

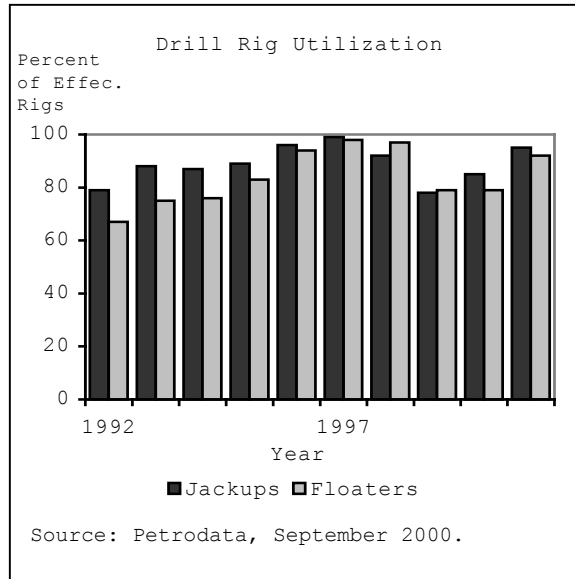
## Highlights, Offshore Drill Rig Market March 2001

Drill Rig Fleet Status, March 8, 2001					
	Jackups			Floaters	
	HE <sup>1</sup>	Deep <sup>2</sup>	Other	>5000 Ft.	Other
Gross Fleet	21	160	240	48	184
Drilling	19	130	165	42	98
Enroute	0	2	2	1	3
Non-drill.	0	8	30	0	33
In yard	2	8	16	5	12
Idle	0	7	10	0	21
Cold-Stk	0	2	17	0	17
Util. <sup>3</sup>	94	93	95	100	92
Newbuildings	4	3	0	4	5

<sup>1</sup> Harsh-environment, water depth >=300 feet.  
<sup>2</sup> Non-harsh, water depth >= 300 feet.  
<sup>\*</sup> (drilling + non-drilling under contract/ gross fleet - in yard - cold-stacked - enroute).  
 Source: Petrodata, February 1, 2000.

- As of March 8, 2001, the effective drill rig fleet consisted of 419 jack-up rigs and 232 floaters (semi-submersibles and drillships).
- Jack-ups drill in water depths of 450 feet or less, while floaters are used for drilling in water depths up to 10,000 feet.
- In addition to drilling, rigs are used for installation and maintenance of fixed production platforms, subsea construction, crew accommodations, and mobile production platforms.

## Supply/Demand Utilization



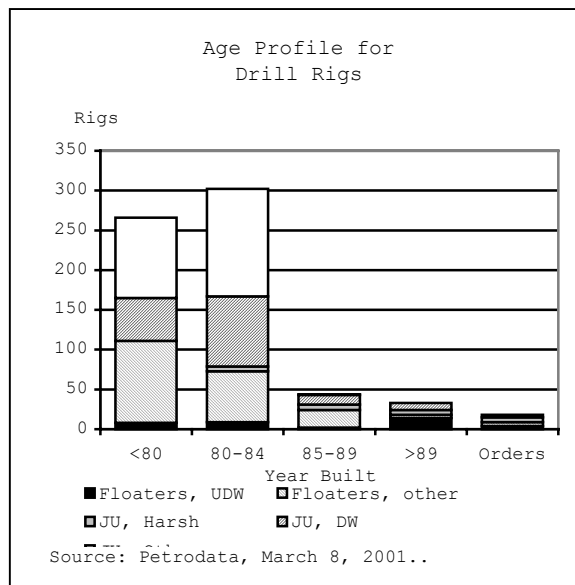
- The 20% decline in crude oil prices from 1997 to 1998 led to a significant reduction in oil company exploration and production (E&P) budgets (demand for offshore drill rig services) in 1999.
- According to Salomon Smith Barney, exploration and production budgets fell by 11 percent from 1998 to 1999.<sup>1</sup>
- The effective utilization rate for floaters fell from 98 percent in 1998 to 78 percent in 1999.<sup>2</sup>
- The effective utilization rate for jack-ups fell from 92% in 1998 to 78% in 1999.
- Reflecting the 1999-2000 recovery in crude oil prices, the Salomon Smith Barney survey shows an 11% increase in E&P spending in 2000, followed by an 18 percent increase in 2001.

<sup>1</sup> Solomon Smith Barney, E&P Spending Survey, 2000.

<sup>2</sup> Effective Utilization = (drilling fleet + non-drilling fleet) / (gross fleet - in yard (repairs and upgradings) - cold-stacks).

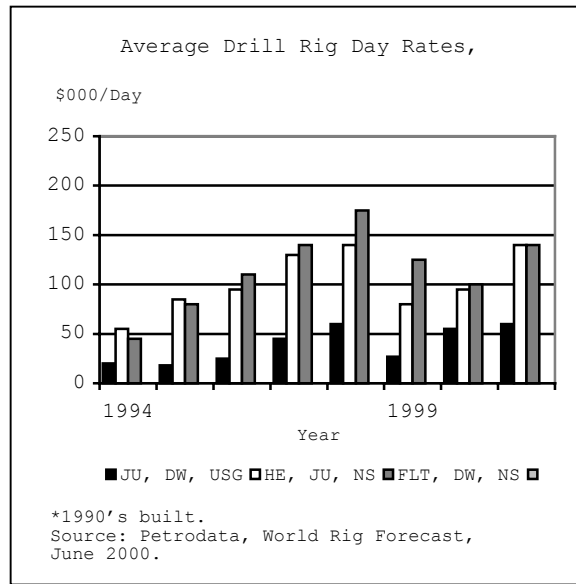
## Offshore Drilling Market

- The offshore drilling markets appear to follow a 4-5 year cycle.
- This pattern reflects a cyclical pattern in crude oil prices and oil company E&P spending.
- Long-term utilization and day rate trends should be positive reflecting:
  - Improved technology for subsea oil and gas production.
  - Deepwater Royalty Relief Act
    - Established in 1995, the Relief Act significantly reduced the royalties payable on production from deepwater releases in the U.S. Gulf.
- Age Profile of the Fleet



- As of March 8, 2001, approximately 41% of the drill rig fleet was at least 20-years old.
- A significant number of these will be removed from service over the next five years.
- Newbuildings
  - As of the same date, there were 16 rigs (9 floaters, 7 jackups) on order.
  - These rigs have generally been under construction for 2 years (ordered before 1999).
- Upgrades
  - As of March 8, 2001, there were 42 rigs (16 floaters and 26 jackups) undergoing upgrades, maintenance/repair, or conversion to drilling mode.
  - Upgrades are expected to continue to decline as the cost of upgrading old rigs approaches new building costs.

## Day Rates (Annual Averages)



- Day rates for offshore drill rigs fell sharply from 1998 to 1999 due largely to a fall in rig utilization rates.
- The average day rate in 1999 for deepwater floaters was \$125,000.
- The average day rate in 1999 for standard jackups capable of drilling in water depths greater than 300 feet in the U.S. gulf were \$27,000.
- Day rates are expected to increase significantly from 2001 to 2002 due to the recent rise in crude oil prices, a significant increase in E&P spending, rig attrition, and limited 1999-2000 newbuilding orders.<sup>3</sup>

As a result of technological advances such as dynamic (anchorless) positioning systems for drill rigs, directional drilling, three-dimensional seismic geological surveys, and subsea completion systems, finding and development costs for offshore reservoirs have fallen from \$15.00 per barrel in the mid 1980s to \$7.50 per barrel in 2000. At the \$7.50 per barrel cost, the crude oil threshold price for offshore exploration and development is about \$14 per barrel, significantly below \$20+ per barrel price expected over the next five years.

<sup>3</sup> The Offshore International Newsletter, June 14, 2000.