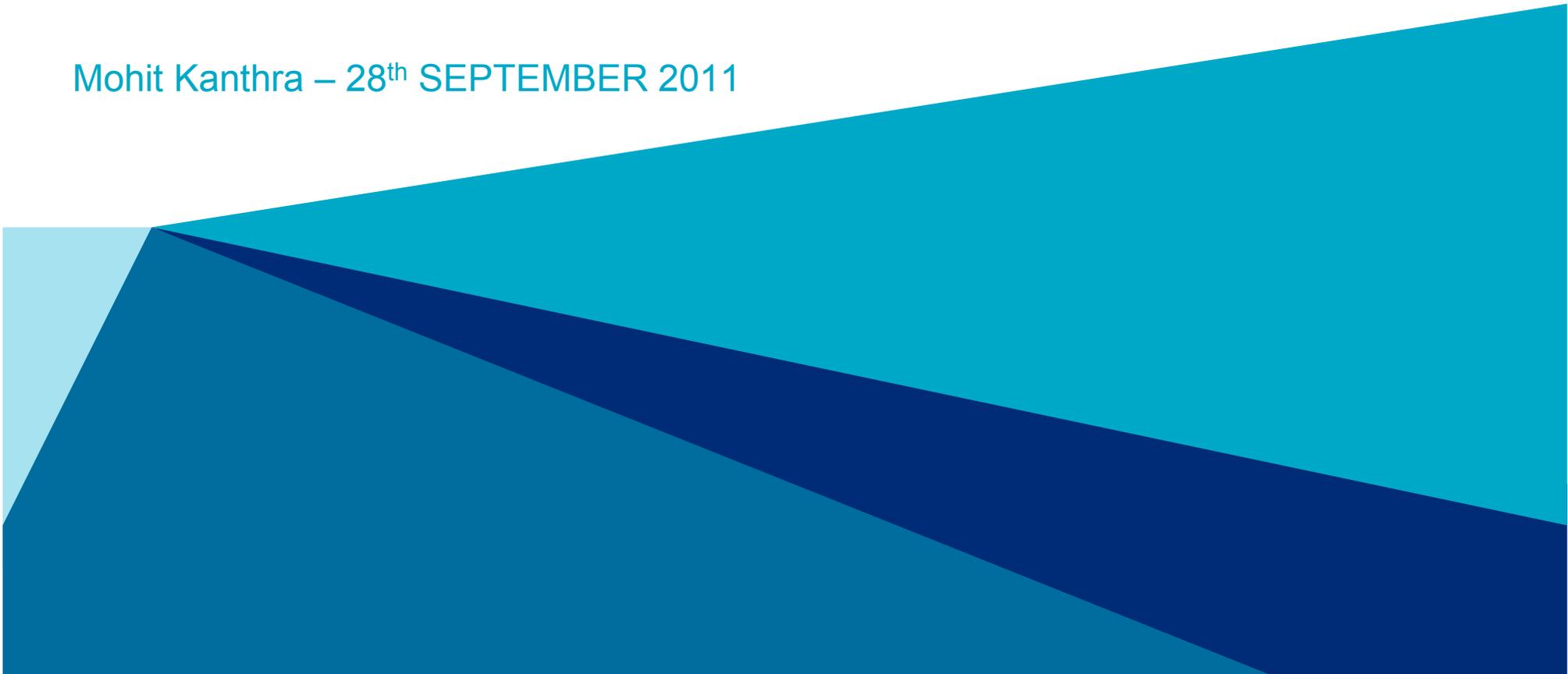


Market Helicopter View - Offshore Construction

Mohit Kanthra – 28th SEPTEMBER 2011



Agenda

- Introduction
- Overview - Global Energy Offshore Construction Market
- Offshore CAR Markets – Asia
- Economic Trend Offshore Development
- 2011 Trend – Offshore CAR Markets
- Offshore Construction - Major Losses
- Road Ahead..

Introduction

- We are back to 'Glory Days' (almost)
 - Global Oil demand expected surpass pre-recession highs
 - Projected to be north of 87.95 mb/d for 2012
- Flow of “bread and butter” business to markets has been considerable with final investment decisions being taken up for projects that had stalled during the global financial crisis
- Client, underwriter and broker definitions of what constitutes a “big” CAR project have inflated

Whichever way we define “bread and butter” projects - it is clear that where capacity is not an issue, there is still considerable competition

Overview - Global Energy Offshore Construction Market

- Theoretical global capacity of up to \$3 billion
- Offshore CAR is a specialist and historically volatile market
 - London, Asia, Middle East
- Capacity has remained relatively stable during the last 2 years although major markets:
 - annually review their capacity depending on their Construction All Risk (CAR) portfolio performance
 - actively questioning their long term profitability of this class of business
- Significant levels of quality capacity available to buyers

A market like any other, driven by supply and demand and the need to generate profitable revenue.

Offshore CAR Markets - Asia

- Major Offshore CAR expertise in the region – Lloyd's + Company Markets with specialised underwriters
- Larger focus and wider engagement with Asia domiciled energy business. Resulting in major service advantages to clients and brokers based in the region
- Capacity has been stable in the Asian market (no substantial increase in the capacity for past 2 years)
- Capacity in Asia circa \$1 Bn tested upto \$750 Mn (including Middle East)
- Asian Markets are coping with the tender driven insurance buying process on each CAR project. To a certain extent markets have created a niche for such low to medium value projects

Markets have successfully created client relations and unique service proposal for Asian CAR Projects

Economics of Offshore Development – 2011

- Sustained high global crude oil prices, positive demand outlook and increasing ease of capital access are encouraging global oil and gas companies to increase their capital expenditure in 2011
- Global oil and gas capex is expected to be \$928 billion in 2011 from \$801 billion in 2010 (these figures include exploration and cost of field development)
- Global crude oil price increased by more than 25% from around \$79.5 per barrel in 2010 to above \$100 per barrel in May-June 2011
- Stable crude prices have led to increasing focus on development of marginal fields
- FPSO construction/conversion projects have shown increasing trends and have dominated order books of major yards
- A series of mega projects with ECVs (and sometimes EMLs) in excess of \$5 billion will come to market in the next few months. Projects include the first Floating LNG (FLNG)

Goes to show how the scale and cost of offshore projects has moved on in a relatively short period

2011 Trends – Offshore CAR Markets

- 2010 BP incident and rig losses followed by Q1 offshore energy losses (FPSO loss)
- The terrible natural catastrophe losses (Australia floods, New Zealand & Japan Earthquake)
- 2011- Q1:
 - Initial market reaction was that of uncertainty
 - Followed by a push for a rate increase to all offshore energy classes, including CAR
- 2011 - Q2 & Q3
 - Capacity holding steady
 - Deductible levels stable
 - Terms & conditions unchanged so far
- Markets have shown softening for certain projects:
 - Market submissions with good information
 - Shallow water works
 - Reputable contractors
 - Long term volume commitment – Packages/Facility
- Markets remain cautious regarding subsea / pipeline projects

Inconsistent market response – pricing and terms for new projects through 2011
(Q2 & Q3)

2011 Trends – Offshore CAR Markets

- Contractors/Companies with good track record and long term market relationships have benefited from:
 - Competitive terms
 - Favourable amendments to Welcar
 - Wider mod/demob coverage
 - Construction facility annual roll-over on flat terms with no increase
- New Contractors/Tender driven projects have shown a mixed result:
 - Traditional CAR markets have been consistent with standard terms based on the merits/nature of projects/contractor experience
 - Company markets have shown competitive appetite setting some aggressive benchmarks

Offshore CAR Capacity has been generous and relenting in 2011

Asia Construction Trends – 2011

- Countries: China, India, Indonesia, Vietnam, Thailand
- Size: Small to medium size upto \$ 400 Mn
- Scope: Mix of Subsea, Platforms, FPSO and SBMs
- Good yard and vessel availability: Contractors are working for low margins
- Project divided to specialised packages: subsea projects are separately contracted packages/tenders
- Increased order book: Contractors are consolidating assets and putting together specialised project teams
- Consortium and JVs: to gain strategic advantage

Following 2007/08 surge contractors have been able to consolidated their resources in past few years. Better QA QC management

Major Losses - Offshore Construction claims 2011

- Subsea cable loss, offshore USA, estimate USD 7 Mn
- Anomalies in pipeline, Offshore Kazakhstan, estimate USD 69 Mn
- Mooring Pile Failure, Offshore Vietnam, estimate USD 6 Mn
- Riser end fitting leak, Offshore Vietnam, estimate USD 5.5 Mn
- DTEP – Subsea structure damage, Gulf of Thailand, estimate USD 25 Mn
- DTEP – Subsea structure damage, Offshore India, estimate USD 5 Mn
- Rupture of flexible pipeline, Offshore India, estimate USD 9 Mn

Subsea works still a matter of concern for Markets

Road Ahead.....

- Growth and investment by oil companies for field development is forecasted to continue at the same pace as 2011
 - China, India, Indonesia, Thailand, Vietnam will lead the of supply new offshore projects
- Asia offshore Construction markets are likely to be:
 - tested and put under pressure by European & Middle East markets
 - focussed on information quality and client control – shift from first come first served basis
 - Growing with Asian businesses and clients - enhancing their presence/larger teams
- Increasing emphasis on engineering evaluation of medium size projects or new contractors
- Welcar 2011 or 2012?
 - We understand that the working party's "final" draft is due to be submitted for approval to the next meeting on the Joint Rig Committee, whereupon, if approved, it will swiftly be released for consultation with interested parties. This release is expected soon

