Global Offshore Prospects and the Future of the North Sea

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Subsea Integrity and Efficiency Conference

London
1 December 2015
• Market leader in OFS market analysis and commercial due diligence
• Two offerings: Research & Consulting
• 25 years of commercial insight into the global energy industries
• 1,100 projects for clients in more than 70 countries
• Experience of some 250 niche energy segments
• Over 20 industry awards
• Global coverage with one of the largest sector-focused teams
• Based in the Americas, Europe and Asia

“Top energy research group Douglas-Westwood”
Financial Times
Key Topics

- Macro Drivers and Oil Price
- Offshore/Subsea markets
- UKCS Outlook
- Conclusion
Historic Oil Price

Future Oil Price

Average Annual Spot Price Forecasts, 2010–2020
Source: EIA, WB, IMF, IEA, RBC, Goldman Sachs, Platts, S&P, Citi, Soc Gen
Macro Drivers & Oil Price

Oil Supply Cost Curve

2020 Crude Oil Production in Mbbl/d

Average Breakeven Price

Sources: Morgan Stanley, Credit Suisse, Douglas-Westwood

Oil Supply Cost Curve for 2020
Global Onshore Oil and Gas Wells Drilled by Region, 2010-2021
Source: Douglas-Westwood World Drilling & Production Market Forecast

Global Offshore Oil and Gas Wells Drilled by Region, 2010-2021
Source: Douglas-Westwood World Drilling & Production Market Forecast
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- Strong decline in Offshore OFS expenditure.
- Return to 2014 pricing levels for OFS unlikely.
- Pricing pressure weighing on OFS providers – a major contributor of decline, plus some volume reduction.
- Africa will remain robust driven by ultra-deep drilling activity.

Source: Douglas-Westwood
Record orders in 2013 led to strong installation activity in 2015.

Offshore Brazil & Angola expected to be the main drivers of activity.

Shallow water opportunities becoming limited; the development of deepwater reserves accelerates.
Capex on new-builds, upgrades and conversions

- Expenditure allocated to the year FPS come on-stream
- Global orders severely impacted in 2015
- Global capex revised down
- Forecast capex expected to increase by 49%
- Key projects in 2017 (big in size):
  1) Total’s Kaombo FPSO (Angola)
  2) Total’s Egina FPSO (Nigeria)
  3) Petrobras’s Lula Central (Brazil)
  4) Inpex’s Ichthys (Australia)

Source: Douglas-Westwood
• High oil price has extended the life of North Sea assets and delayed abandonment and decom. of fields
• Low oil price has accelerated decom consideration – is decom going to happen? (900 P&A wells and 248 topsides)
• Decom. is not a value added activity – operators are risk averse
• Delaying decom costs more in the long run (higher maintenance, engineering + removal costs)
• Highly regulated sector – 25 legislative items (environmental, safety, regulatory and legislation barriers)
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Projects that have already been signed off will support the subsea activity in the North Sea.

- Redevelopment projects and greenfield projects. Most of them due to 2016-2017.
- Lack of sanctioned projects will lead to significant drop in activity.

**Subsea Tree Installations Forecast in the North Sea**

Source: Douglas-Westwood

**Subsea Hardware Expenditure in Western Europe**

- 2010-2014
  - UK: 49%
  - Norway: 9%
  - RoWE: 41%

- 2015-2019
  - UK: 15%
  - Norway: 49%
  - RoWE: 36%
• Majority of the activity is in shallow water.
• Major problem with over supply of subsea vessels.
• Vessel dayrates will continue downward trend.
• Vessel demand is expected to increase as large projects in UK (Rosebank, Kraken) and Norway (Maria) have been sanctioned.

Source: Douglas-Westwood
How do you view the future of the UK oil & gas industry?

Key Findings

- **440 participants**

Some Survey Participants …

- **CEO/Director**
- **Senior Manager**
- **Middle/Junior Manager**
- **Skilled Manual**
- **Other**

- **Africa**
- **Asia**
- **Europe**
- **South America**
- **Middle East**
- **North America**

Survey and Key Findings
• Offshore drilling volumes less affected in the short term
• Uncertainty around oil price recovery – pressure on high-cost activities
• Lack of sanctioned projects – lower growth in subsea hardware
• Decom. – more relevant in low-for-longer environment
• Subsea activity in North Sea going forward on the back of a number of projects
THANK YOU!

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