

Southeast Asia Rig Market Challenge

By 25 active operators in Southeast Asia with 46 rigs, the contracting conditions have been challenging due to the collapse in crude oil prices while exploration and production spending have pressured both utilization and day rates in the re-gion

Mostafa Mabrouk

Vice Chairman Assistant for Economic Affairs, Ganoub EL-Wadi Holding Pet Co.

INTRODUCTION

Southeast Asia is rich with hydrocarbon resources. The region is made up of Brunei, Burma, Cambodia, Timor-Leste, Indonesia, Laos, Malaysia, Papua New Guinea, Philip-pines, Singapore, Thailand, and Vietnam.

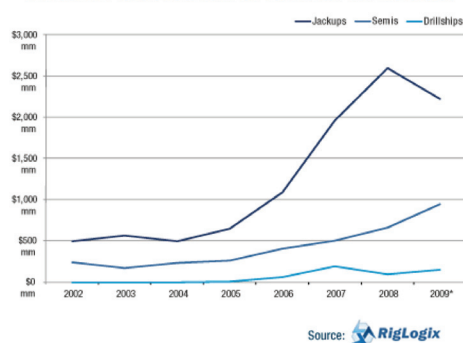
According to Shell, the Indonesia oil industry and what subsequently became Royal Dutch Shell are closely connected. Shell discovered commercial quantities of crude oil in Sumatra just over 100 years ago. Moreover, Shell was the first to bring a drilling rig to the region and the first to discover oil off of Brunei in 1958.

Today there are about 25 operators active in Southeast Asia with 46 rigs (Jack Ups, Semis and Drillships) currently contracted. Forty one of the contracted rigs are drilling, and five are waiting on location or in shipyards. In addition to the rigs that are contracted in the region, there are eight cold stacked units, nine ready stacked units, and one unit in the shipyard without a contract for a total supply of 64 rigs. Thus, total utilization in the region is 72% and ready utilization is 84%. While indications are that Jack-Up Market fundamentals have begun to stabilize.

Southeast Asia only has eight semisubmersibles actively drilling in its waters (one other is contracted but not currently working). Four are off Malaysia, two are off Vietnam, one is off the Philippines, and another is off Myanmar. However, the drilling Jack Up count is significantly higher at 31 (four others are contracted but not currently working). Malaysia has the highest Jack Up count at twelve, followed by Vietnam with seven, Thailand with five, Indonesia with four, Brunei Darussalam with two, and East Timor with one. There are also two Drill ships working in the region. One is off Malaysia and the other is off Vietnam.

In fact, through 2009, operators have already

SOUTHEAST ASIA APPROXIMATE OFFSHORE RIG SPENDING

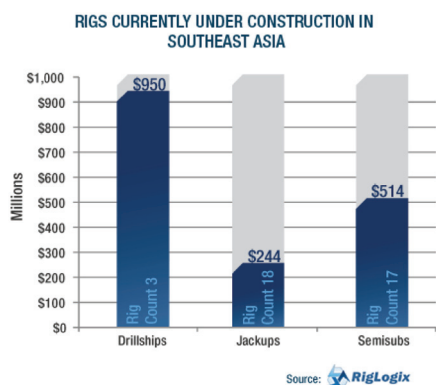


spent approximately U.S. \$2.8 billion on offshore rig contracts (Semis, Drill Ships and Jack ups) compared to U.S. \$3.4 billion in all of 2008. Assuming similar spending to levels for the rest of the year, rig spending for all of 2009 will be roughly equal to spending in 2008 in the region but is likely to trend lower through 2011 as rigs re-price at lower day rates. Broken down by rig type, the \$2.8 billion spent so far in 2009 is comprised of approximately \$1.9 billion for Jack Ups, \$785 million for Semis and \$119.4 million for Drill ships.

RIG CONSTRUCTION BOOM

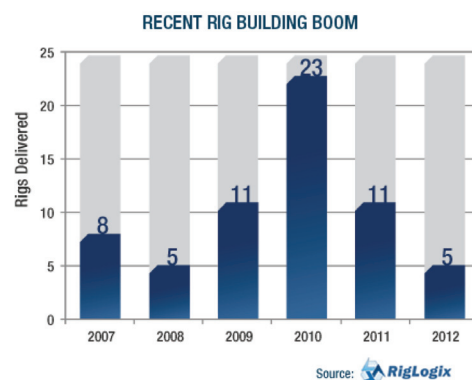
Hosting shipyards for established rig builders like Keppel, Jurong (a subsidiary of Sembcorp

Marine) and PPL, Asia is a hotbed for new rig construction. A total of 38 rigs -- 17 Semisubmersibles, 18 Jack Ups, and 3 Drill ships -- are under construction in Southeast Asia, and 69 more are under construction in the Far East. South Korea is building 38 rigs, Singapore



is constructing 34 rigs, China has 31 rigs under construction, and four other newly-built projects are scattered across shipyards in Vietnam, Indonesia, and Malaysia.

Although the current rig construction cycle has clearly peaked, and the number of rigs under construction is likely to decline over the next several years, the Southeast Asia economy has enjoyed stimulus created by one of the larg-



est rig construction cycles the offshore rig industry has ever seen. The value of the orders for the 38 rigs under construction in Southeast Asia today exceeds U.S. \$14 billion, a good portion of which will filter into local economies in the form of wages. The chart below shows historical and expected rig deliveries from 2007 - 2012.

RECENTLY AND SOON TO BE DELIVERED RIGS

1-One of the newest Jack Ups in the region is the Petrojack IV, which was delivered in the year (2008). It is the fourth deep-drilling offshore Jack Up rig ordered at Sembcorp Marine's subsidiary Jurong Shipyard by Larsen Oil & Gas' subsidiary PetroJack ASA (PetroJack). It was deployed in the Gulf of Thailand in January 2009 for a five-year charter with PTTEP, National Petroleum Exploration and Production Company.

Built based on the group's Pacific Class 375 design, Petrojack IV is designed to drill high-pressure and high-temperature wells of up to 30,000 ft while operating in 375 ft of water. The rig can accommodate 120 men. Petrojack IV is the fourth unit of a series of four Jack-Up Rigs PetroJack ASA originally ordered. The company subsequently sold the first and third units to Maersk Contractors. Its sister rig unit Petro-

jack II was successfully delivered to PetroJack in March 2008 and is currently managed by Saipem and operating in Saudi Arabia under a four-year charter with Saudi Aramco.

In addition, there are six new rigs either recently completed or near completion in Southeast Asia.

2-One of these is Queiroz Galvao Perfuracoes' Gold Star semisubmersible, which cost U.S. \$270 million to construct and will work for Petrobras of Brazil. Keppel FELS delivered the rig six days ahead of schedule on October 2009, to QGOG. Gold Star is the world's first DSSTM 38 deepwater semisubmersible drilling rig. Currently, under construction at Keppel FELS, QGOG's second DSSTM 38 unit, Alpha Star, is scheduled for delivery in mid-2011.

3-"Keppel Shipyard" has also constructed Petro Vietnam Drilling's PV Drilling III jack up, which cost U.S. \$220 million to build. The Keppel FELS KFELS B Class Independent Leg Cantilever Jack Up had been under construction since March 5, 2008, and was ready for service at September, 2009. The rig was rated for 400 ft of water and is capable of drilling down to 30,000 ft. The PV Drilling III has already contracted to Viet-SovPetro (Vietnamese Russian Joint Venture Co) off Vietnam. The five -year charter started November, 2009.

4- At a cost of U.S. \$ 220 million, Egyptian Drilling Company's unnamed jack up is under construction at PPL Shipyard in Singapore. The jack up is a Baker Marine Services BMC Pacific Class 375 Independent Leg Cantilever. It will be capable of working in up to 375 ft of water and drilling down to 30,000 ft. PPL Shipyard started construction on the Jack Up on Sept. 5, 2007, and delivered the rig at December, 2009.

5-"PPL Shipyard" has also constructed for Vantage Drilling company a Topaz Driller jack up. The \$198 million jack up was delivered October 31, 2009 and was ready stacked. The Baker Marine Services BMC Marine Pacific Class 375 Independent Leg Cantilever can work in 375 ft of water and drill down to 30,000 ft. Vantage Drilling Company announced that its Topaz Driller has a drilling program in Southeast Asia consisting of three wells plus an option well. The anticipated duration of the first three wells is seven months. The contract is to commence in March 2010 following the mobilization to Vietnam from Singapore. Estimated revenues to be generated over the initial term of the contract are approximately \$26.2 million.

6- "Drydocks World Graha yard" (Indonesia) has delivered the \$160 million Naga 2 jack up to UMW holdings and Standard Drilling (joint venture) on May, 2009. The Naga 2 is capable of working in up to 350 ft of water and drilling down to 30,000 ft. The jack up had been under construction since March 2006 and has been contracted with Malaysia in last September 2009.

7-Saipem took delivery of its latest newbuild, the Perro Negro 8 jack up, on 31 October 2009. The \$154 million jack up is capable of working in up to 350 ft of water and drilling down to 30,000 ft. "Drydocks World Graha" started

constructing the rig in October 2006.

SOUTHEAST ASIA CONTRACTING ACTIVITY

-Over the course of 2009, 47 different rigs have worked off Southeast Asia. This number was down from compared 2008, when the total reached about 60. Looking ahead, the number of rigs contracted in 2010 decreases from a high of 39 in January to a low of 24 in December, assuming no extensions or additional contracts are signed. However, Southeast Asia has a high number of jack ups working in the region, which are typically not contracted far in advance.

-Also due off contract soon is "Maersk Drilling company's" Maersk Completer jack up. The jack up has been working for Shell at Iron Duke off Brunei Darussalam since Nov. 16, 2008, at \$190,000/day. The contract terminated on 7 November 2009. However, Shell had another contract for the Maersk Completer starting Nov. 8, 2009, through Nov. 7, 2011, at an undisclosed day rate.

-Transocean's Actinia semisubmersible also started a contract earlier November,2009. The rig started drilling off Myanmar for CNOOC on November 2,2009 . The \$206,000/day contract is valid through Dec. 1, 2009, when PTTEP will drill off Myanmar at the same dayrate through April 1, 2010. However, PTTEP has an option to extend the contract through May 2010 at the same dayrate.

- The Songa Mercur semisubmersible (owned by Songa Offshore Drilling Ltd.) has signed a contract with Oilex for drilling in the Joint Petroleum Development Area (JPDA) between Timor Leste and Australia. The contract covers a drilling of 2 wells plus 1 optional well in the JPDA, with a mobilization and de-mobilization element included into the agreement. Total estimated contract duration for drilling operations is 50 days plus an additional 25 days if the optional well is exercised. The day rate for the two contracts is U.S.\$ 280,000 / day .The rig started on 26 November 2009 and contract terminated on 14 January 2010.

-The last rig to come on contract off Southeast Asia the last year was "Atwood Oceanics" Vicksburg jack up. The rig worked for NuCoastal of Thailand starting December 2 through the 1st of March 2010, at \$90,000/day.

WEST AQUARIUS

The rig commanding the highest dayrate is Seadrill's West Aquarius. ExxonMobil is drilling with the semisubmersible off the Philippines at \$529,500/day. The contract commenced in February 2009 and will terminate on Feb. 28, 2013.

Seadrill took delivery of its newbuild on18 January 2009, just one month before the West Aquarius started its contract with ExxonMobil. The West Aquarius is a sixth generation, high specification, deepwater semisubmersible drilling unit. The rig has a high load carrying capacity, an efficient drilling floor layout with improved safety and working environment measures. West Aquarius can run parallel drilling operations and is designed with a dynamic positioning system and a water depth capacity up to 3,000m.