



IUMI 2007 MOBILE OFFSHORE DRILLING UNIT STATISTICS – ANALYSIS

WORLD FLEET

Continuing the trend witnessed in 2006, there has again been significant growth in the size of the world fleet. The current world fleet size is approximately 937 units (628 units in 1999). This 49% increase has not been reflected in the Gulf of Mexico fleet, where the fleet size has been largely static since 1999 (197 units in 2007, against 190 units in 1999). The contracted fleet shows a better representation of industry activity. Since 2004 the number of world wide contracted units has increased by 67%, whereas the Gulf of Mexico contracted fleet, at 126 units, represents a 7% reduction since 1999.

NEW BUILDINGS

The surge in construction activity shows no signs of abating. It is estimated that 142 units are scheduled to be delivered between 2008 and 2010. On the assumption that these new units will secure contracts, this will reflect a 19% increase in the size of the contracted fleet. On this basis the contracted fleet, by 2010, will be 889 (compared to 448 in 1999), and will represent a 98% increase.

FINANCIAL DYNAMICS

This increase in fleet size and the surge in new buildings is reflective of a continued current strong underlying industry position. The current utilisation of the entire world fleet is approximately 79% which compares to 66% in 2003. Historically the utilisation rate since 1990 has never exceeded 89% (1997) of the world fleet. Accordingly this 90% utilisation rate may represent the overall “able to work” fleet. There also a divergence in utilisation rates between the world fleet and the Gulf of Mexico fleet. Whereas the world fleet utilisation, excluding Gulf of Mexico, is approximately 79%, that of the Gulf of Mexico is approximately 64%. The utilisation rate for the Gulf of Mexico fleet is a reduction from 67% in 2006 and is driven by a reduction in the usage of jack up rigs in the region.

Against this background of higher utilisation there has also been a continued and significant increase in day rates for all unit types. Since 1999 there has been a 170% increase in world wide average day rates. There is also a divergence in the day rate increase (249%) since 1999 for Gulf of Mexico units and the increase (148%) for the rest of the world units. This divergence could be considered as surprising given the lower utilisation rates in the Gulf of Mexico. However it may be reflective of the “higher cost of business” effect in the Gulf of Mexico following hurricanes Katrina and Rita, and the surge in deepwater drilling in the Gulf of Mexico which necessitates higher specification semi submersible units and/or drill ships, both of which command significantly higher day rates than jack up units. The average day rate in 2007 for a semi submersible unit in the Gulf of Mexico was \$267,051; this represents a 330% increase since 2000. This contrasts against the average day rate in 2007 for a jack up unit in the Gulf of Mexico of \$89,158; this represents only a 173% increase since 2000.

The ultimate driver behind higher utilisation/day rates is, not unsurprisingly, the rising price of crude oil and natural gas. There is a very strong positive correlation between these statistics.

LOSSES

The loss analysis has been based on figures for losses in excess of \$1m. Due to the reporting lag, the 2007 figure is an extrapolated estimate based on advices to date.

There was a very significant increase in the overall claims cost during 2004 and 2005. However, after discounting the loss impact of hurricanes Ivan, Katrina, and Rita, there are some trends appearing. Although not overly significant there is a long term trend towards greater severity of the average loss since the early 1990s. However the average loss frequency for 2005, 2006, and 2007 does not appear significantly higher than that witnessed in the early 1990s.

The interesting point is that the increase in claims frequency witnessed previously in years which followed a significant increase in utilisation (such as the claims years of 1998 and 2002) has yet to materialise in either 2006 or 2007. This negative relationship for claim frequency in during the period 2006 and 2007 against the utilisation rate may be reflective of an improving underlying risk. The improvement in the underlying risk quality, despite the stresses of a very active industry, could also be a possible driver behind a lower industry fatality record. Apart from 2005 and 2007, the absolute trend, since 1997, is downwards. This downward trend would be more pronounced if applied against the average number of contracted rigs over the same period.

There are some discernable trends in the type of loss witnessed. In analysing the losses excluding the 2004/5 hurricanes there is a moderate trend for an increase in loss attributable to mechanical failure and design/workmanship. This trend towards a greater causation of loss due to design/workmanship shows a positive correlation with the number of new build deliveries in 2006 and 2007. This trend is the reverse for losses attributable to blowouts.