ISSUE NO 1
January 2017

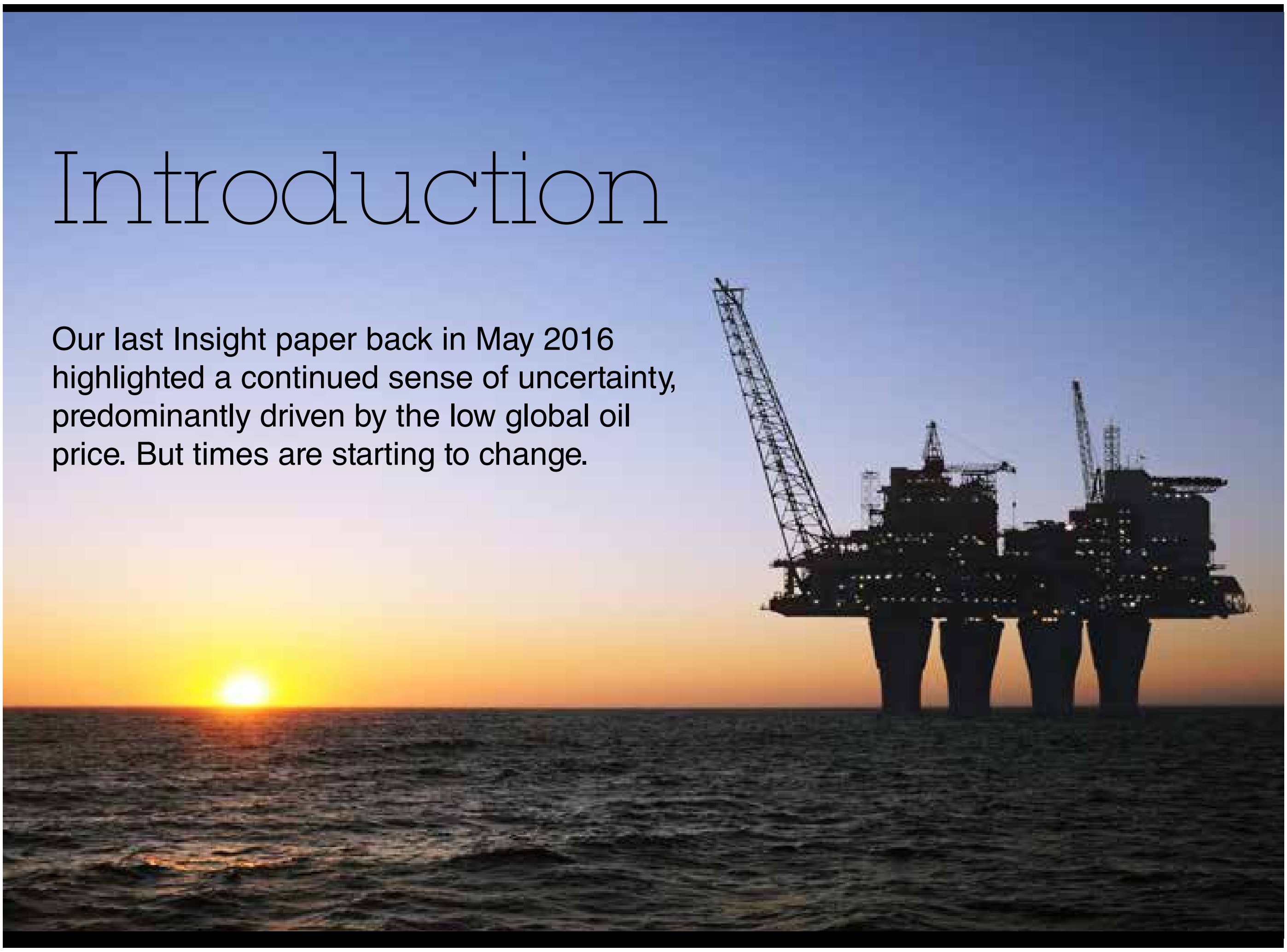
EPEUS

Industry Insights

2017 Drilling Rigs Market

HEADLINES

- The number of stacked rigs has increased by 33% in the last year.
- 40% Of the global fleet is now stacked with utilisation falling to 51%.
- The average day rate has fallen by 12% across all MODU's.
- In the North Sea and US GOM 60% of the rigs are now stacked.



Introduction

Our last Insight paper back in May 2016 highlighted a continued sense of uncertainty, predominantly driven by the low global oil price. But times are starting to change.

It's true to say that the number of stacked rigs has increased in the last year and that average day rates have fallen by around $50k. In isolation these may sound like negative points.

However, if you couple this situation with the recent increase in barrel price then you can start to understand where the opportunities lie. The acquisition of rigs at lower costs and competitive day rates are both very real and current situations.

Most industry insiders believe that the doldrums are coming to an end and it's now a question of which drilling contractors have the capacity to reverse the stacking strategy and be ready to cope with the anticipated production demand and increased drilling activity.

"Most industry insiders believe that the doldrums are coming to an end and it's now a question of which drilling contractors have the capacity to reverse the stacking strategy"

This paper analyses rig stacking data over the last six years and looks at strategy trends for Jackups, Semisubs and Drillships and also includes the latest data for day rates.

We hope you find this paper useful and informative and if you have any questions please contact us via www.epeusconsulting.com.

If you want to receive updates to this paper as well as other industry insights please click subscribe and follow the link

Insights

Stacking trends

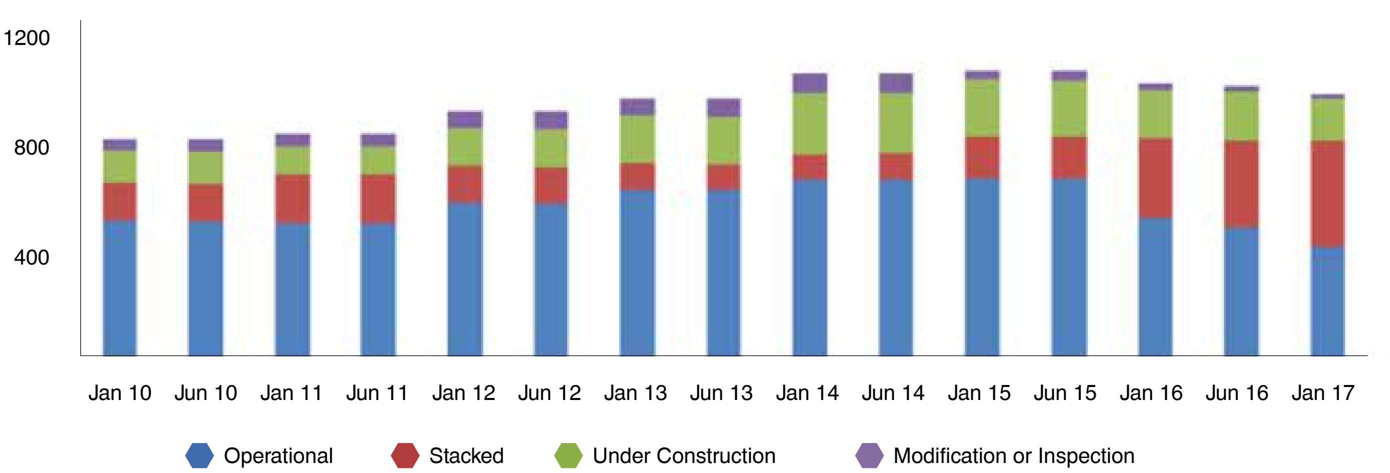
In January 2016 there were 293 MODUs listed as 'Stacked' including 199 identified as Ready Stacked and 94 Cold Stacked. Fast forward a year and there are now 389 MODUs listed as 'Stacked' with 240 Ready Stacked and 149 Cold Stacked. This means that 40% of the total MODU fleet is now 'stacked' which is an increase of 9% in the last 12 months from January 2016 where the figure was 31%

The other major change shown in the chart below is the reduction in MODUs that were listed as 'Operational' from 515 to 409, which is a drop from 50.5% to 40.2%. This was matched by a reduction in the overall fleet number from 1,011 in January 2016 to 970 in January 2017, a 3% drop.

This change is explained by the retirement of older units which were previously cold or ready stacked and have been retired . This trend is consistent across all types of MODU as the following charts and table shows.

Total MODU Status between 2010 & 2016

Source: RigLogix, Drilling Contractor Fleet Status Reports



Rig Type	January 2016			January 2017		
	Ready Stacked	Cold Stacked	TOTAL	Ready Stacked	Cold Stacked	TOTAL
Jackup	133	59	192	171	75	246
Semisub	42	24	66	25	25	50
Drillship	23	11	34	36	22	58
TOTAL	198	94	292	240	149	389

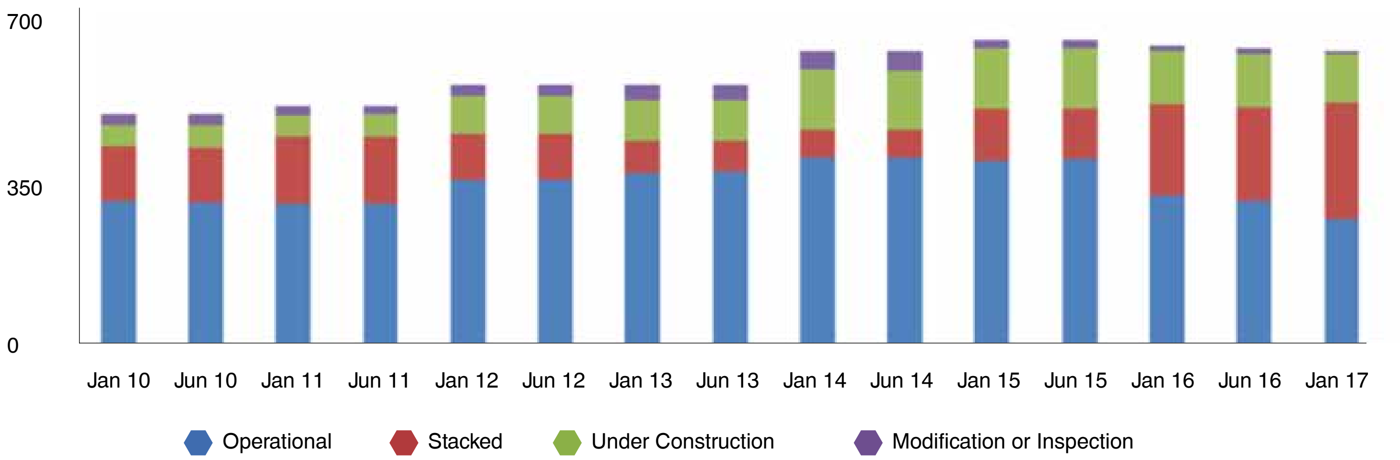
Source: RigLogix, Drilling Contractor Fleet Status Reports

Insights
Jackups

For Jackups there are now around 171 units ready stacked and a further 75 cold stacked, these numbers have increased since January 2016 from 133 and 59 respectively, meaning the % of stacked rigs has increased to 40% from 30% in over the last 12 months.

Jackup Status between 2010 & 2016

Source: RigLogix, Drilling Contractor Fleet Status Reports

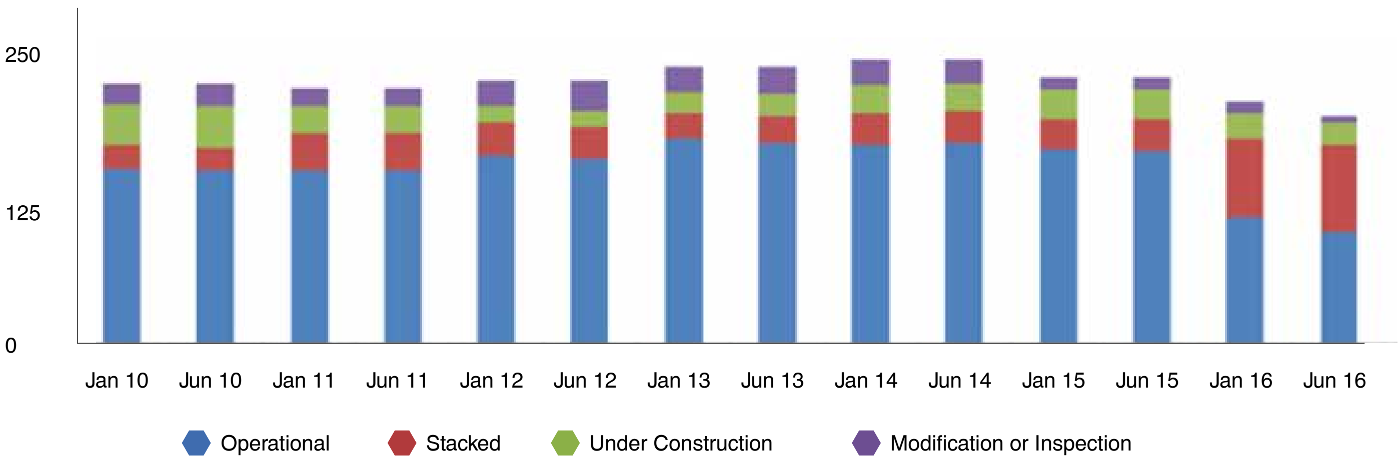


Insights
Semisubs

The number of Semisubs identified as ready stacked has gone up from 42 (in January 2016) to 44 in January 2017 and the number of units that are cold stacked has increased from 24 (in January 2016) to 49 in January 2017. This represents an increase in the proportion of the Semisub fleet that is stacked from 31.9% to 48.9% during the same period.

Semisub Status between 2010 & 2016

Source: RigLogix, Drilling Contractor Fleet Status Reports

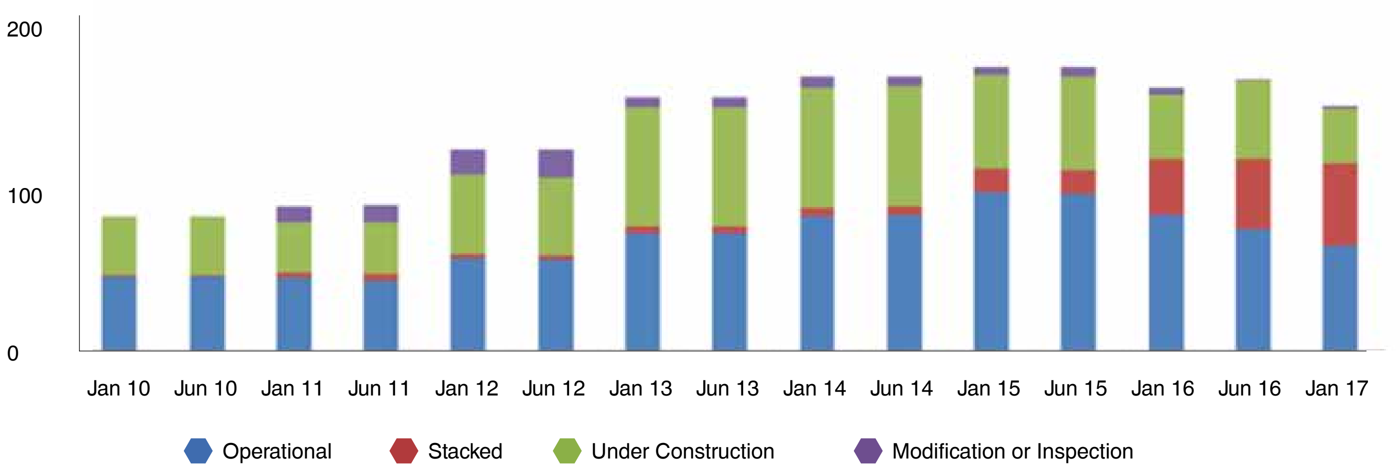


Insights
Drillships

In January 2016, 23 drillships were ready stacked and 11 cold stacked and a year later there are now 25 ready stacked and 25 cold stacked. This is an increase from 34 to 50 overall, 33.2% of the drillship fleet is now stacked.

Drillships Status between 2010 & 2016

Source: RigLogix, Drilling Contractor Fleet Status Reports



Insights

Stacking Profiles

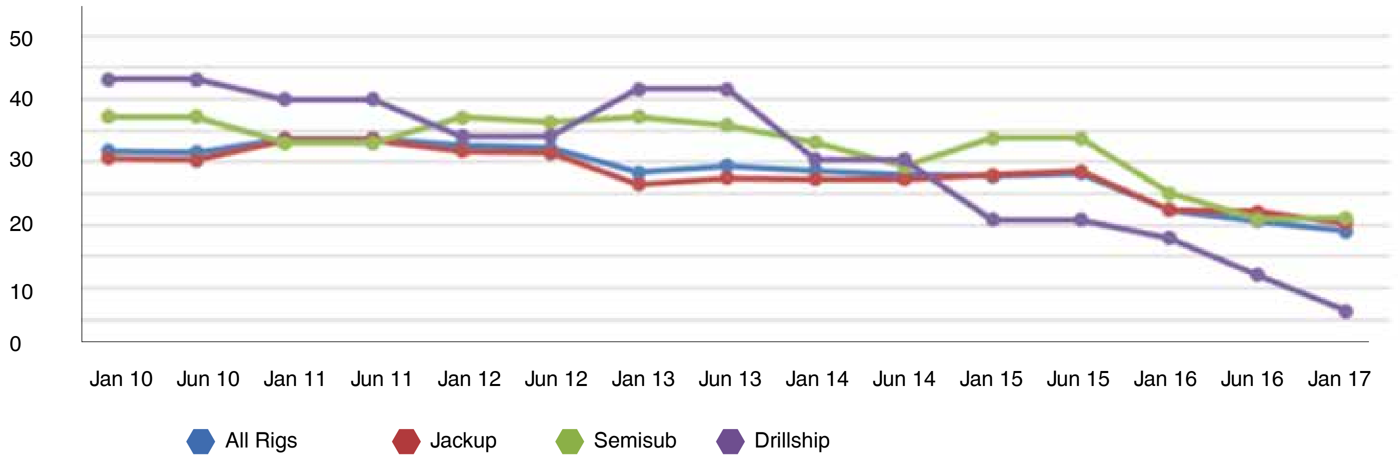
Traditionally, the trend was for older rigs being stacked with average ages for Jackups and Semisubs in excess of 35 years for cold stacked and 30 years for ready stacked. However in the last 12 months, as the charts below shows, younger rigs are joining the ranks of those already stacked.

For ready stacked MODUs, the average age of those stacked has declined steadily since June 2012 when the average rig age was 31 years for a Jackup, 36 years for a Semisub and 33 years for a Drillship. In January 2017 the average rig age is 20 years for a Jackup, 21 years for a Semisub and 6 years for a Drillship. This drop in the average age is being driven by a number of younger rigs being ready stacked as charter contracts have expired and no forward contract is in place.

The trend is similar for cold stacked units with the average ages decreasing markedly from 36 years for a Semisub and 41 years for a Drillship in June 2012 to 29 years for a Semisub and 17 years for a Drillship in January 2017. The average age of cold stacked Jackups has reduced to 33 years. However, this sub set of rigs has seen the most retirements, more than 50 over the last 5 years.

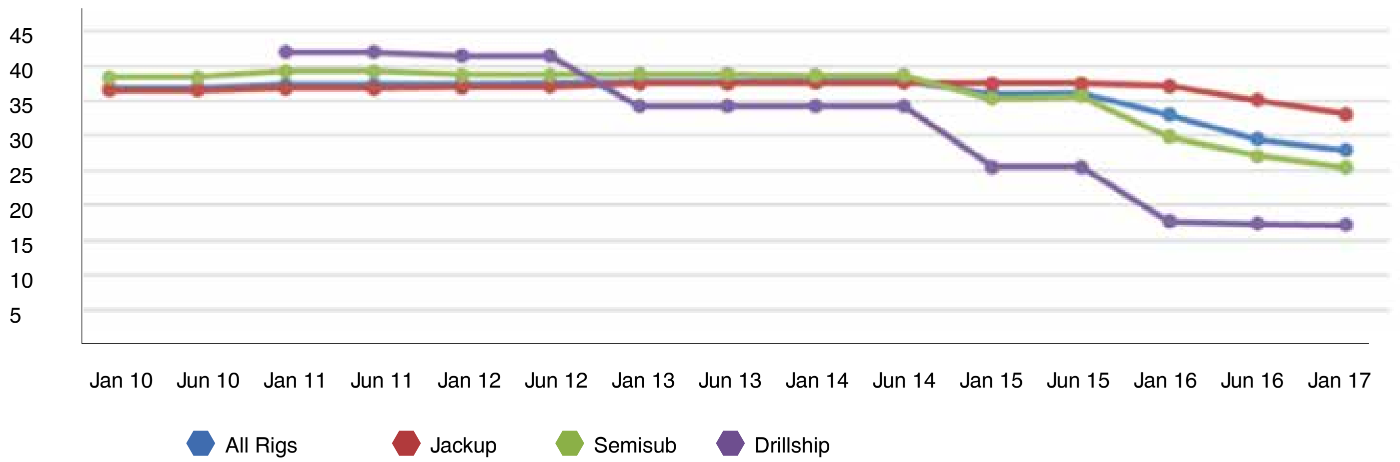
Average Age of Ready Stacked MODU's by Rig Type

Source: Epeus Analysis, RigLogix, Drilling Contractor Fleet Status Reports



Average Age of Cold Stacked MODU's by Rig Type

Source: Epeus Analysis, RigLogix, Drilling Contractor Fleet Status Reports



Insights

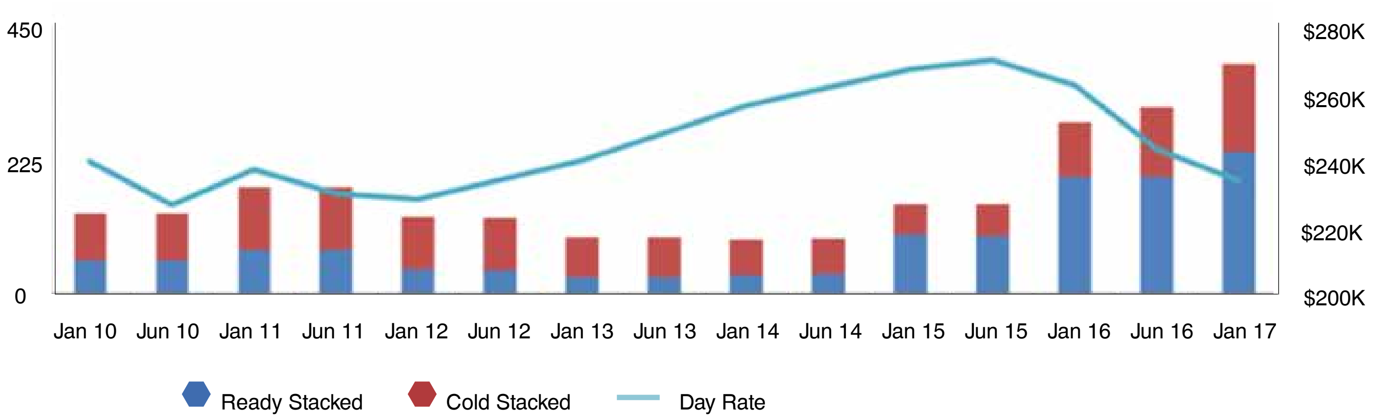
Impact of falling Day Rates

In the last 12 months Day Rates have fallen across the MODU classes.

It is now over two years since the downturn began and many of the high day rate contracts have ended. Field Operators have not renewed contracts or have negotiated large reductions in day rates. The result is that the average rig day rate figures has nose dived, especially so for Jackups and Semisubs.

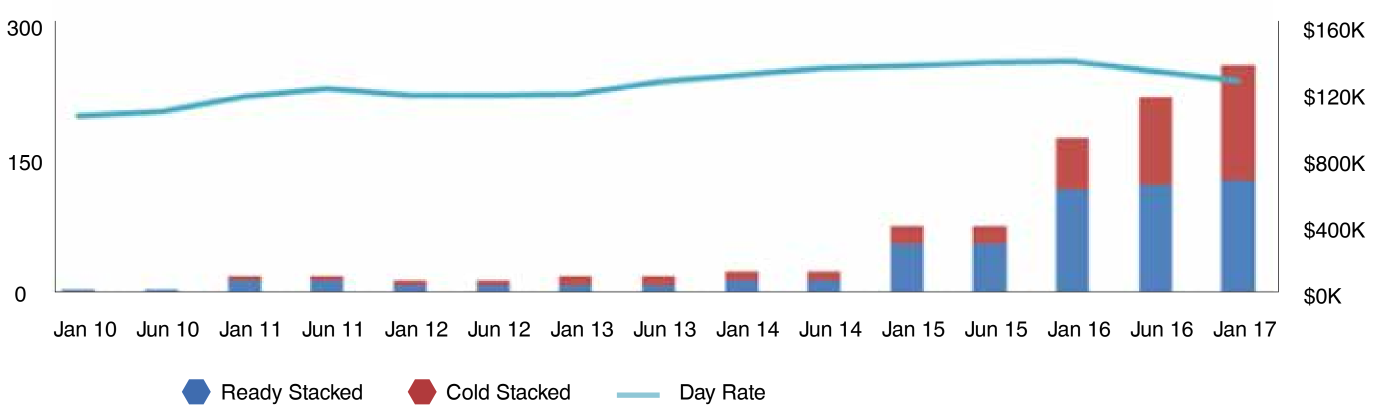
Volume of Stacked Rigs & Day Rate Changes

Source: Epeus Analysis, RigLogix Data



Jackup Stacked Rigs & Day Rate Analysis

Source: Epeus Analysis, RigLogix Data

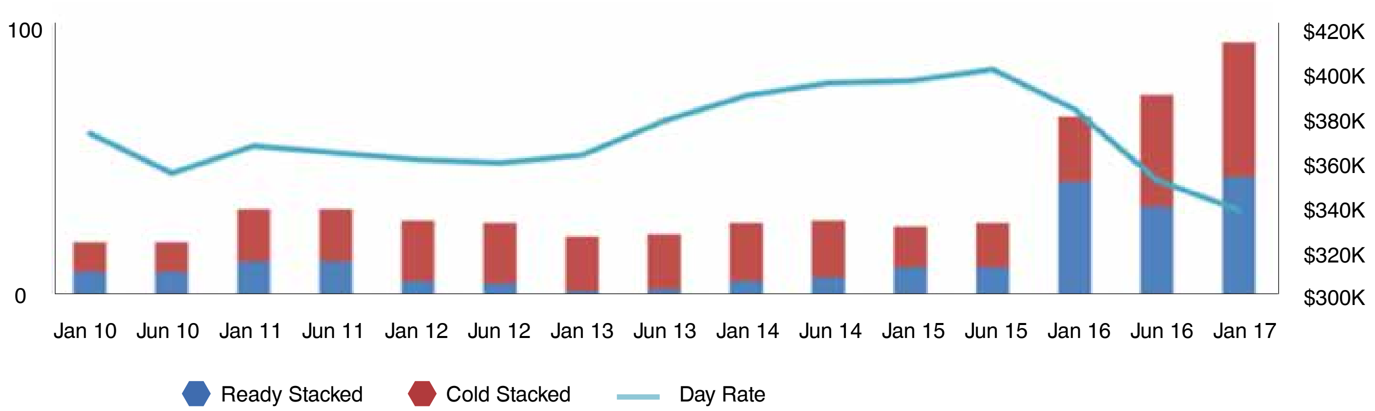


Insights

Impact of falling Day Rates

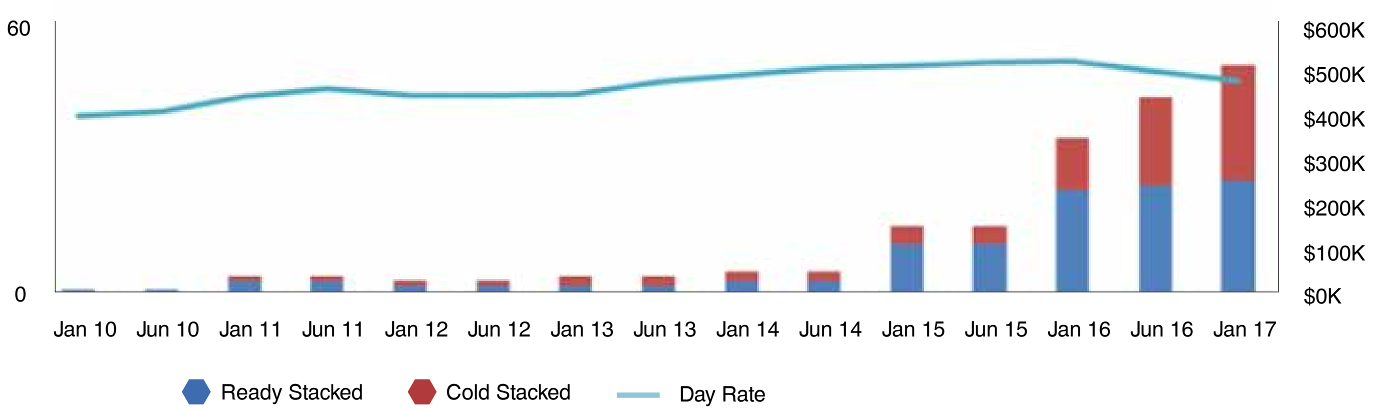
Semisub Stacked Rigs & Day Rate Analysis

Source: Epeus Analysis, RigLogix Data



Drillship Stacked Rigs & Day Rate Analysis

Source: Epeus Analysis, RigLogix Data



Insights

Regional differences

The upwards trend on stacking are being seen globally, with a more marked increase in the mature basins and developed regions. The table below shows how the number of cold and ready stacked rigs has changed in the North Sea, Gulf of Mexico, Asia and the Middle East.

There has been an increase across all the regions. However, the North Sea and the Gulf of Mexico now have more than 60% of rigs available in each region stacked.

Region	January 2016			January 2017		
	Ready Stacked	Cold Stacked	TOTAL	Ready Stacked	Cold Stacked	TOTAL
North Sea	18	11	29	36	22	58
Gulf of Mexico	19	40	59	14	46	60
Asia	57	6	63	65	14	79
Middle East	31	8	39	56	9	65

Conclusion

This report highlights two trends that have continued throughout 2016. One is the increased number of stacked rigs worldwide and one is the decrease in day rate, neither of which suggest that the 'good times are back'.

For more Information on this or any of our other services please contact:

Andrea Petrone, apetrone@epeusconsulting.com
+44 7702 518339

Mark Thompson, mthompson@epeusconsulting.com
+447734874749

However, the most significant issue to impact the industry in recent weeks has been the increased barrel price and that's the single most important driver for the industry as a whole.

The result of this is that there are some very real opportunities being reported in the industry right now. It could be argued that now is the perfect time to prepare for the anticipated rebound and rig reactivations. These are unique undertakings with a start date and an eventual end date. They are projects and should be treated as such.

At Epeus we are able to draw on our extensive rig project experience and range of management services. These have, over the years, enabled our clientele to feel more certain about cold stacking, preservation monitoring, maintenance, rig reactivation and redelivery back into operations.

They allow our clients to feel more secure about getting drill ready without having to redirect scarce internal resources. Besides, fully resourced and scheduled rig reactivation plans allow for an immediate move to reactivation when required, giving increased confidence to field operators looking to charter currently stacked rigs.

There are two last questions that this paper raises. Firstly, if the industry is to begin to rebound this year, just how ready are drilling contractors?

Undoubtedly, the impact of two years of 'mothballing' will play its part on everything from equipment and maintenance to staffing and even the supply chain. It's not as simple as pressing the button or turning the key.

Secondly there's the question of who's going to be expected to pay for the reactivations, drilling contractors or field operators?

2017 is set to be an important year for the drilling industry … readiness is all.

Epeus combines industry operations, engineering/technical experience and project management knowledge and process to provide a unique view of any undertaking within our sectors. The firm is comprised of dedicated project management, engineering, business, and operations professionals equipped with the necessary experience and knowledge to best serve our clients' requirements, thus ensuring a consistently high standard of professional service wherever it may be required across the globe.