

## Upstream Costs and Technology

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DNV Rig Owners' Committee Meeting Presentation

# Offshore Rig Market Outlook

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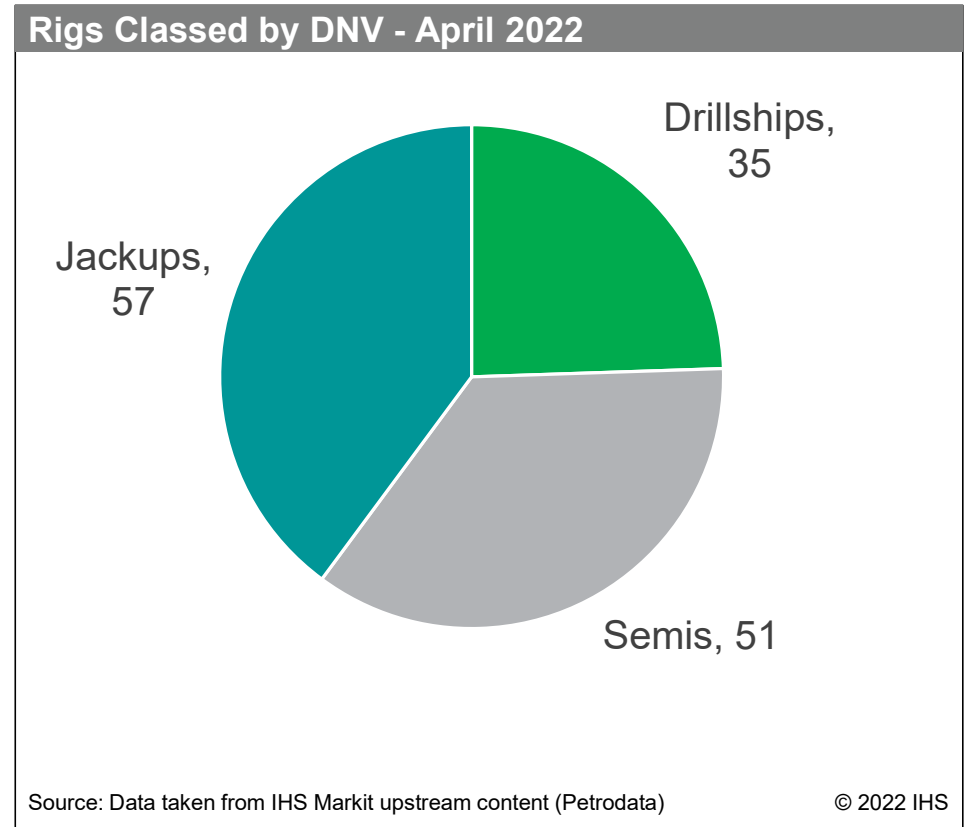
# Agenda

- DNV Offshore Rig Fleet
- How the offshore rig fleet make-up has been changing over time
- Today's situation
- Outlook
- Ongoing issues

# DNV's Current Offshore Rig Fleet

- Fairly evenly divided among the major rig types
- Includes most harsh environment rigs\*
  - All the drillships
  - 83% of the semis
  - 34% of the jackups

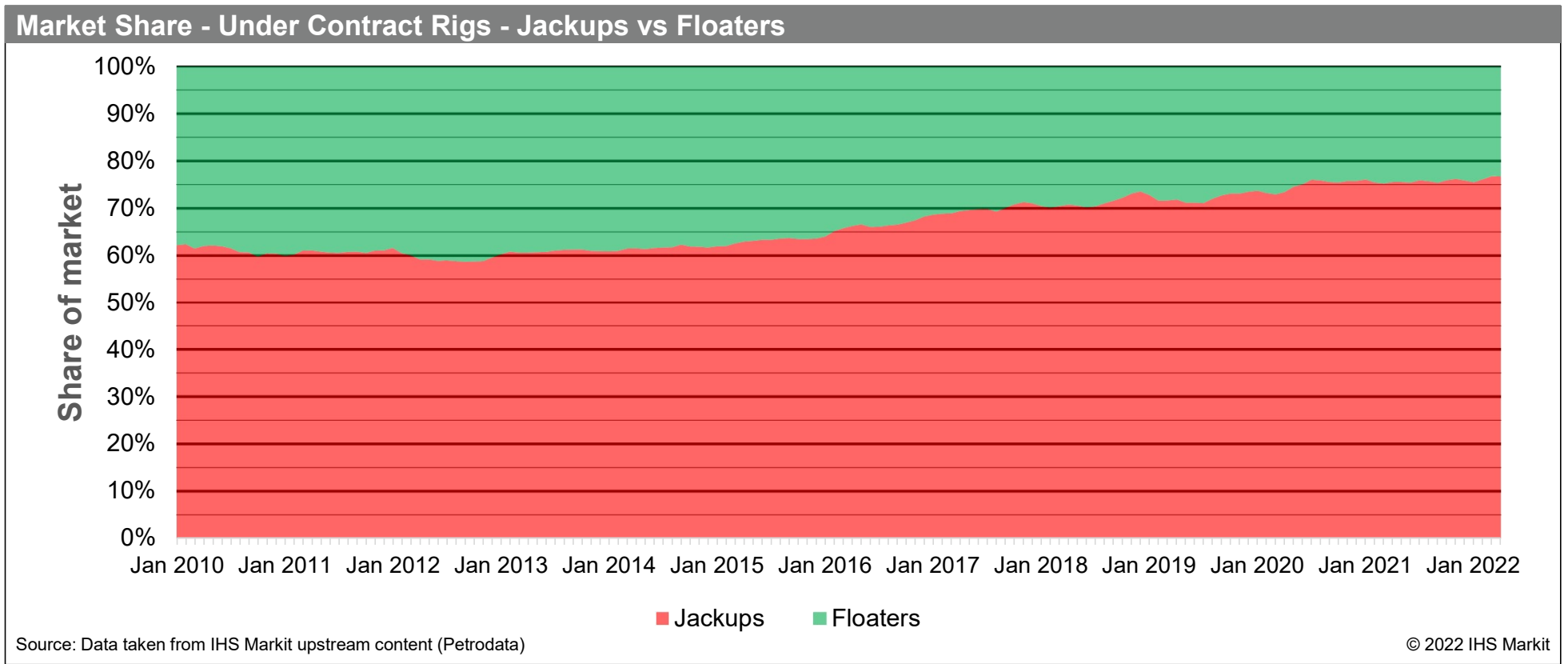
\* As categorized by IHS Markit



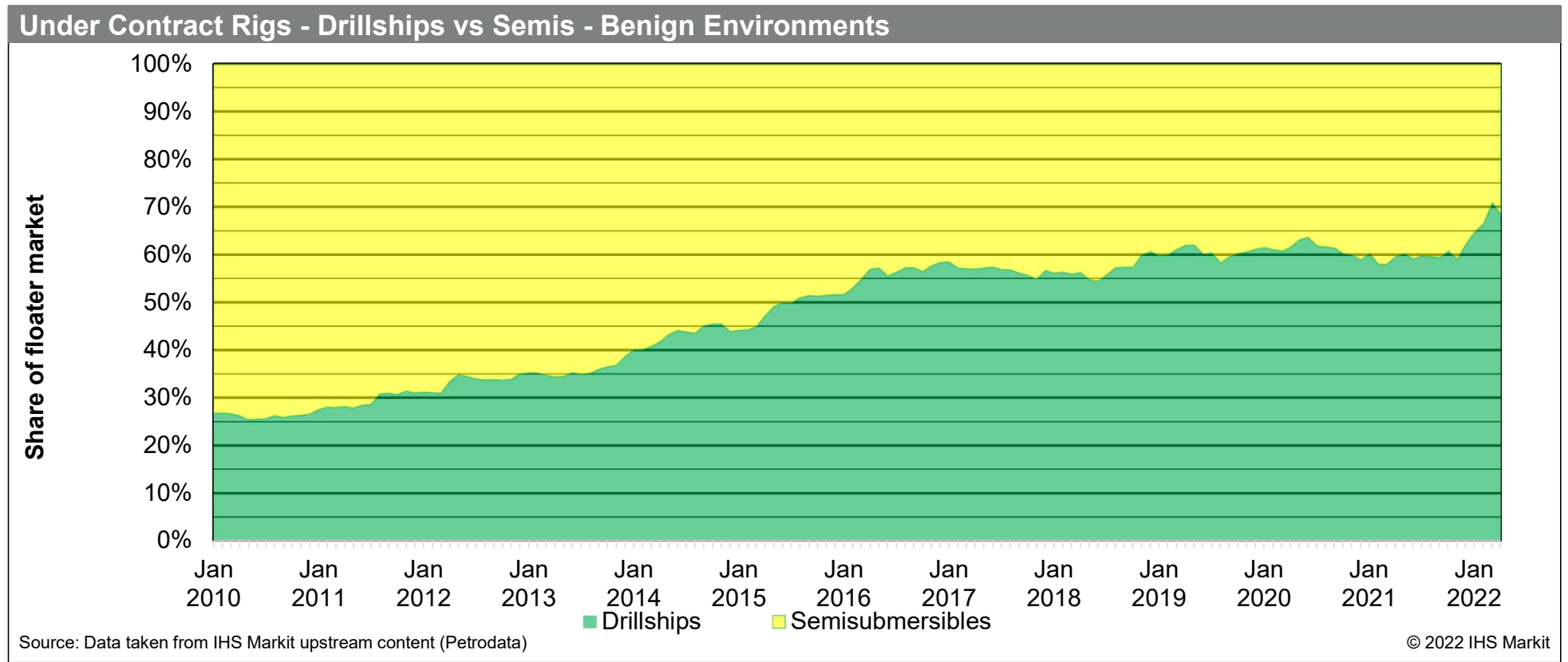
## How the offshore rig fleet make-up has been changing

- Jackups have significantly increased their share of the total offshore drilling market in recent years
- Drillships' share of benign environment floater market continues to rise
- While semis remain the rig of choice for (virtually all) harsh environment floater work
- Participation in the floater market has shifted a bit

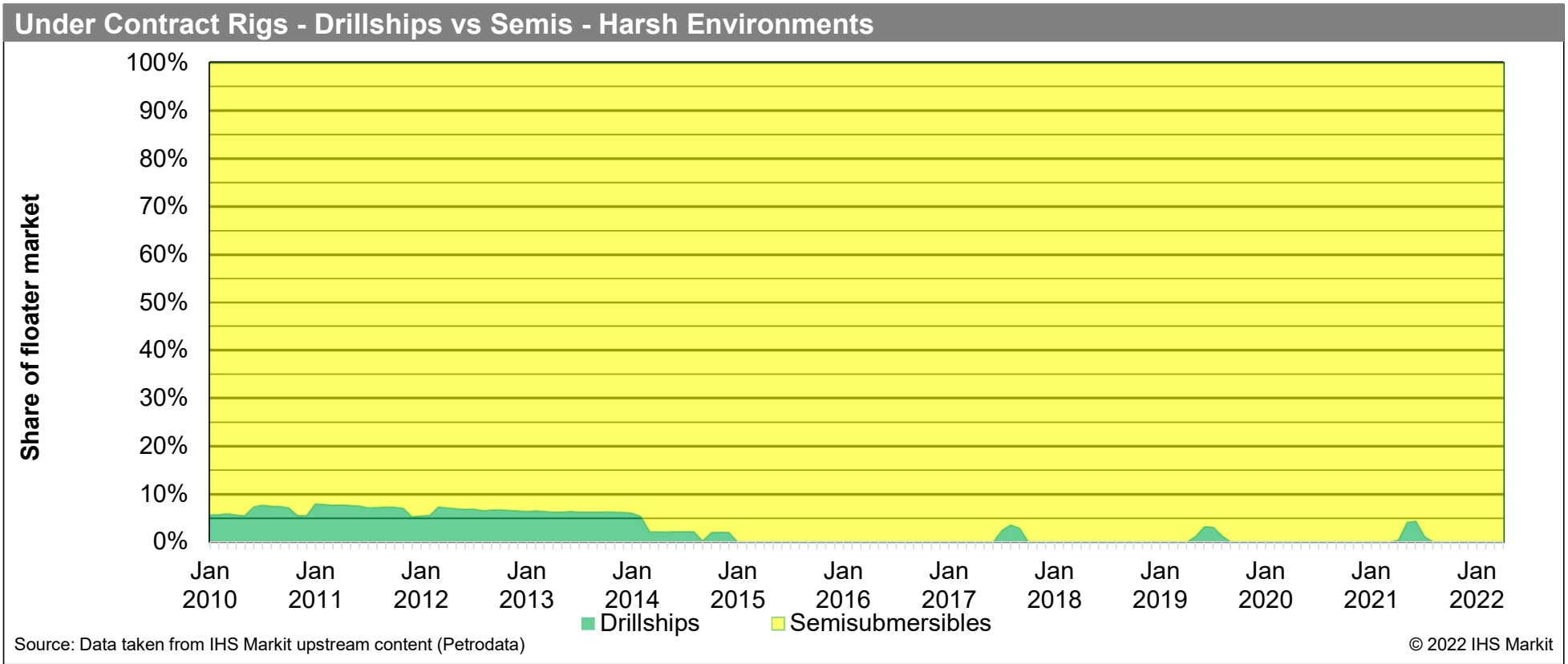
## Jackups' market share has risen from 60% to 75% in recent years



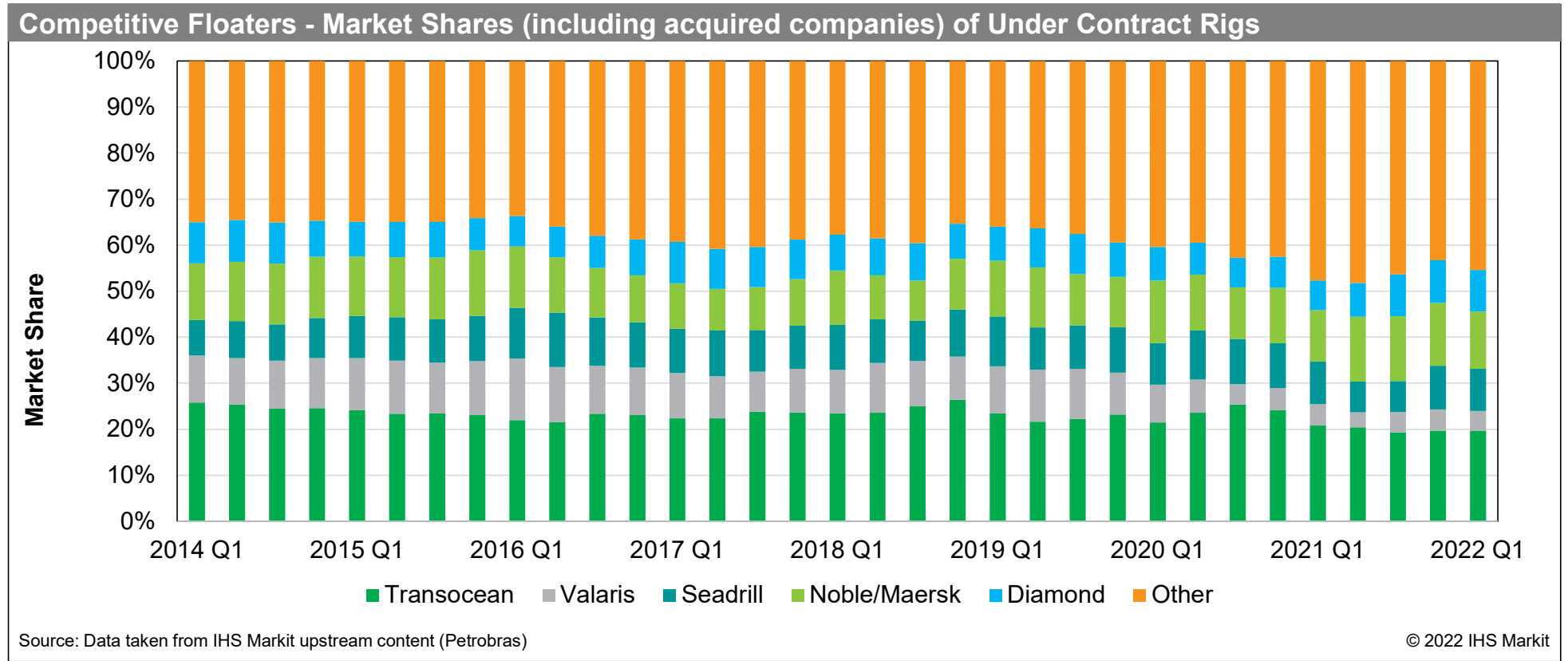
# Drillships still gaining share of the (benign environment) floater market



# Semis rule - in harsh environments



# Major contractors have lost about 10% of the floater market since 2019





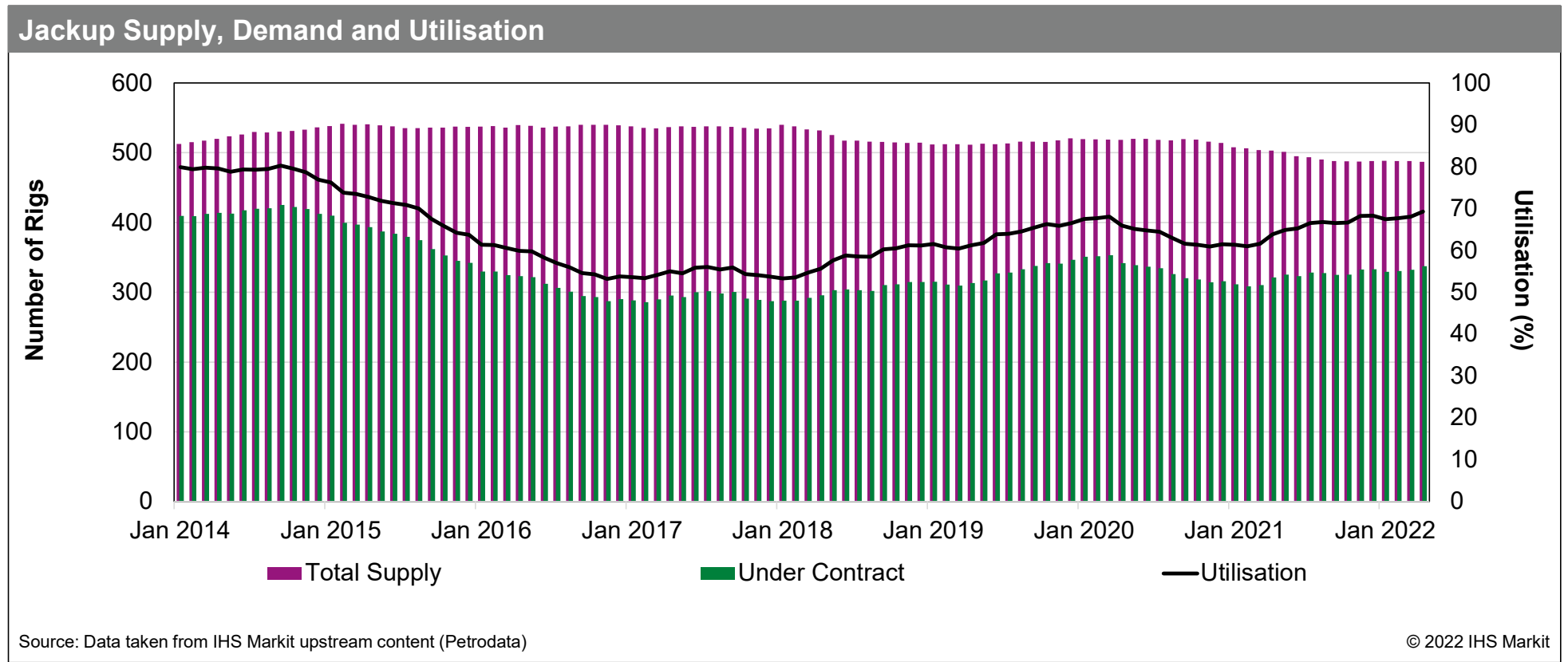
## Implications

- Contractors who have opted out of the jackup market could live to regret this
- Spending a billion dollars on a harsh environment drillship might not be money well spent
- The outlook for benign environment semis is increasingly uncertain – even for the best of the best: Bluewhale I and Bluewhale II have together worked for only a third of their available time since their deliveries
- Further fragmentation of the floater market is possible

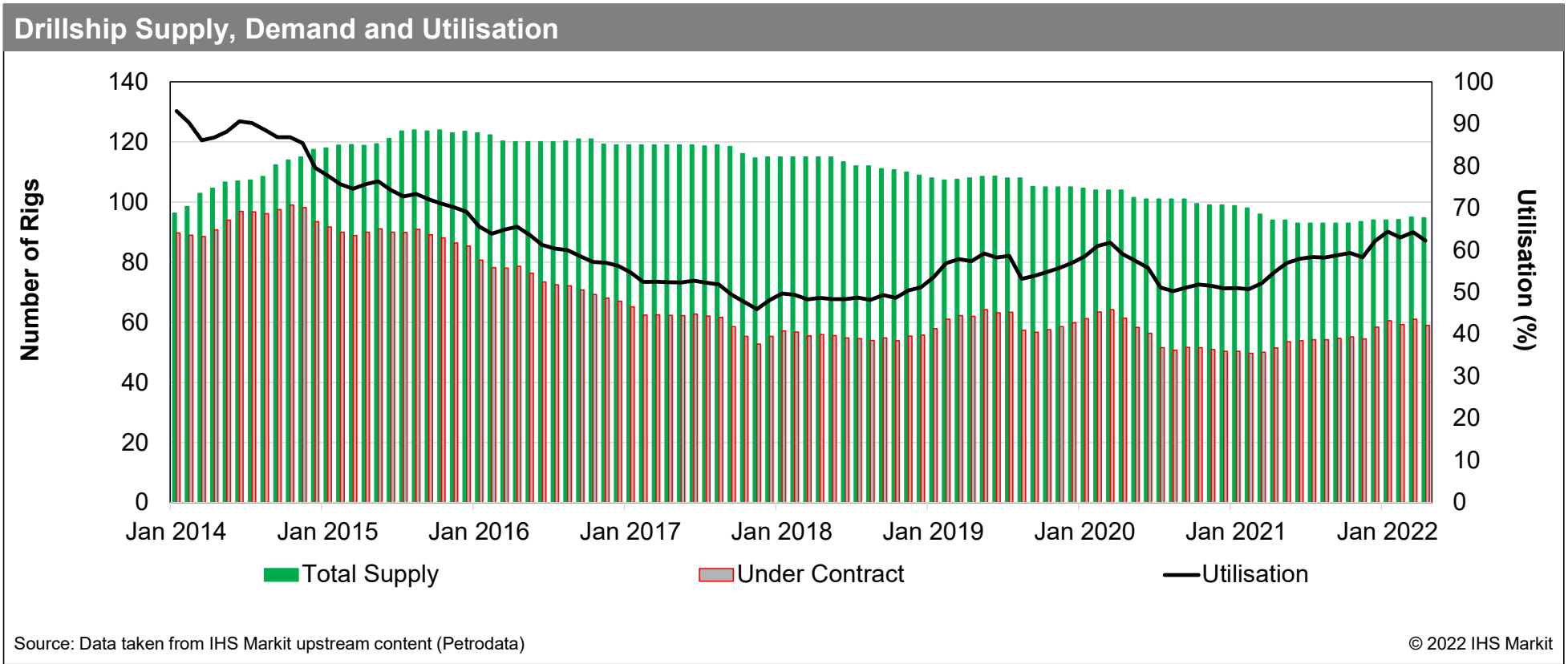
## Today's situation

- Utilisation
- Day Rates
- Backlog

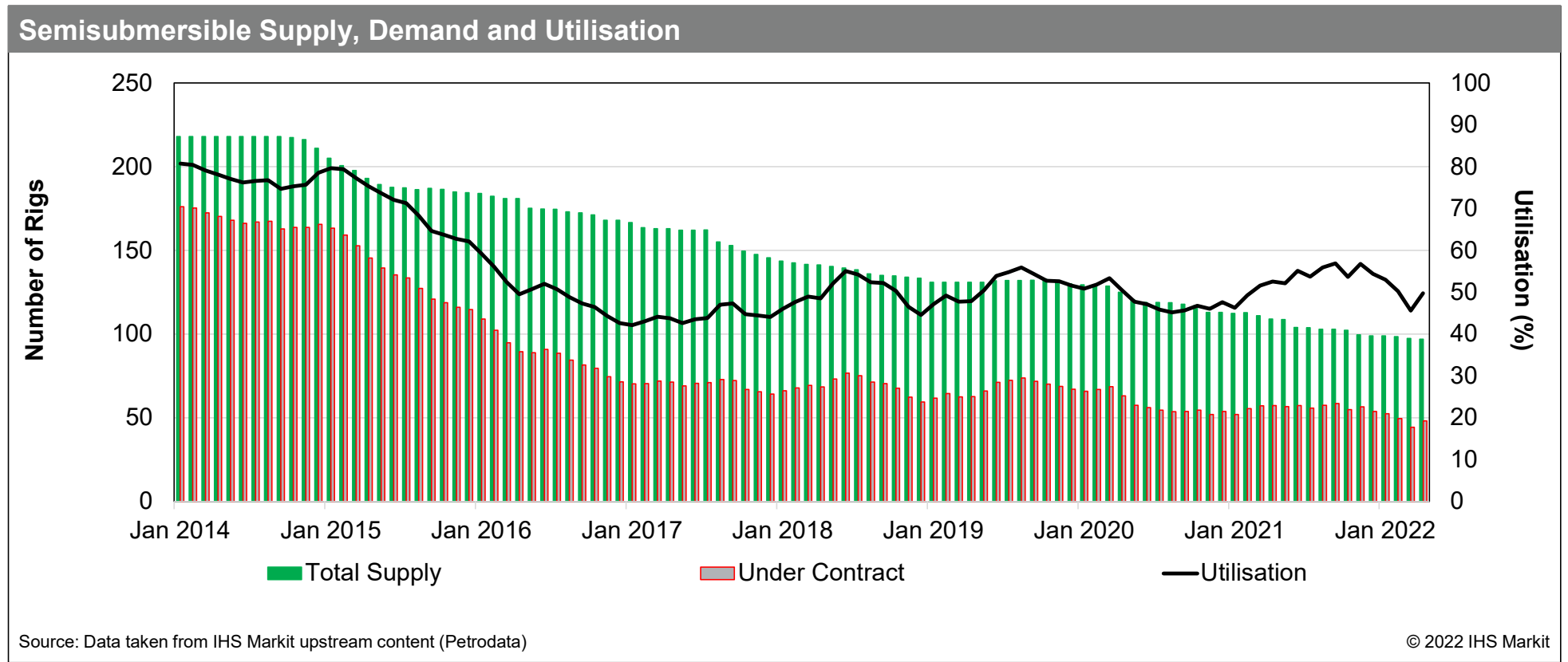
# Rising demand and falling supply have pushed jackup utilization to the highest since 2015



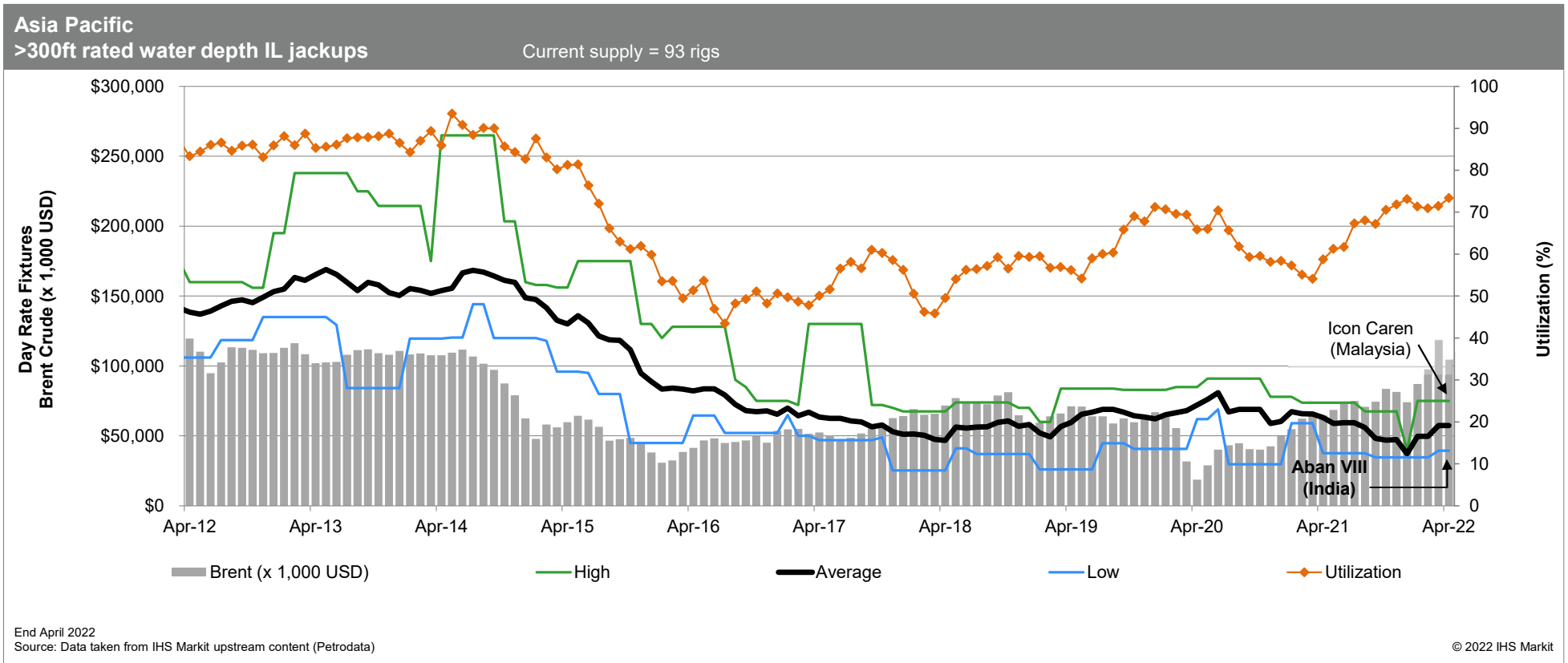
# And drillships show a somewhat similar pattern



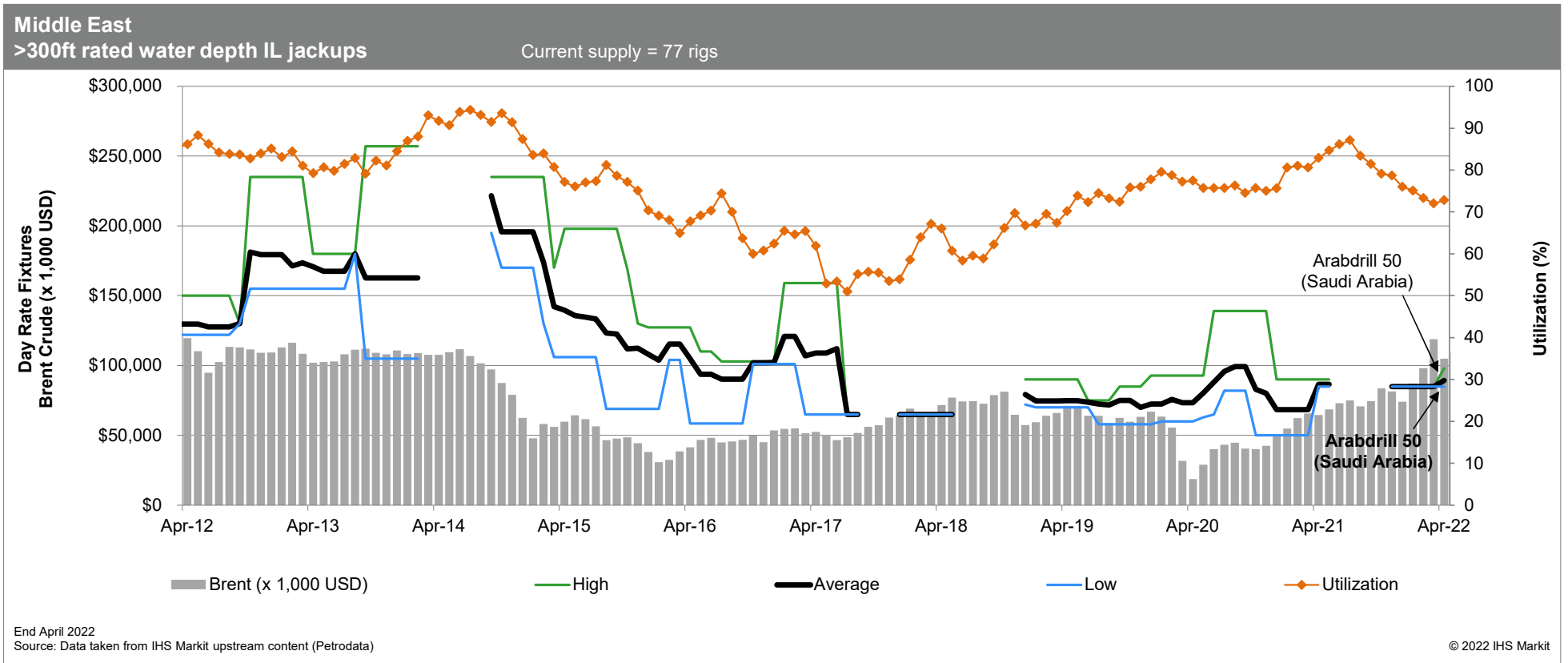
# But this has not been the case for semis



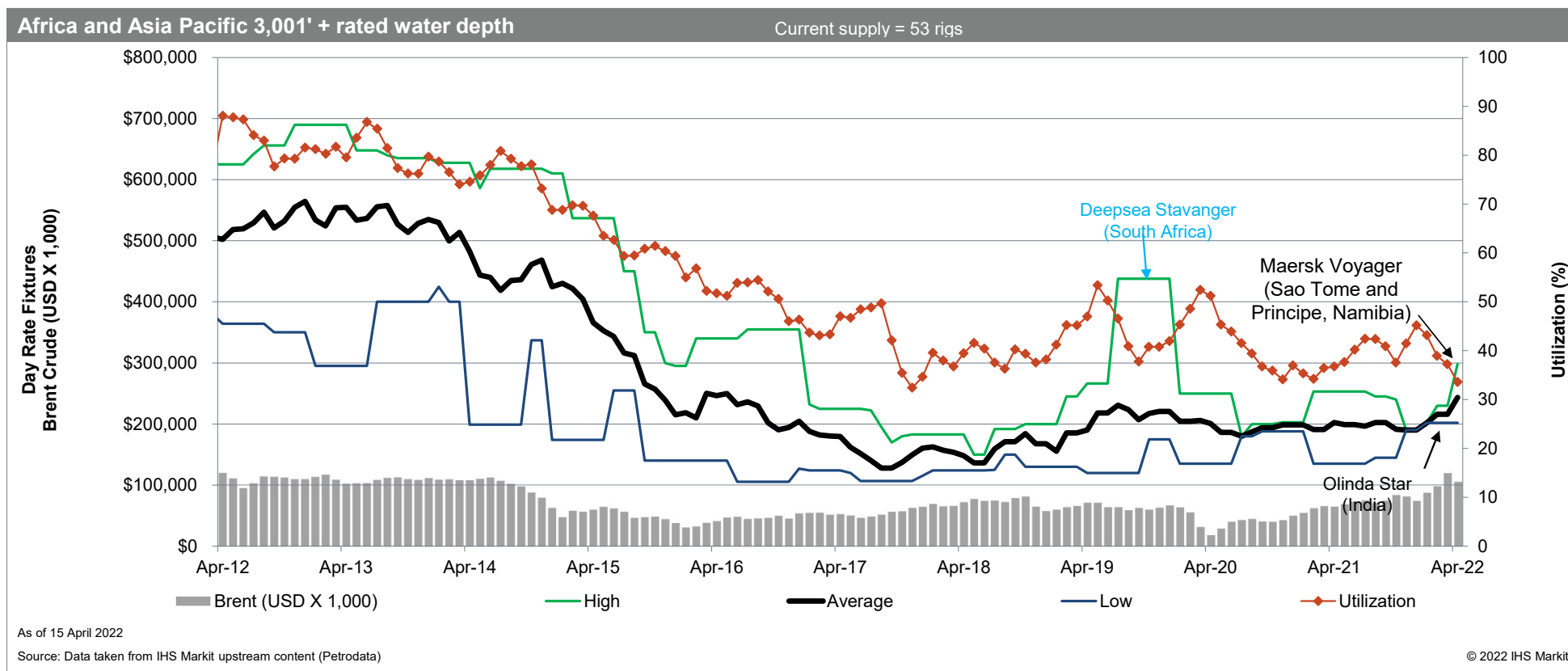
# Day rate information is still patchy but not much sign of an improvement for jackups so far in the two biggest markets: Asia-Pacific...



# ...and the Middle East

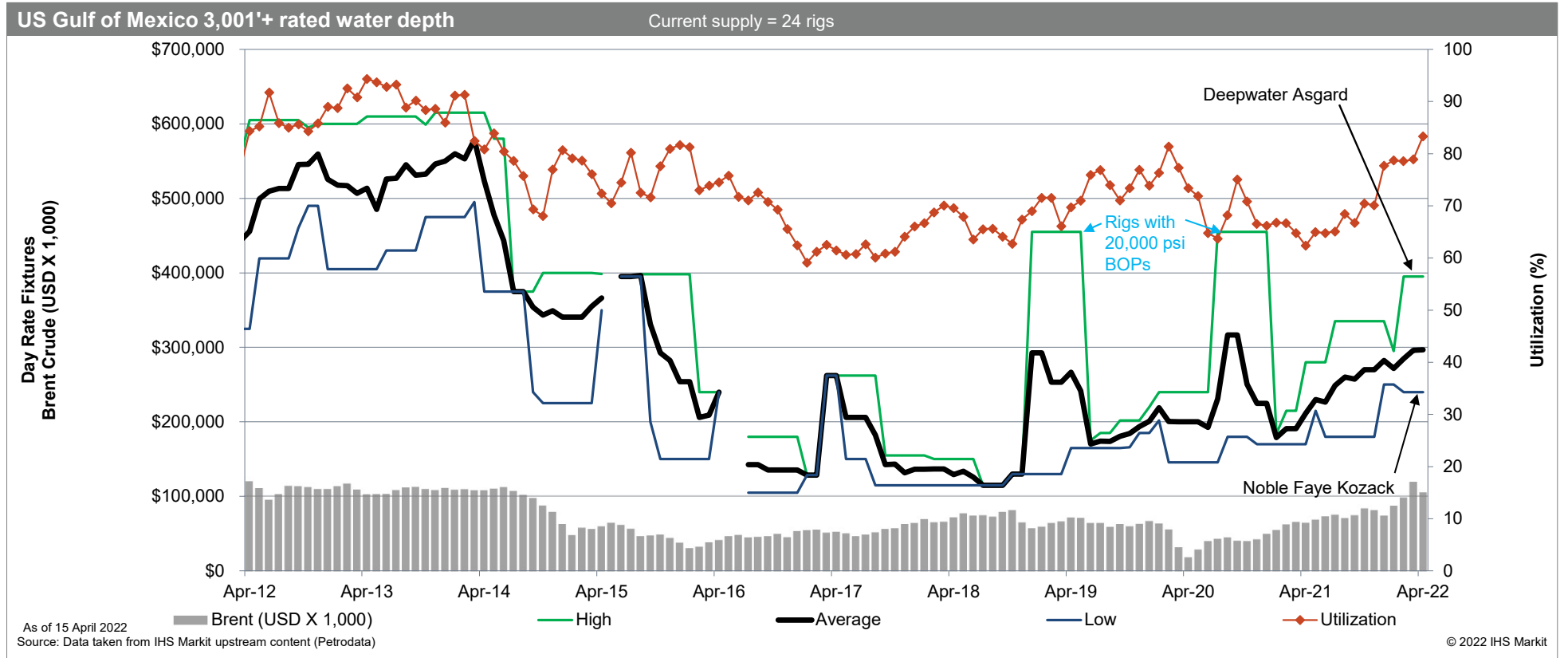


# Meanwhile the benign environment floater market is showing some encouraging signs

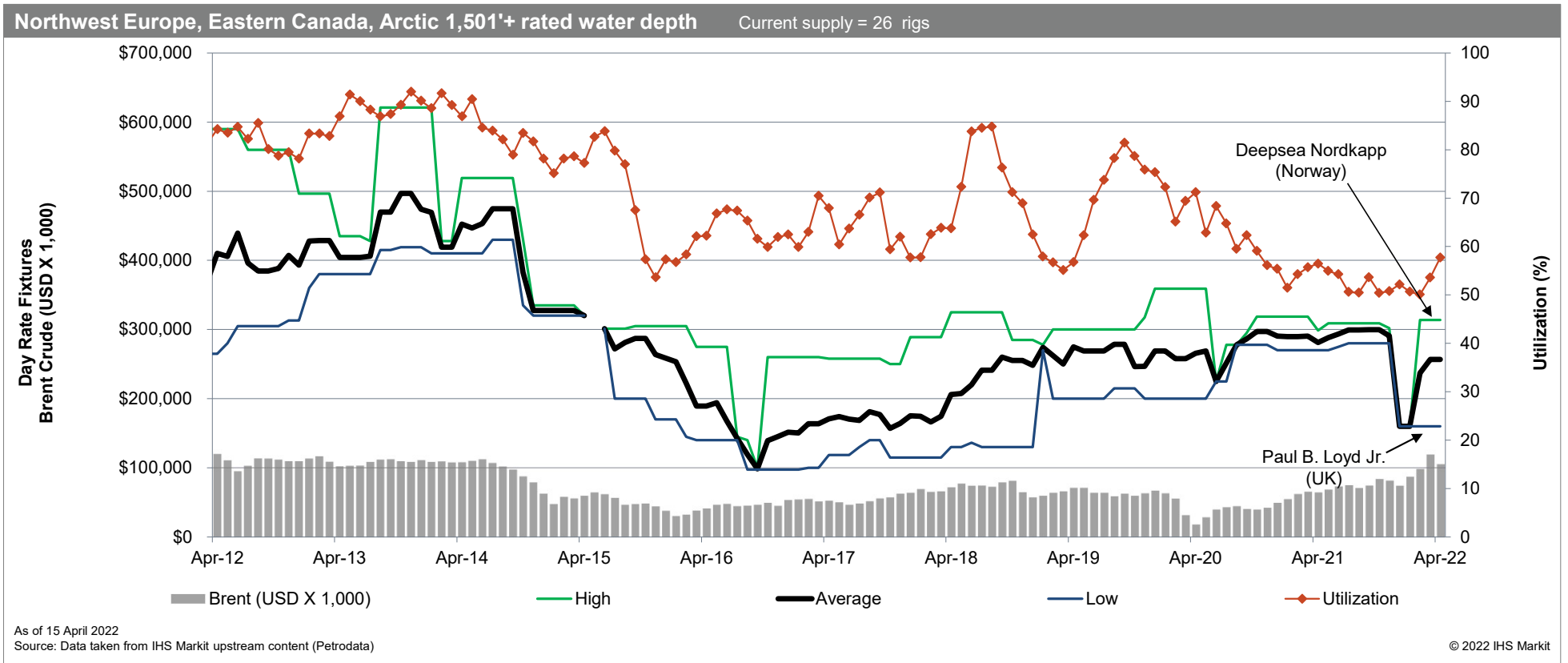




# Especially in the USGoM

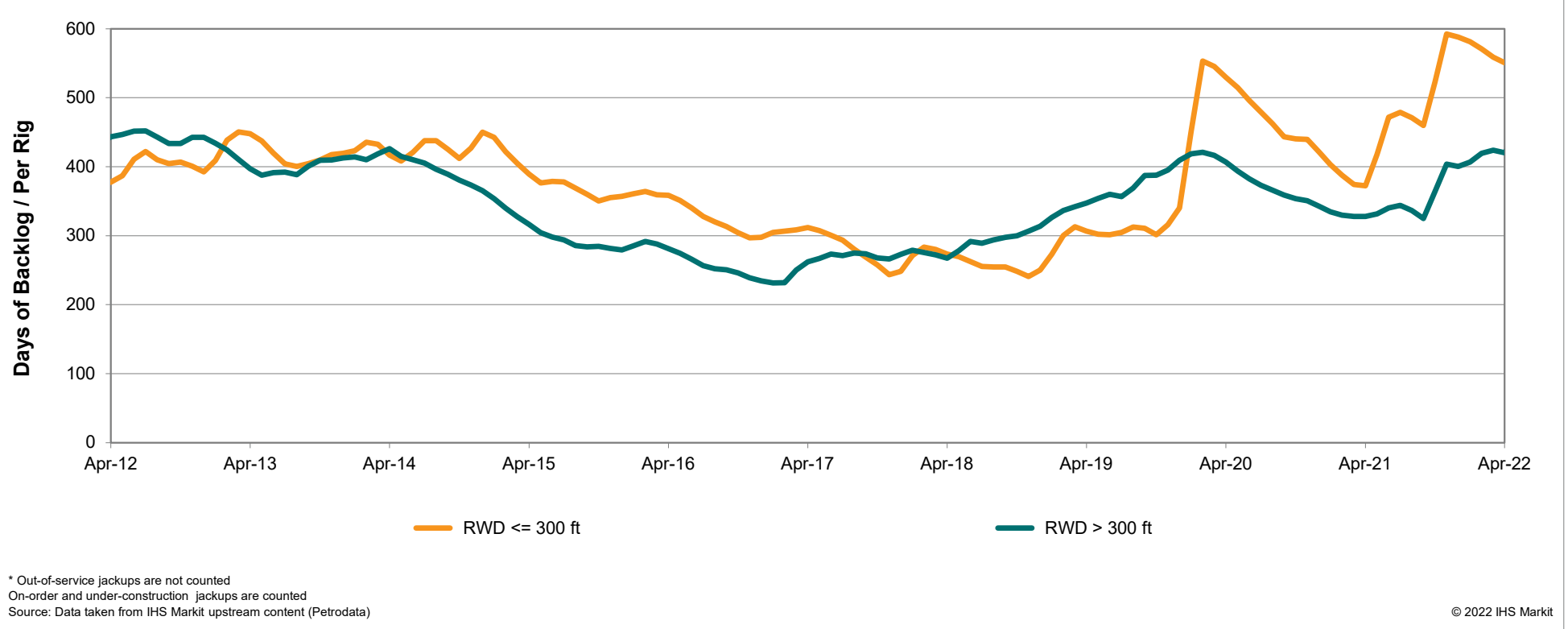


# But the harsh environment segment appears to have stabilized



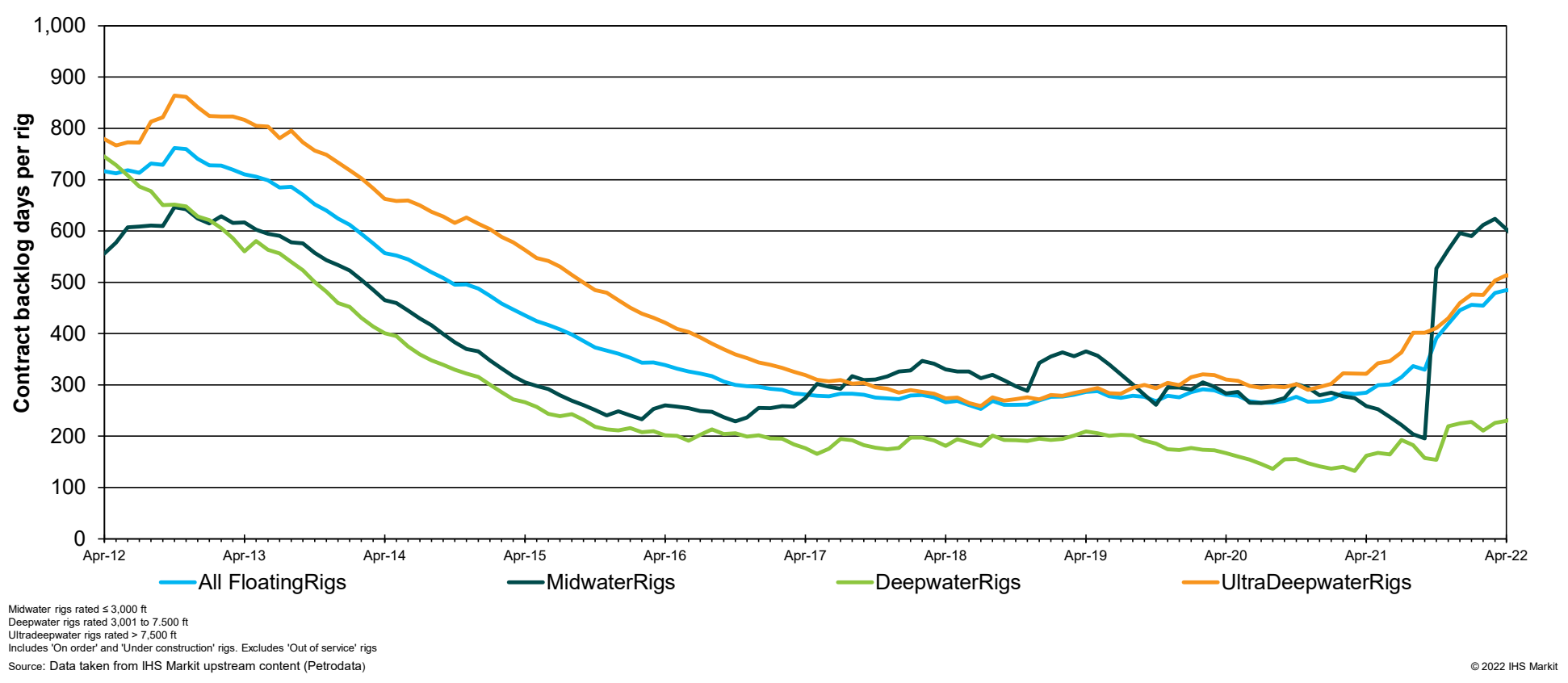
# We have seen a significant rise in average jackup backlog in the last year

Global IL jackup backlog days - per rig\*  
by rated water depth



# ...and for floaters

Contract backlog days per floating rig by rated depth category



## Outlook

- Ukraine invasion may have a lasting impact
- Continuation of current consolidation trend would be good
- Overhang of undelivered newbuilds still a factor

But overall this is as good a situation for drilling contractors as one could hope for – supported by

- Reportedly increasing number of tenders and enquiries
- Reappearance of longer contracts
- Current level of oil and gas prices

## Ukraine invasion may have more than a short term impact on prices

- It has switched attention – at least for now - from the energy transition to energy security
- It has highlighted the current and future importance of gas in the energy mix
- If it results in Russia’s permanent “removal” from the international market it will mean a significant rise in demand for new sources of oil and gas

## Still a lot of competition but moving – slowly - in the right direction

- Noble/Pacific - done
- Noble/Maersk – ? almost done (issue with pesky Brits)
- Diamond next?

“On August 3, 2021, we announced that our Board had appointed an independent committee...to explore strategic alternatives to maximize shareholder value. These alternatives may include, among other things, continuing as a standalone public company, pursuing asset acquisitions or entering into a business combination with a strategic partner.”

- ADES has increased its fleet size from 4 jackups in 2015 to 23 today *without building any new rigs* and they're probably not done yet

## **Availability of (mostly) completed but undelivered rigs still weighing on future utilization and – indirectly – day rates**

- 17 uncontracted floaters (5 semis and 12 drillships) + 4 Sete Brasil rigs (2 semis and 2 drillships)
- 26 uncontracted jackups
- ARO still plans on building 20 jackups but perhaps more slowly than originally planned

Owners are in most cases under pressure to offload these, which may mean bargain prices - that someone might find irresistible.



## Ongoing Issues: it's all about profitability

- Hopefully we have come to the end of the massive losses
- But even after restructuring, margins for most are extremely slim
- And cost inflation is a real threat

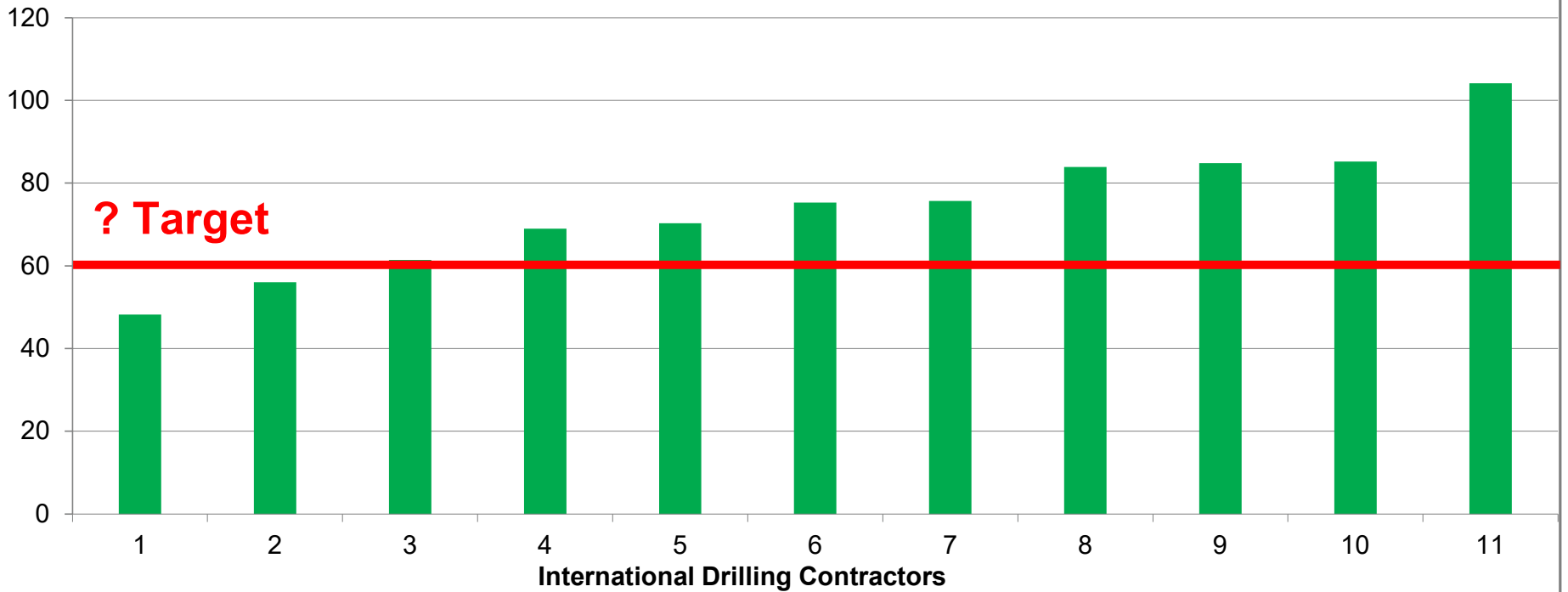
## Recent years have seen massive aggregate losses for major contractors

- ~\$11 billion in 2018
- ~\$5 billion in 2019
- ~\$19 billion in 2020
- ~\$ 8 billion in 2021

But with write-downs and restructurings now completed these should be a thing of the past

# However for most contractors operating margins are dangerously thin

Operating costs as a percentage of revenue Q4 2021 or Q1 2022



Source: Contractor reports, IHS Markit analysis

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## **Basically day rates must rise for this industry to survive – easy to say, hard to do**

- Operators can afford higher day rates
- Indexing to costs would be of some help

Meanwhile more retirements would bring down costs – and tighten the market

# Good Luck!

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