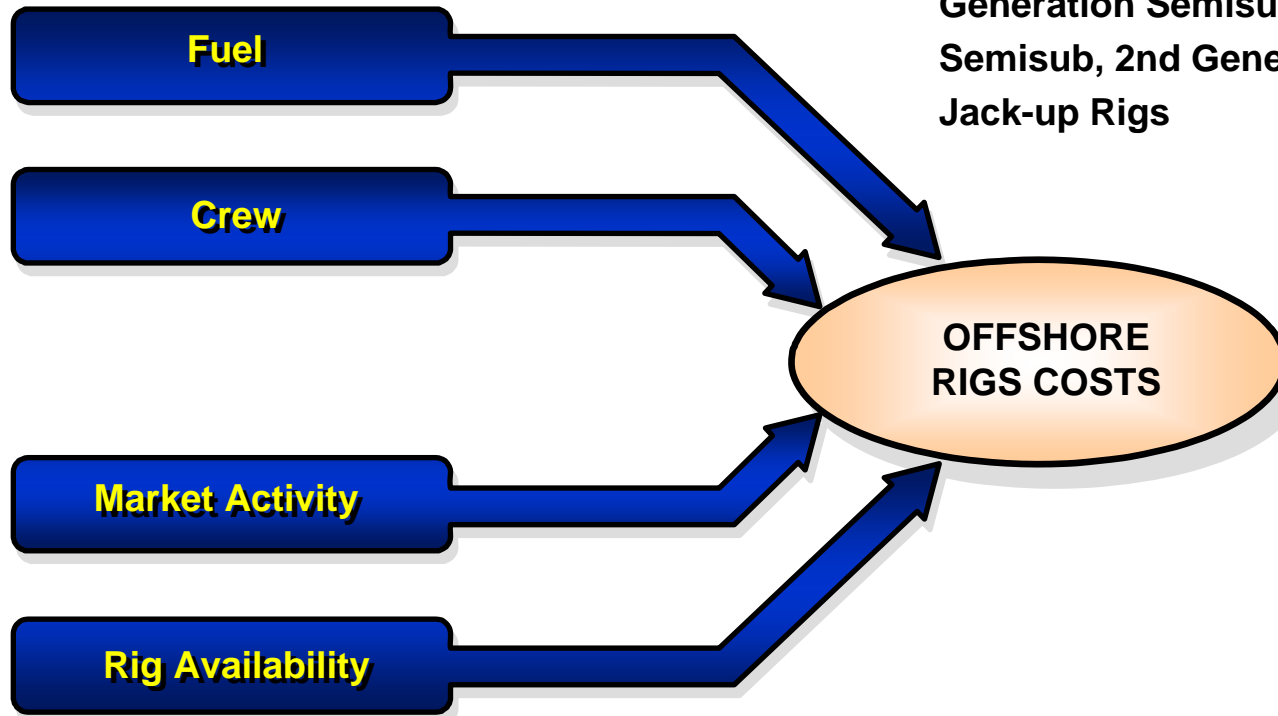
- Offshore Rigs
- Offshore installation Vessels
- Land rigs
- Engineering and project management

Markets affected by global factors

- Steel
- Yards and Fabrication
- Equipment
- Bulk materials
- Labour

The Offshore Rigs Market

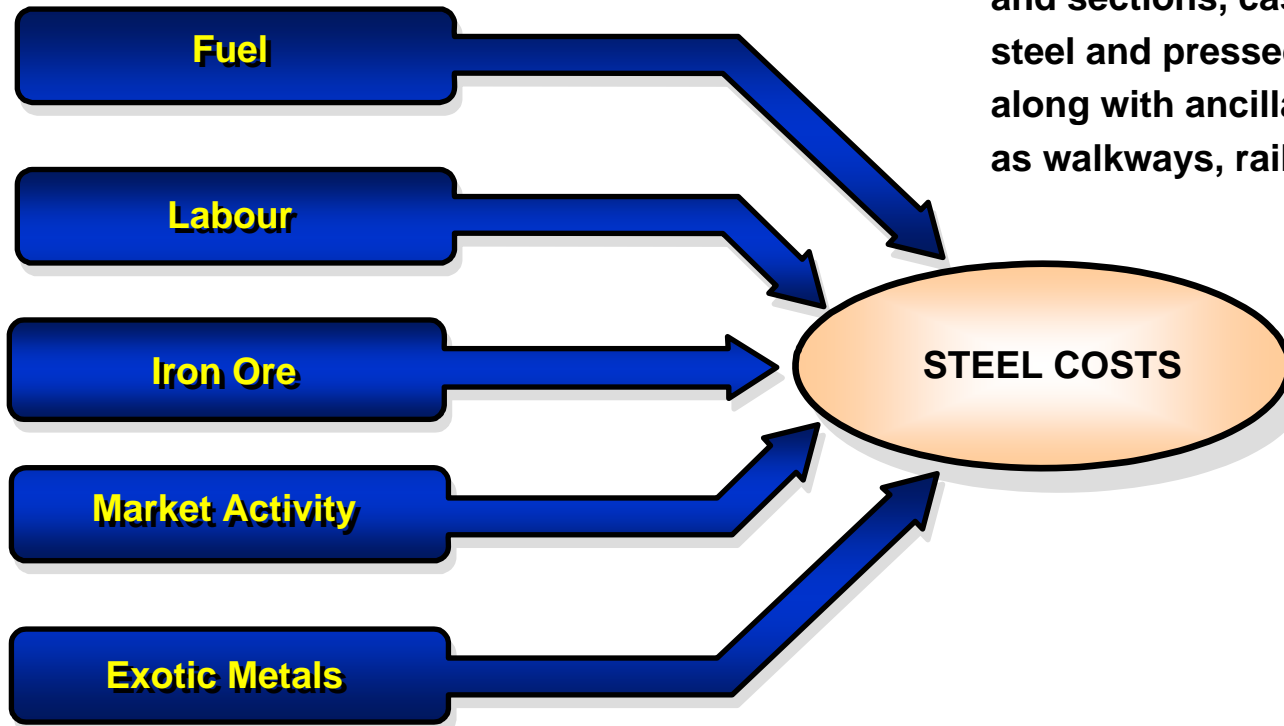
Offshore rigs market includes Drillship, 5th Generation Semisub, 4th Generation Semisub, 3rd Generation Semisub, 2nd Generation Semisub and Jack-up Rigs



Source: Cambridge Energy Research Associates.
60906-7A

Market Driver

The Steel Market



Steel market includes structural beams and sections, cast steel shapes, plate steel and pressed forms, and tubulars, along with ancillary components such as walkways, railings, and ladders.

Source: Cambridge Energy Research Associates.
60906-8A

Market Driver

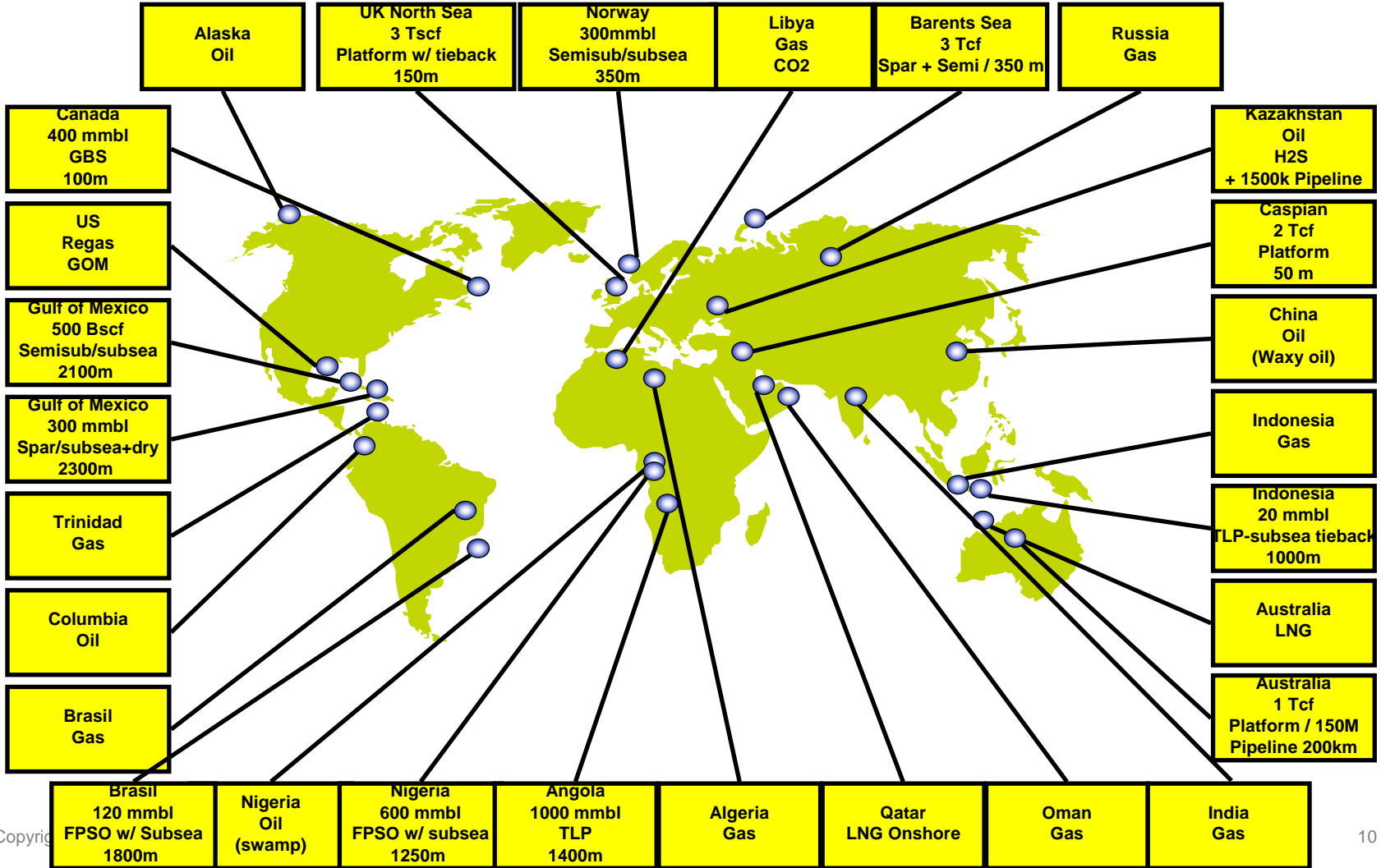


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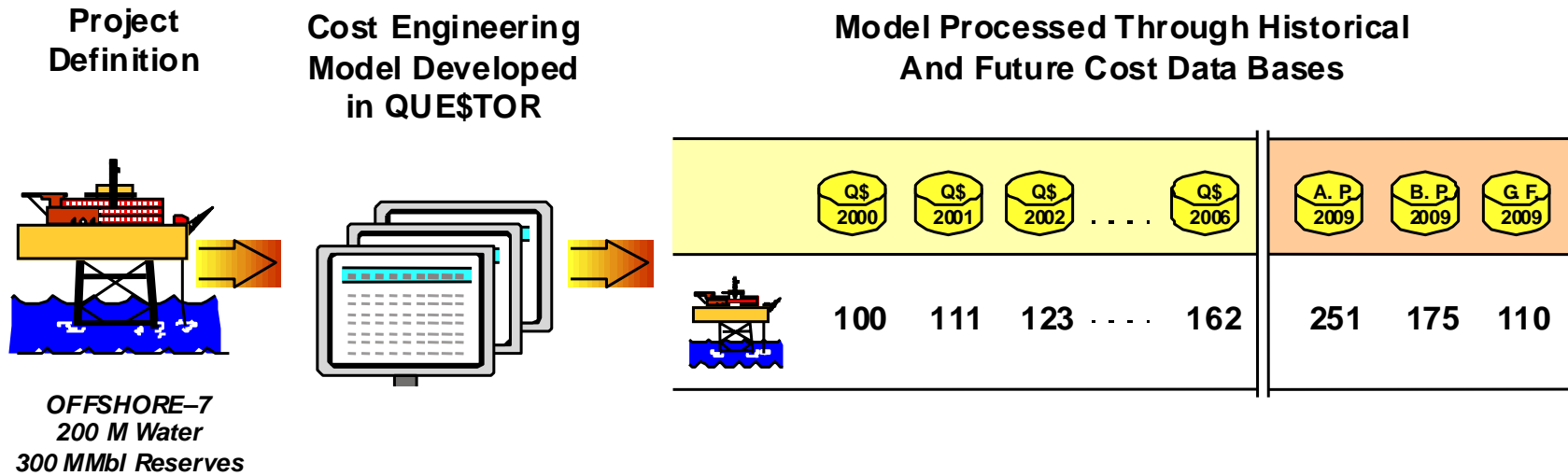
Upstream Capital Cost Index



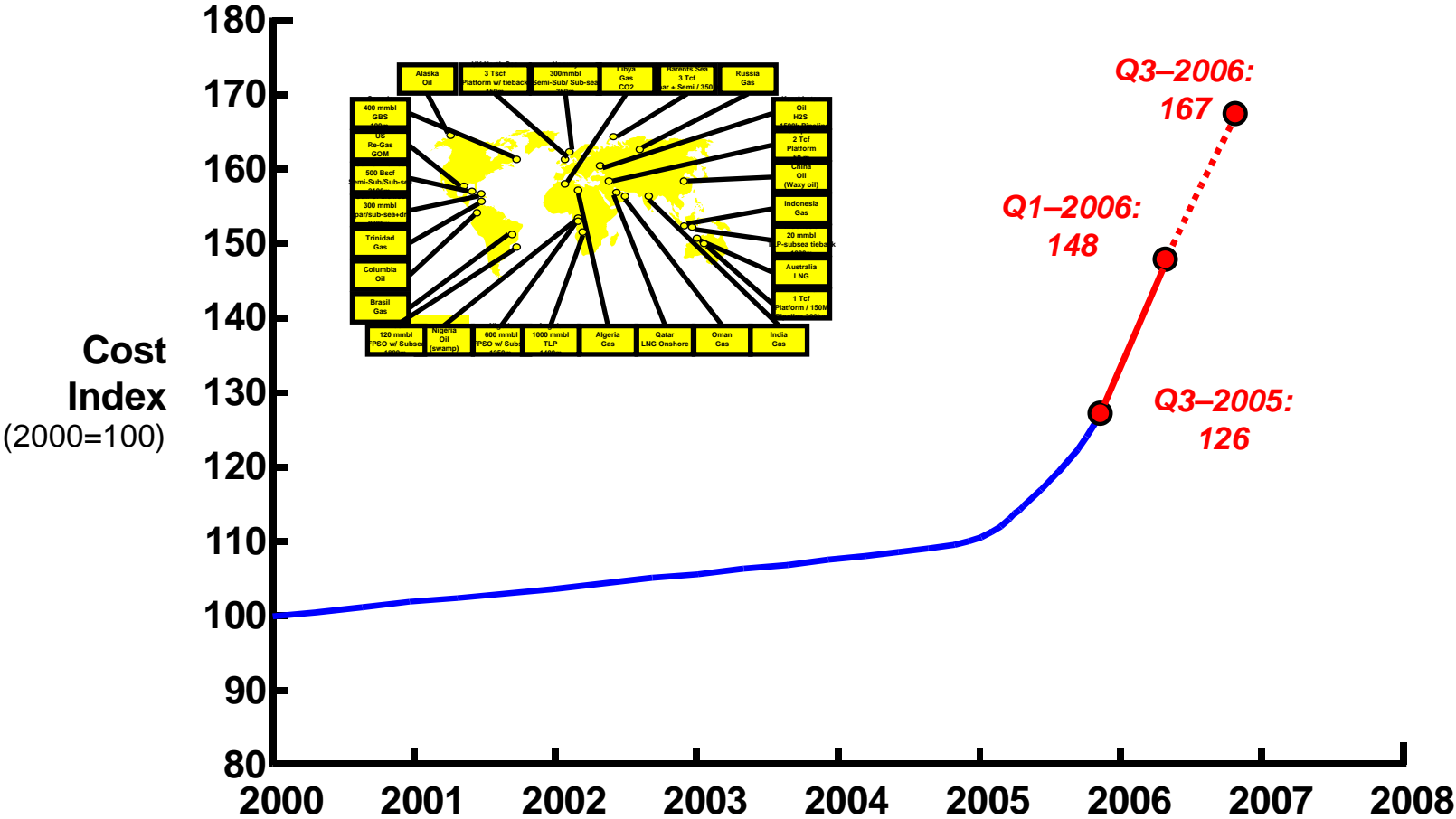
Total Portfolio



Model Development and Data Processing



Upstream Capital Cost Index





Summary of Indices

	Q1 2006	Q3 2006	Increase Q3 '05 – Q1 '06	Increase Q1 '06 – Q3 '06
Total Portfolio	148.0	167.4	17.4%	13.1%
All Offshore	155.0	175.6	20.7%	13.3%
Deep Water	160.9	185.1	20.2%	15.0%
All Land	129.7	146.9	8.4%	13.3%



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2007 Outlook



2007 Outlook

- Oil price stability above \$50 per barrel will maintain demand
- Oilfield supply for equipment and services will continue to be market constrained until additional capacity in 2008/09
 - Steel costs will be fairly stable
 - Constraint in personnel will effect several markets
- There will be no relief to costs rises during 2007!
- With the rapid growth in Asian and high oil prices a relief in costs can't be expected to seen in the next 12 months thus we are not at the crossroads yet!