



5th Royal Bank of Scotland Oil & Gas Conference

The UK North Sea – The Contractors' View

“A Question of Confidence”



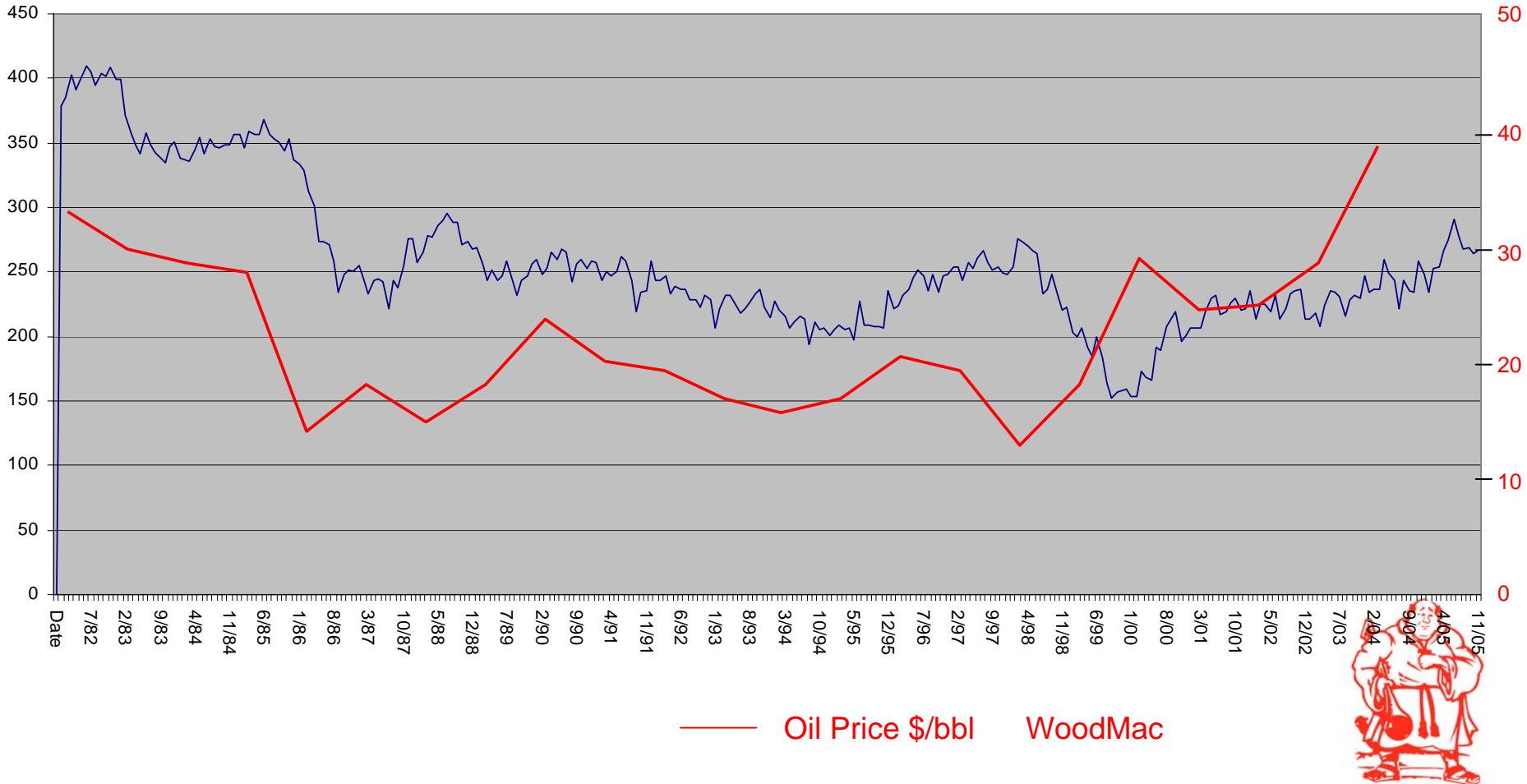


Graphs and Figures tell their own story:-





Jan 1982 to Nov 2005 - Offshore Rigs out with North America

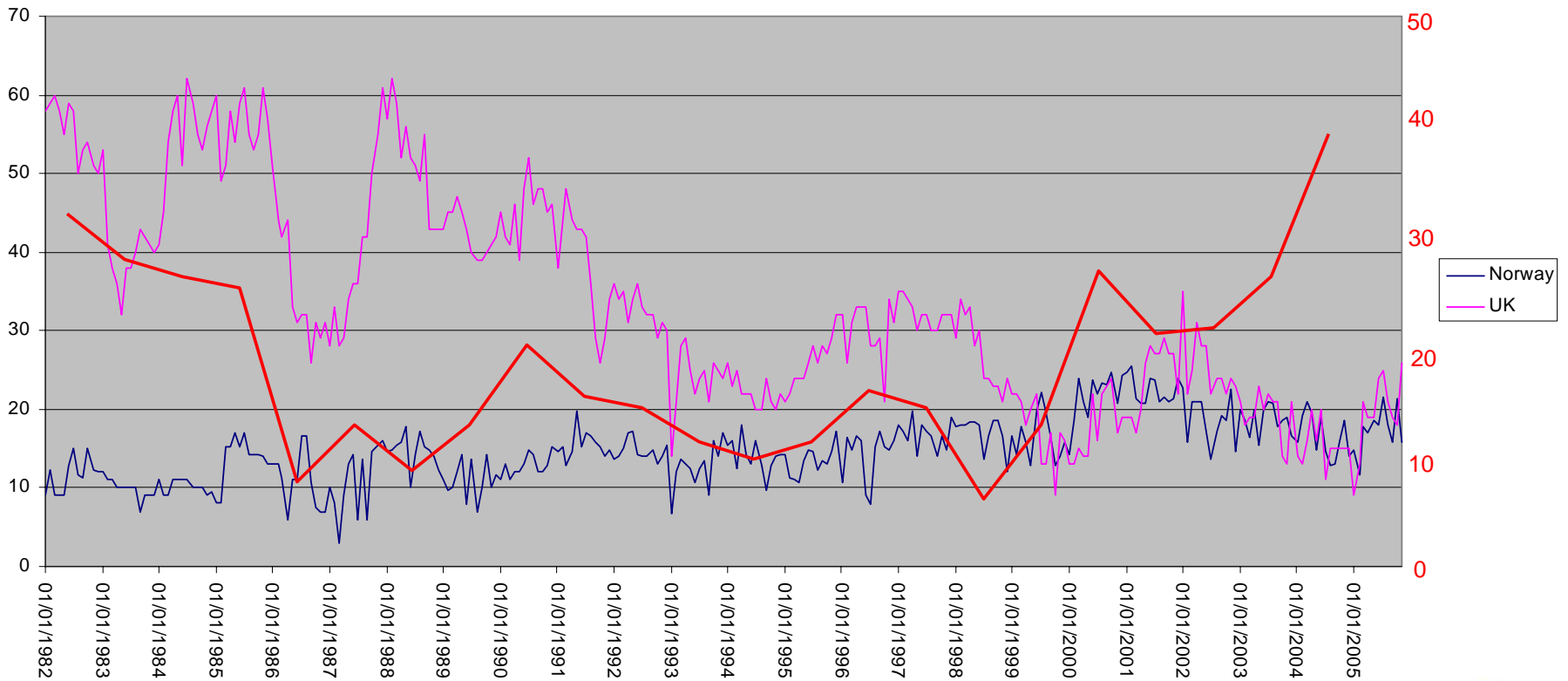


Source: Baker Hughes





Active Mobile Rigs Jan 1982 to Nov 2005 - UK and Norway



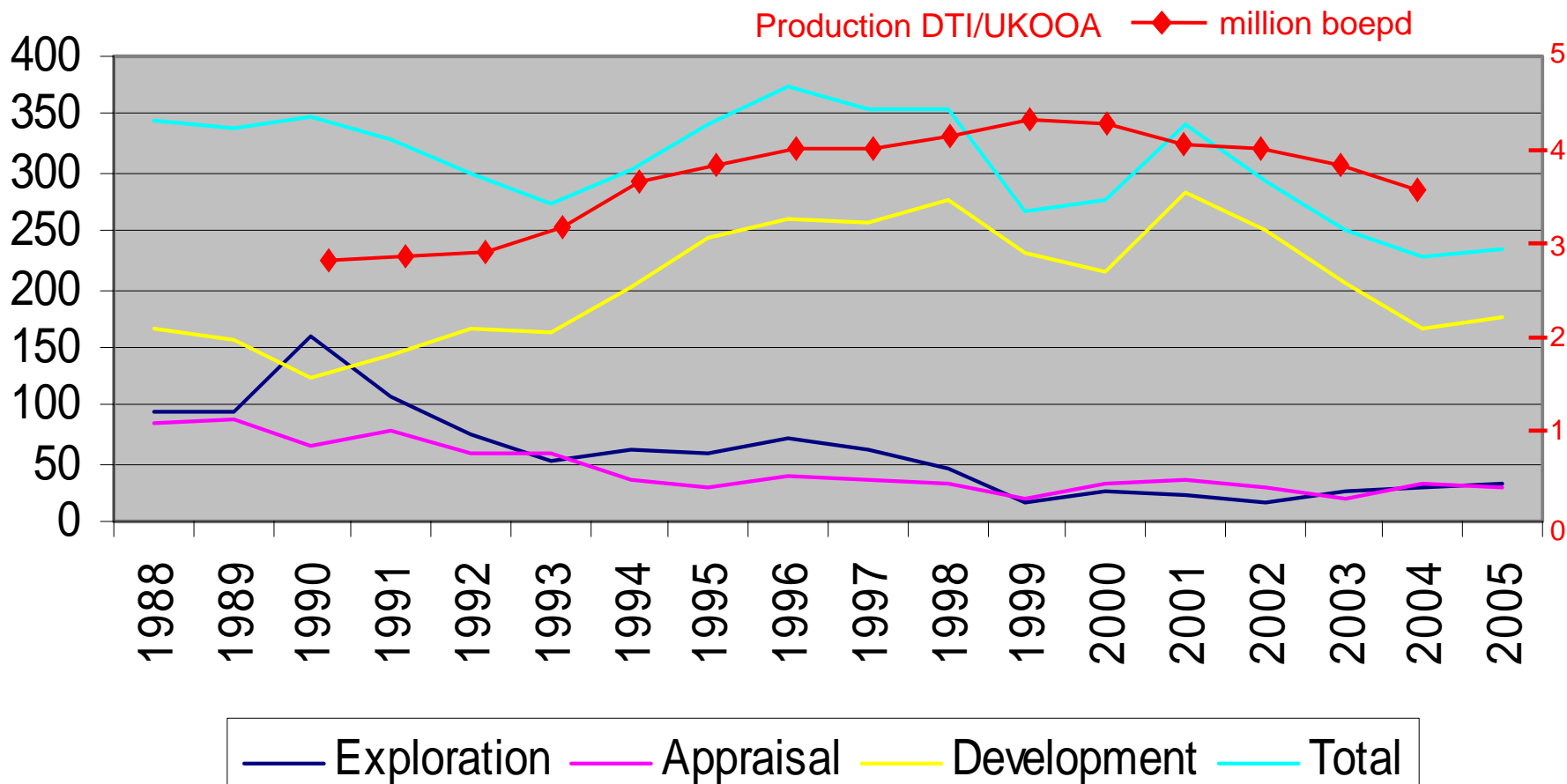
Source: Baker Hughes

Oil Price \$/bbl WoodMac



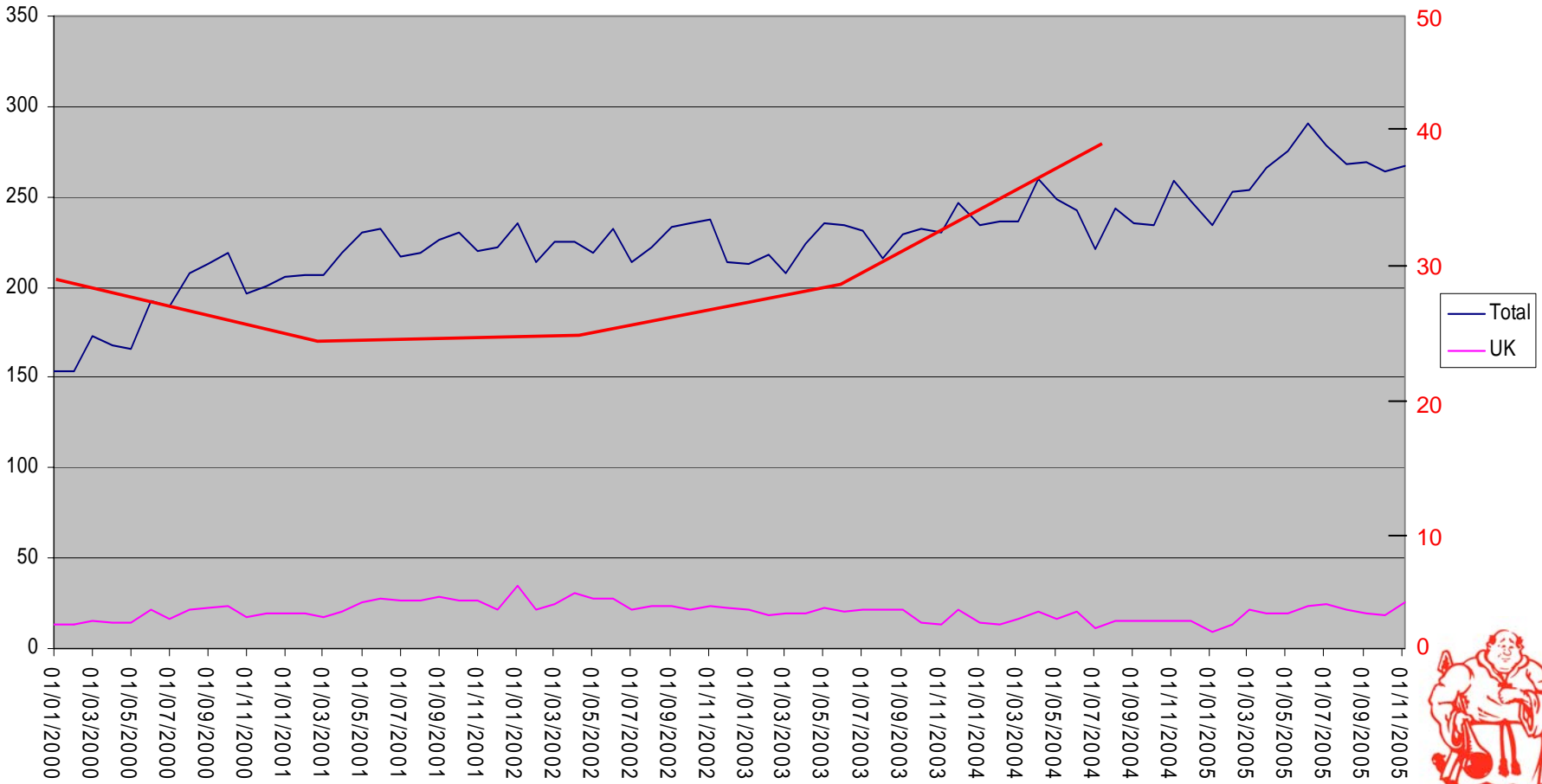


Wells Drilled Offshore UK





Jan 2000 to Nov 2005 - Total International Active Rigs (i.e. not North America) and UK - Offshore



Source: Baker Hughes

Oil Price \$/bbl WoodMac





The facts are:-

- The UK peaked in production in terms of BOE/D in 1999. A period of inflexion 99-2001?
- Rig activity has declined steadily in the UK. In fact in 2005 there were fewer rigs working in UK than in 2001/2002
- Total number of wells drilled has reduced significantly
- Exploration has shown some indication of uplift in 2005 – thanks to DTI industry initiatives but activity still well below that of mid-1990's
- Very significant reduction in development drilling + wells constructed
 - Impact on future near term production





What the graphs also indicate is a highly fluctuating rig market in the UK.

- Steady decline over 20 years
- Major fluctuations due to fiscal interference and oil price
- Steady increase in “international” activity since the Millennium
 - Steady decline in UK
 - More pronounced than in Norway
- Has not been as affected by oil price as may be perceived





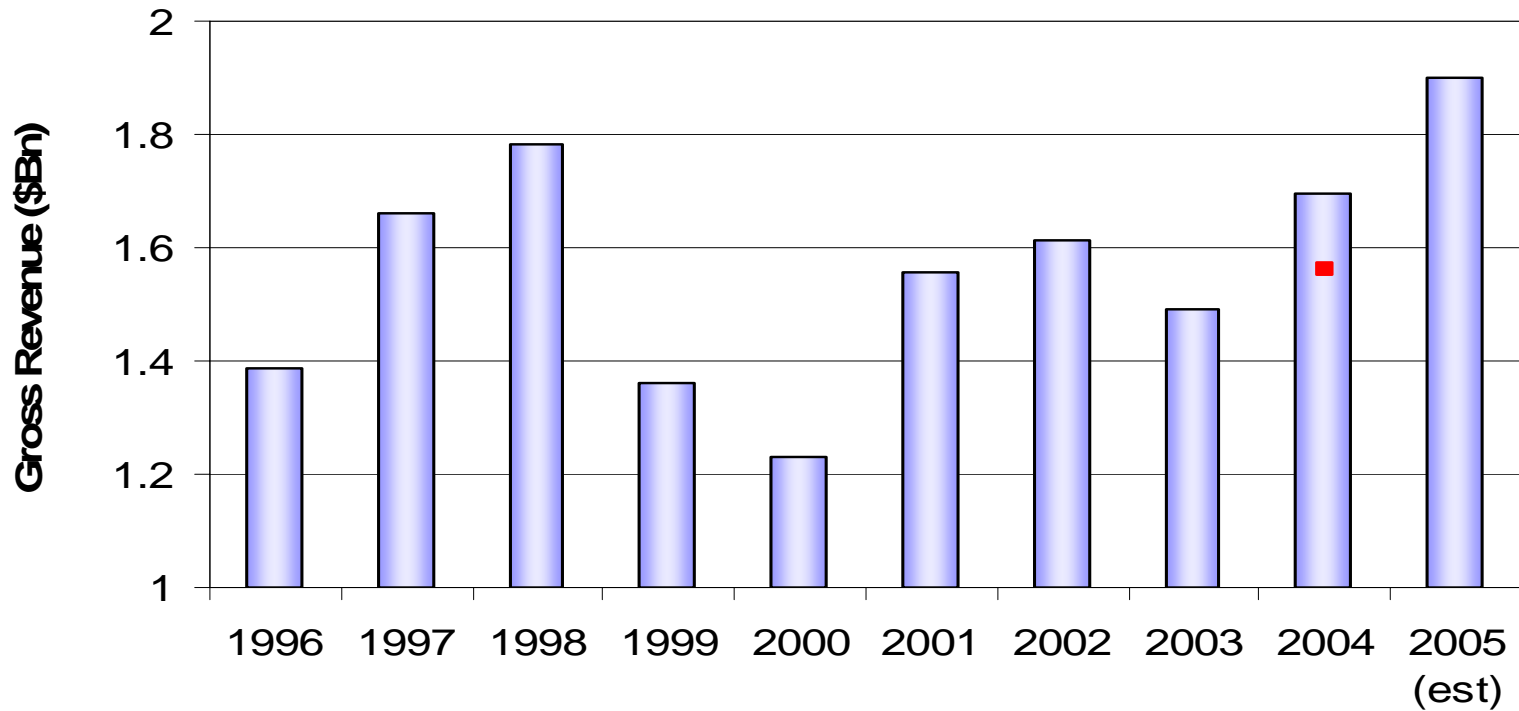
What can be discerned?

- Fiscal change and oil price have major impact on UK
- Effects of 2002 change bottomed out and corner turned: 2005 was better than 2003/2004. But **NOT** better than 2002
- Oil price in same period moved from \$25 to \$38 (average) (source: WoodMac/UKOOA)
- Major lag in reaction to oil price increase
 - Follow on from 2002 budget
 - Investment elsewhere
- This led to
 - Frustration in the UK supply chain
 - Resource flight out of UK





Gross UK Revenue – Well Services

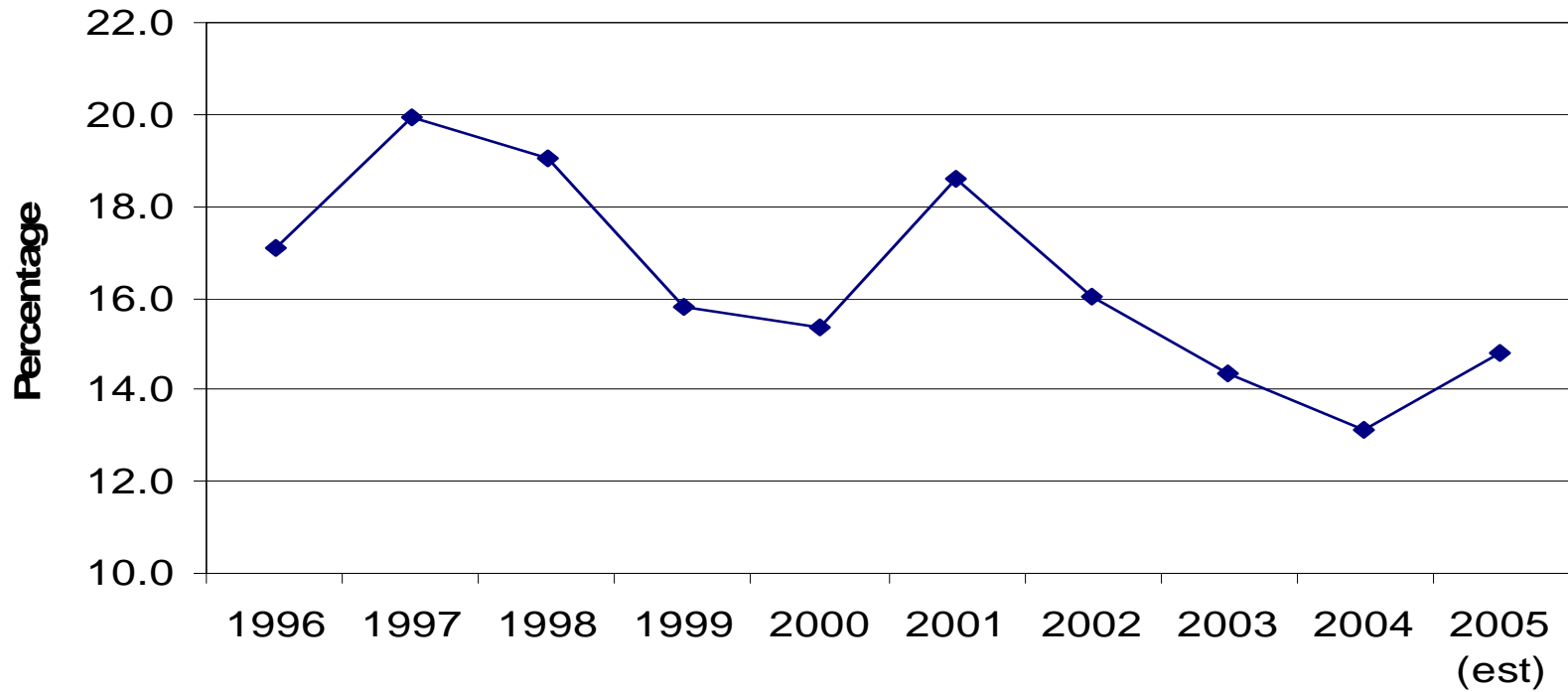


Source: WSCA





EBITDA as a Percentage of Revenue – Well Services

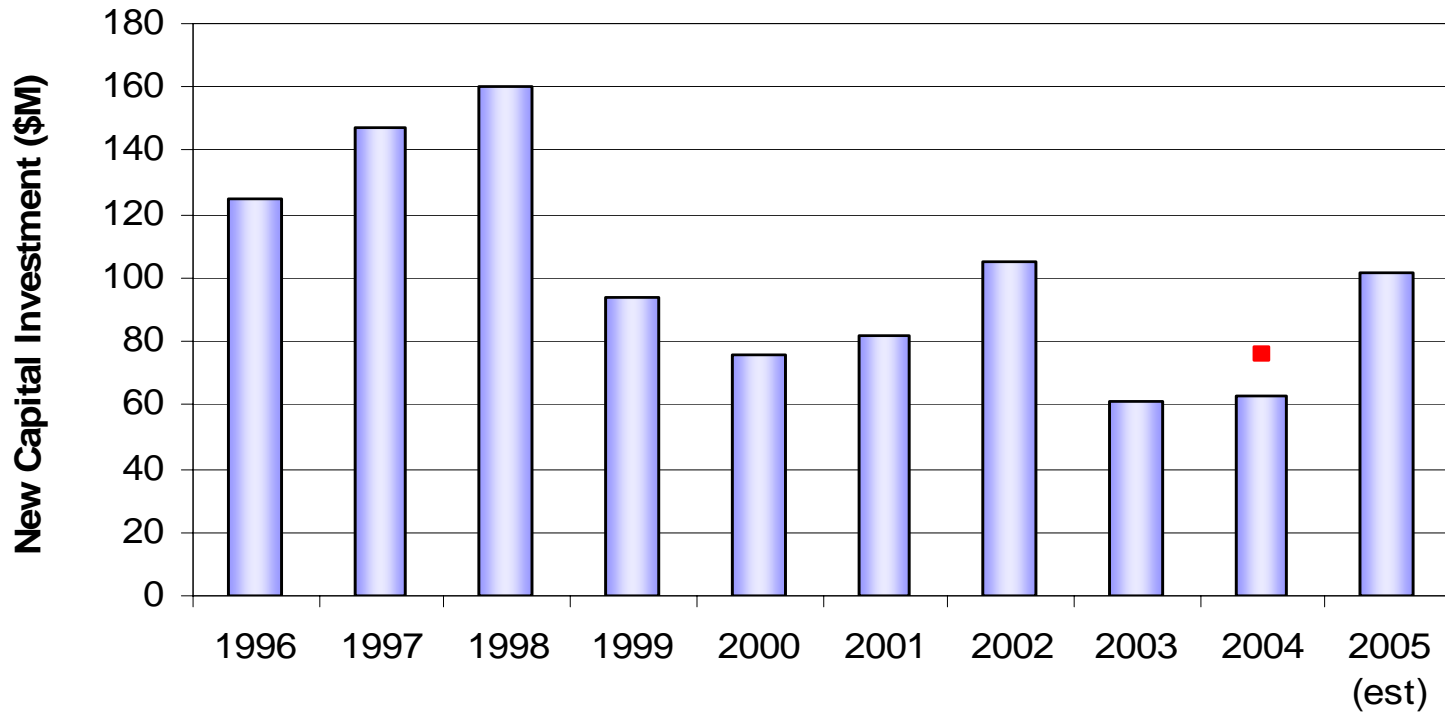


Source: WSCA





UK New Capital Investment – Well Services



Source: WSCA





So where are we today?

- In 2005 we see renewed investment by service companies
- Rig day rates worldwide continue to escalate:

Also in the UK, but rigs are continuing to leave the UK as there is a reluctance to fix for long-term contracts in UK.



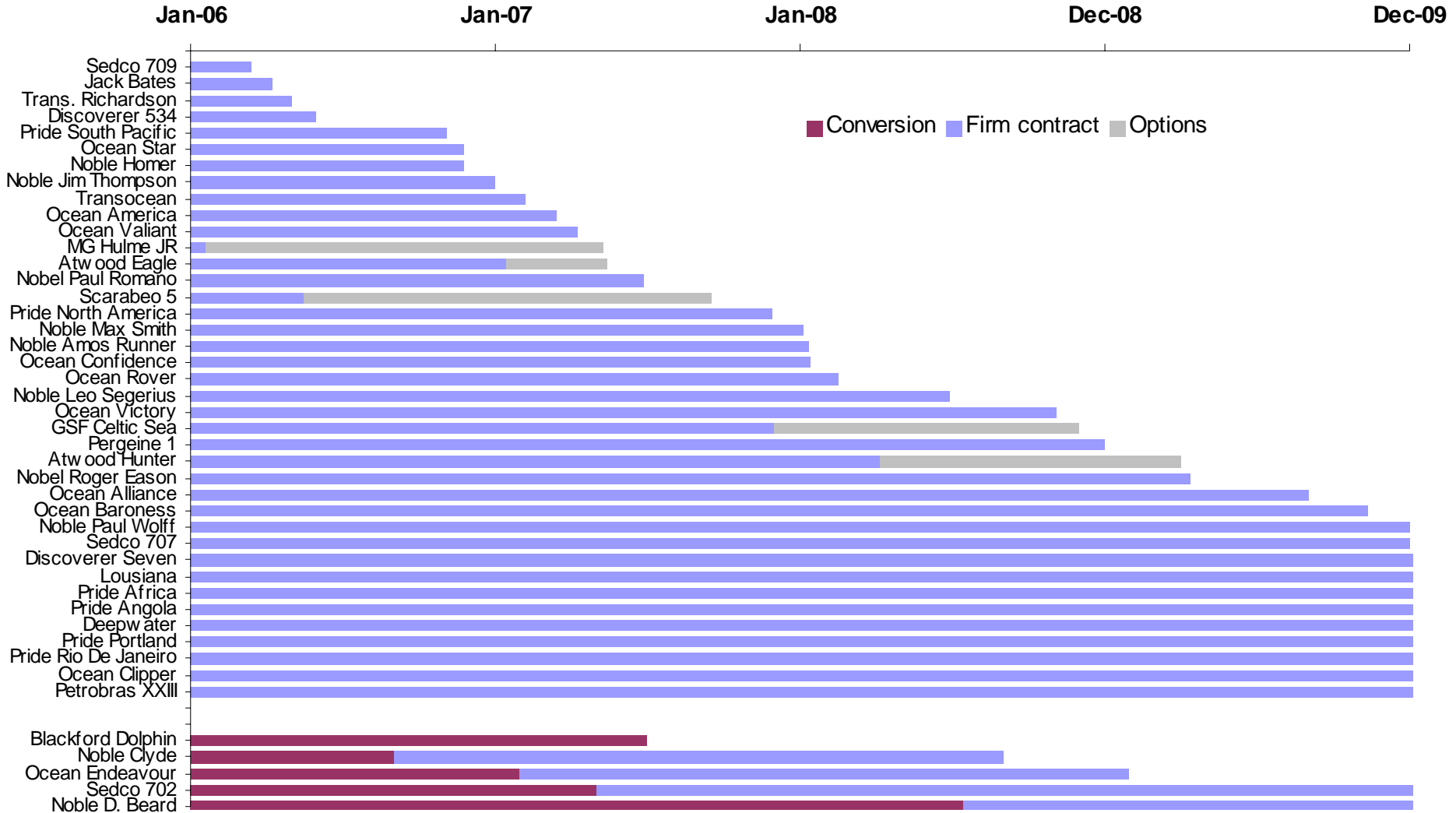


Ultra deepwater rigs on average committed throughout 2008



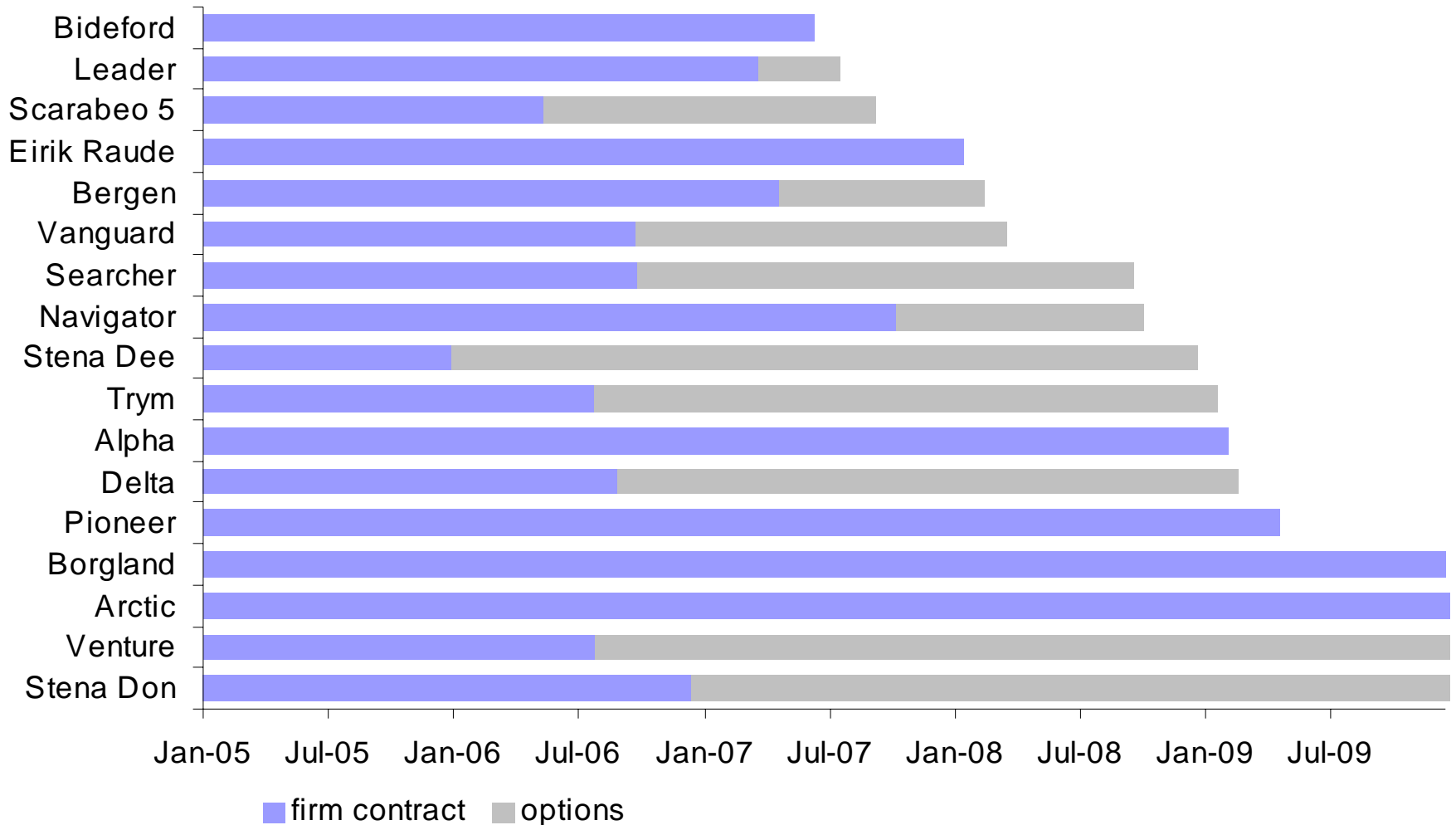


Other deepwater units on average fixed to mid 08





Average floater in Norway contracted throughout 1H09

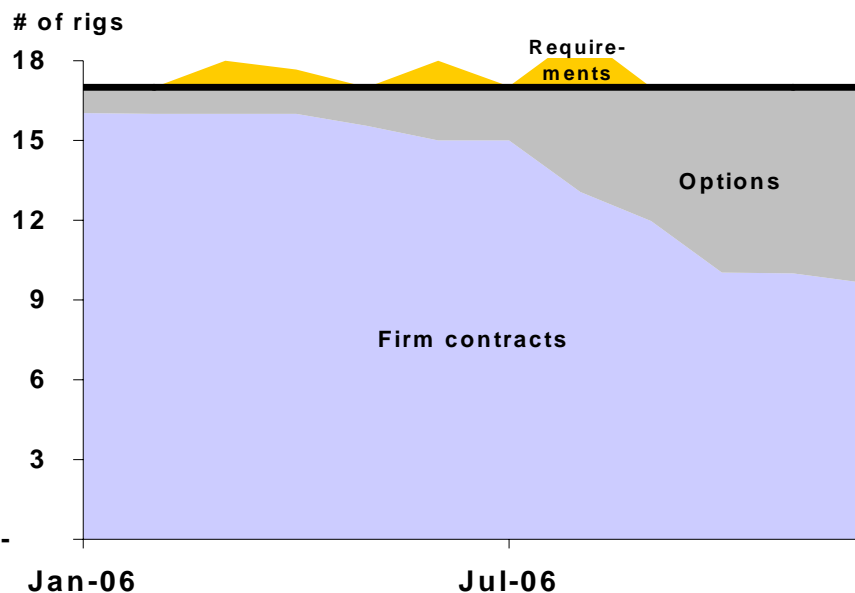




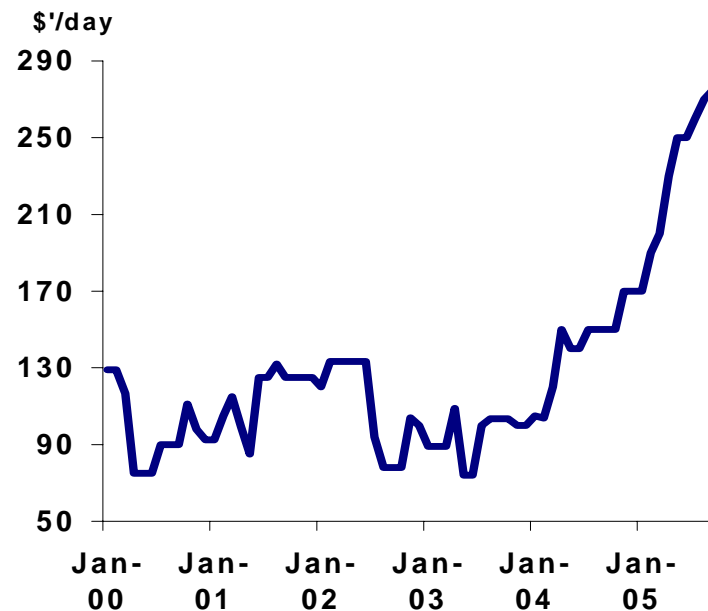
Norway floater market – new strong contract for Transocean Leader

Fixture date	Company	Rig	Rig type	Operator	Rate \$/day	Previous \$/day	Duration	Start-up	Comments
11-Oct	RIG	Transocean Leader	4GSS	Statoil	365	245	1Y	Sep-07	
26-Sep	FOE	Bideford Dolphin	4GSS	NHY	290	212	124D	Feb-07	
26-Sep	FOE	Borgland Dolphin	4GSS	Statoil	330	186	3Y	Jan-07	
13-Jul	Odfjell	DeepSea Trym	2GSS	NHY	166	166	180D	Feb-06	Option exercised
13-Jul	RIG	Transocean Arctic	4GSS	Statoil	279	270	1155D	Oct-07	
22-Mar	RIG	Polar Pioneer	4GSS	Statoil	280	170	1Y	Jun-06	

Visible Demand/Supply



3G semis Norway



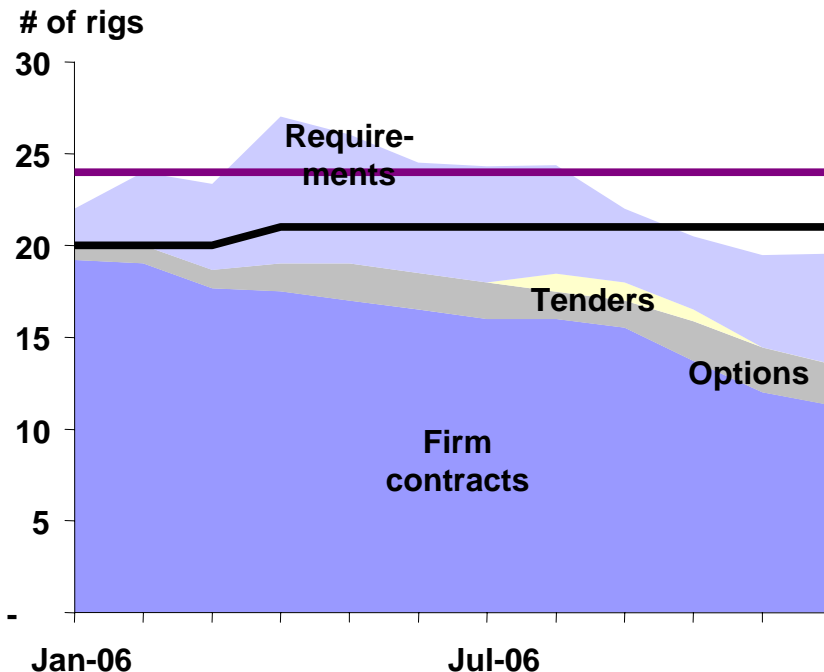


UK semis significant shortage next year

Latest fixtures

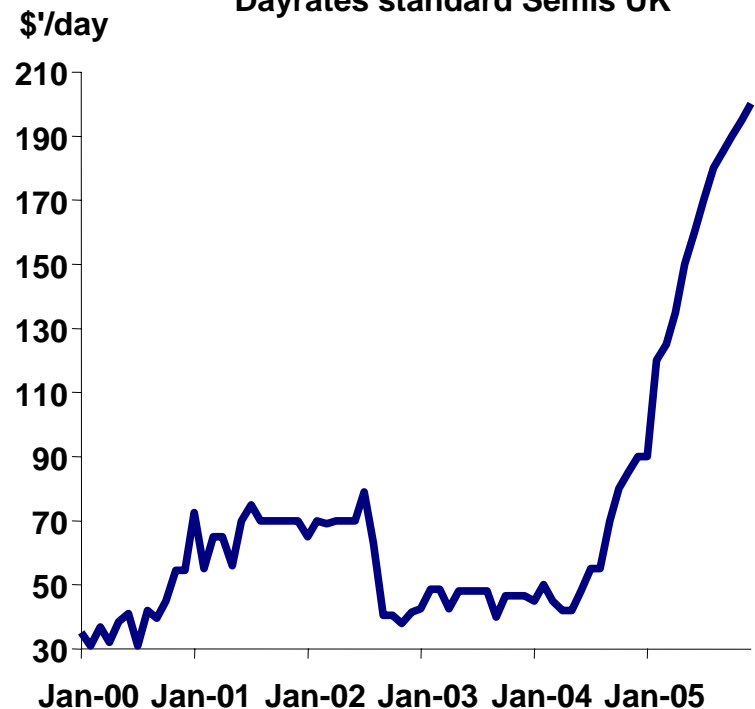
date	Company	Rig	Rig type	Operator	Rate \$/day	Old \$/day	Duration	Start-up	Comments
10-Nov	FOE	Bredford Dolphin	2GSS	Peak	170	115	40D	Jan-06	
7-Nov	RIG	Sedco 712	3GSS	Oilexco	225	150	1Y	Mar-07	
2-Nov	FOE	Byford Dolphin	2GSS	CNR	196	115	275D	Nov-06	
31-Oct	RIG	Paul B.Lloyd jr	4GSS	BP	320	144	2Y	Mar-07	
19-Oct	Petrolia	Petrolia	2GSS	Island Oil&Gas	149	40	75D	Apr-06	
15-Oct	RIG	Sedco 714	3GSS	Total	250	180	130D	Nov-06	

Visible demand/supply 2006



Source: Pareto Securities ASA

Dayrates standard Semis UK





2005 has seen an uplift in exploration

- Due to DTI initiatives
- New entrants

Could this continue?

Equipment may not be available – 3 rigs due to leave in 2006 and 2007





What is good about the UK?

- Centre of excellence in a number of areas.
 - Sub Sea
 - Project Management
 - International Management Resources
- People are willing to travel.
 - Generally accepted
 - Work well with Nationals
 - Common language is English

“If you can do it in the UK or GOM you can do it anywhere.”





Thriving Export Market

- SCDI figures indicate Oil & Gas business in Scotland to be worth some £10 bn of which exports are £3.65 bn (increase of 193% since 1999/2000)
- Continuing focus on international expansion by indigenous Aberdeen companies:
 - Wood Group
 - Abbot Group
 - PSL
 - RBG
 - IMES
 - NESSCOto name but a few





Excellent trend but there is an underlying concern:-

Abbot Group as an example:

- 2006 drilling business in the UK is budgeted to be less than 15% of group turnover
- It is still a significant business at ca. \$100 million

BUT if the home market weakens and the locus of the business is not in the UK:-

The inevitable question must at some stage be asked.





We are not alone:

NESSCO - UK/Exports = 40/60 split and expansion is international

IMES - UK Oil & Gas = < 30% of turnover but declining as quantum increases





Multinational service companies have fewer ties and are more flexible.

- “UK will remain as a centre of excellence as long as there is a strong market”

2002-2004 Major resource flight as UK lagged world market.

Continued investment in the UK will depend on whether the market continues to pick up and by how much.





Post pre-budget statement?

We must wait and see, but statement indicates a major lack of understanding by Government

- With 4 years to go this must lead to loss of confidence





If our clients lack confidence in UK where does that leave the supply chain?

- International expansion is an excellent substitute
- Oil price is a global phenomenon.

Implication

Major potential threat to UK **AND** to Aberdeen and North East Scotland.





To Summarise

- The UK is a mature basin which has turned a point of inflexion in terms of production

There is still a lot of oil out there which needs to be tapped and produced – UKOOA’s “Tale of Two Futures”

- History shows negative effects of budgetary change
 - Has affected UK on top of oil price change
- Recent uplift in UK lagged the rest of the world by a couple of years





What next?

Who knows

- Effects not likely to be seen in 2006 and may come through in 2007
- The 2002 effect would indicate a negative trend in spite of oil price

Confidence has again been undermined.

What determines investment plans and what determines lending provision?





It's a Question of Confidence

