



STILL OPPORTUNITIES IN A CHALLENGING MARKET

Presentation at DNB conference

Stephen Adshead
North Sea Rigs

STILL OPPORTUNITIES IN A CHALLENGING MARKET

- Who are we and what do we do
- The Wheel of Fortune (and Failure)
- Investing in rigs require a fundamental long-term view
- Unsustainable markets = good time to invest
- But rig companies are followers?
- Construction vs M&A
- Is now the right time to build?
- Some Final Thoughts

OCEAN SERVICES AS – PROJECT DEVELOPER

Ocean Services has a strong track record:



Offrig was established to build the GM4000 drilling rig in 2005. Contract signed for 4 rigs with Yantai Raffles Shipyard in 2005. Awilco took over the project in 2006. COSL bought the rigs from Awilco in 2008.



MARACC was established in 2006 to build a well intervention rig based on GM4000, contract signed for 2 rigs with COSCO. Morton Ulstein Island Offshore took over the project in 2007



North Sea Rigs was established in 2011 and contract signed with YCRO shipyard in Feb 2012. Funding completed and construction nearly completed. Rig is under discussions for a charter contract



Beacon Holdings Group Ltd was established in 2013 and contract signed with YCRO shipyard for 1 rig in Oct 2013. Beacon Pacific Group Ltd was established in Oct 2014 and contract signed for a 2nd rig. Both rigs are on schedule and will be offered for sale and charter



Ocean Services in 2010 signed a licence agreement with Grenland Group for a 4th rig for COSL (Prospector) based on the GM4000 design and in 2012 for a 5th rig HYSY982 for COSL in DSIC



Landmark Drilling was formed in 2013 to build 2 JU2000E rigs at CMHI in China. Ocean Services was technical advisor

NORTH SEA RIGS AS – MANAGING PROJECTS

- NSR AS is a project management company supervising the building of the North Dragon, Beacon Atlantic and Beacon Pacific rigs at YCRO and future projects
- NSR AS is managed by Ocean Services AS and has a team of industry professional who have extensive experience in the building of offshore rigs and projects
- NSR AS has a project team of 60+ people working in Norway and China.
- A website shows the structure www.northsearigs.com
- NSR AS cooperates with Chinese partners to provide resources, funds and expertise

NORTH DRAGON – KEY DESIGN FEATURES

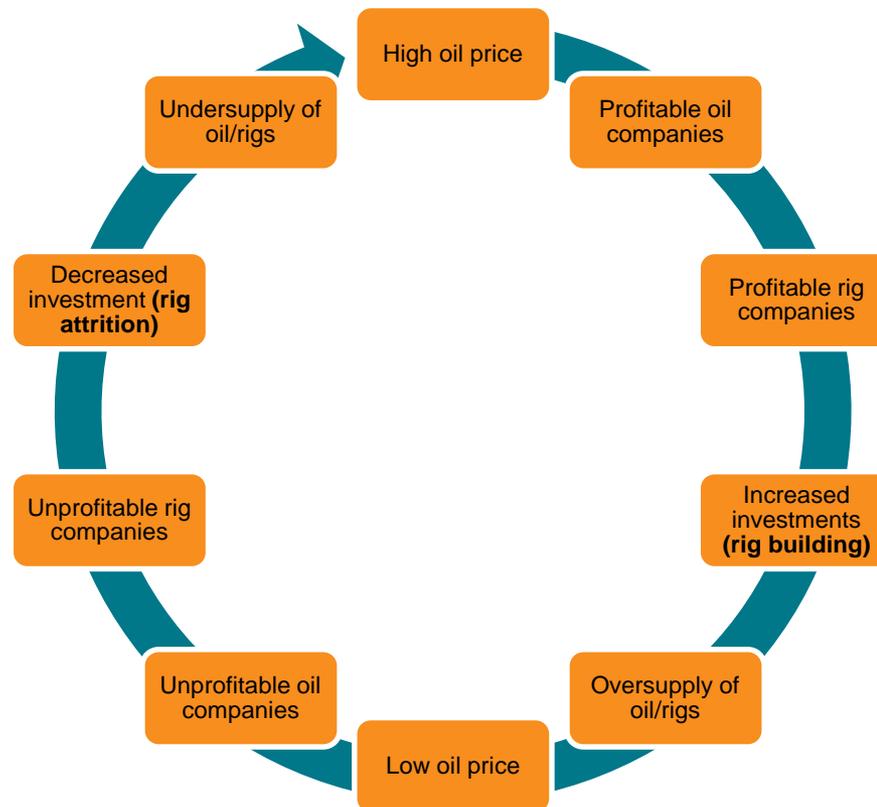
- Motions – among best in class
- Station keeping
 - Full DP class 3
 - 8 point mooring system
- Positive air gap for all operational conditions
- Fully winterized, ideal for Barents Sea
- State-of-the-art, highly efficient 1½ derrick, with offline stand building
- 130 POB in single cabins
- Built to Norwegian rules & regulations
- Trip saver with 420mT capacity
- Services: Supports all well operations
- Protected working areas
- Low emissions to the environment
- Updated GM design, including experience from several units in operation



THE WHEEL OF FORTUNE (AND FAILURE)

- The oil business is cyclical – and the rig business a derivative of it
- The Wheel of Fortune (and Failure) in the rig business hence follows that of the O&G business

Often not so hard to know where we are in the cycle...



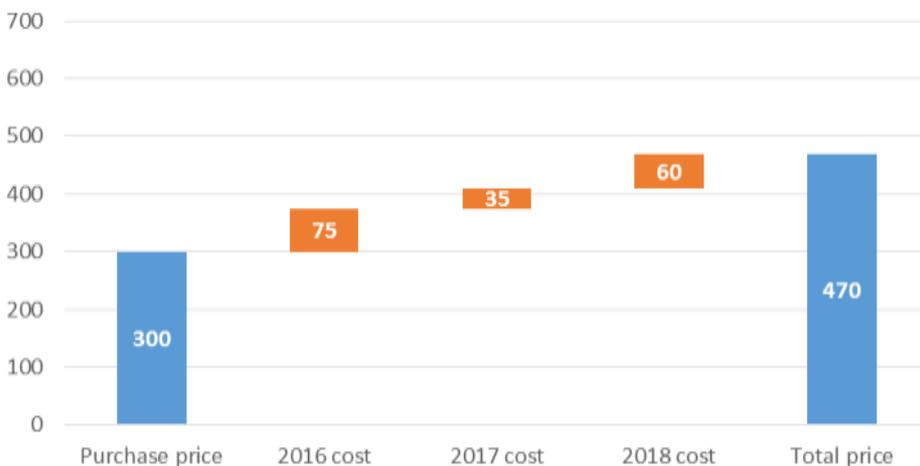
...but more difficult to determine at which speed we are turning

INVESTING IN RIGS REQUIRES A LONG-TERM VIEW

- Golden formula → low rig cost and strong drilling market
- Obviously hard to achieve , since low rig costs are typically driven by weak drilling markets...
- 2 ways to play the game: 1) build or 2) buy second-hand (acquisition) – both alternatives with or without drilling contract
- All paths entails **residual value risk («net price»)** – hence in the end, a long term view on demand is required

ILLUSTRATION: When taking into account expected cash flows, “net prices” (residuals) are probably not that far apart

Rig purchase - weak market



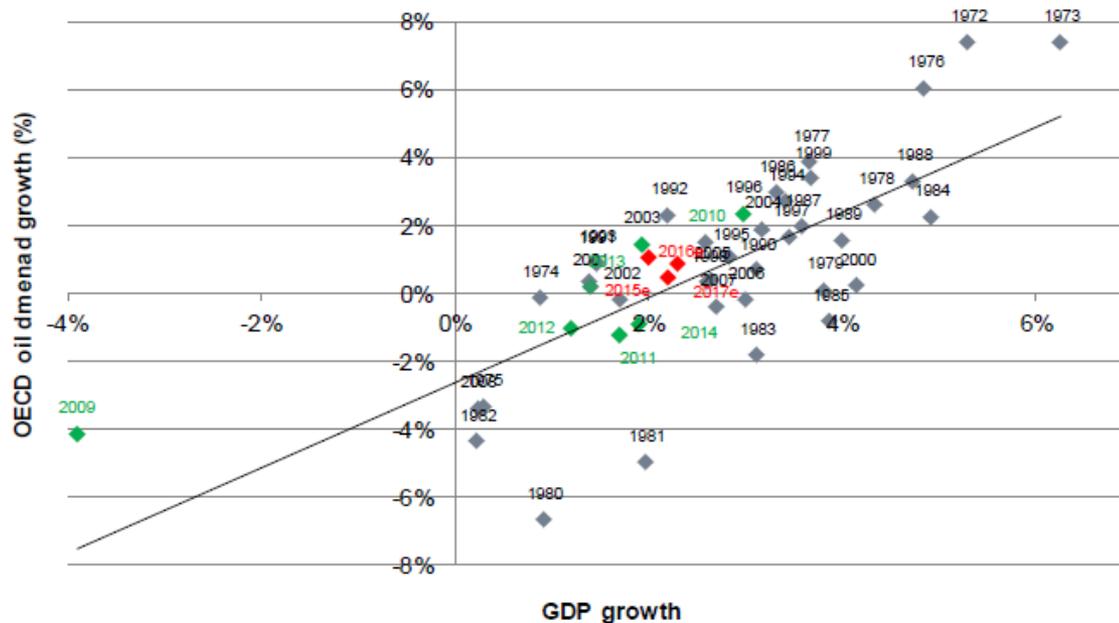
Rig purchase - normal/strong market



...AND THE LONG-TERM OUTLOOK REMAINS “INTACT”

- Despite technological achievements reducing oil consumption (efficient engines, renewables etc), the relationship remains → ...as the world grows, so does oil demand

OECD oil demand growth vs. GDP growth



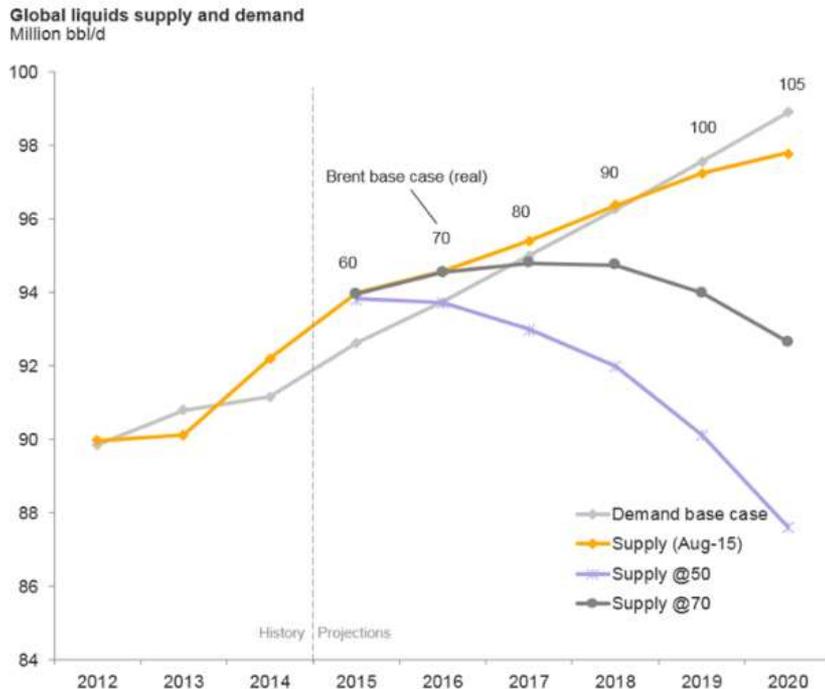
Strong correlation between GDP growth and oil demand growth

Source: ABG Sundal Collier, EIA

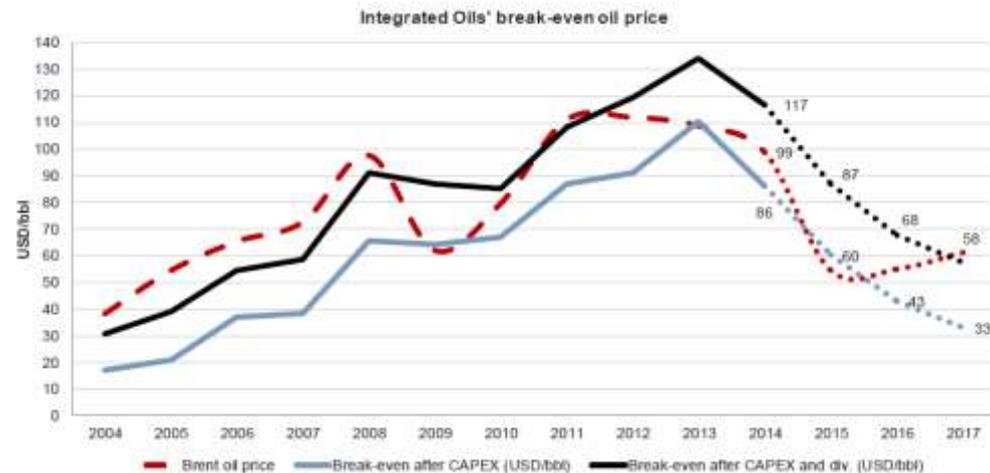
Source: ABG Sundal Collier, EIA

UNSUSTAINABLE MARKETS = GOOD TIME TO INVEST

- The current oil price inadequate for making new investments, which will lead to undersupply of oil – EVEN if demand does not grow



Source: Rystad Energy's Global Oil Market Trends Report, August 2015

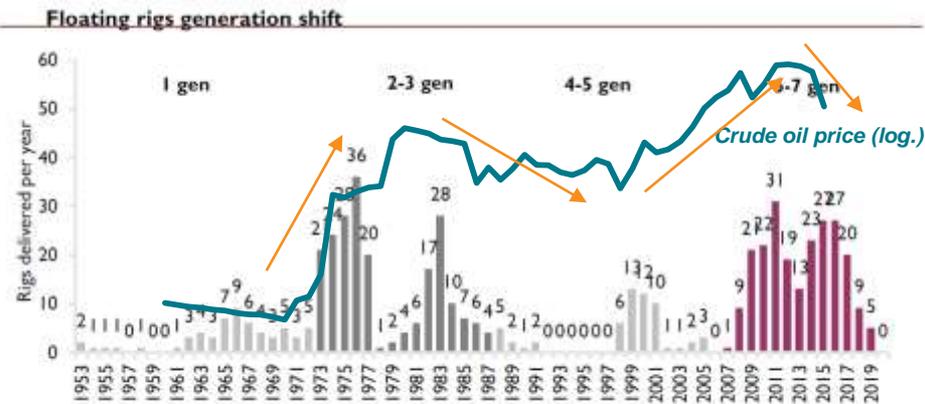


Oil companies' breakeven level is coming down fast and should support renewed activity level in a few years

BUT MOST RIG COMPANIES ARE FOLLOWERS?

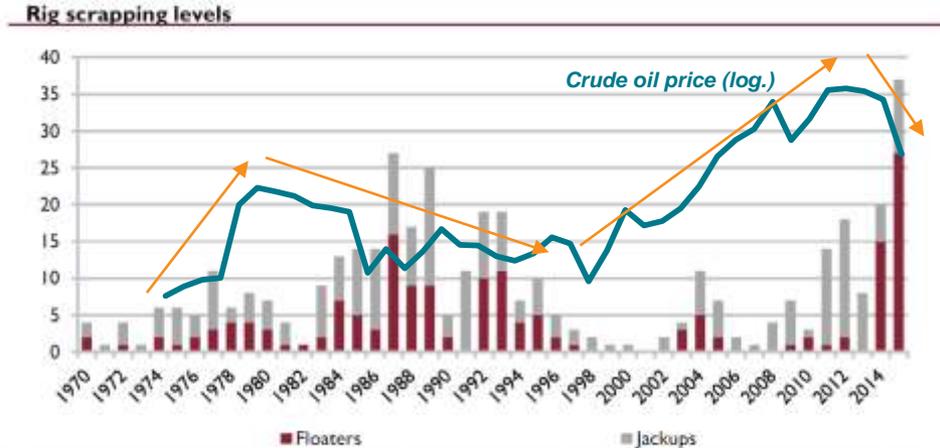
- Construction of rigs follows the upcycle in oil price – with a lag
- Attrition of rigs follows the downcycle in oil price – with a lag
- An opportunity for the countercyclical player – IF you can find the capital required...

Rig construction vs oil price



Source: Carnegie Research, IHS Petrodata

Rig attrition vs oil price



Source: Carnegie Research

IS NOW THE RIGHT TIME TO BUILD?

➤ North Sea Rigs thinks so...

- A** Potentially attractive economics (newbuild prices/deals)
- B** Fitting time horizon (3Y construction period fits 2019 rebound?)
- C** Technically superior vs old fleet (replacement cycle)



KONGSBERG

Dynamic positioning

- DP3 system
- Integrated control systems

SIEMENS

Electrical distribution system

- Power generation
- Electrical system integration
- Power management



Rolls-Royce

Power generation and propulsion

- Engines
- Thrusters
- Winches



NATIONAL OILWELL VARCO

Drilling package / DES

- Drilling equipment and systems

NOV to take project management for the drilling facilities including building the DES and managing the system integration at the site

Consortium of suppliers that have worked together on previous rigs and hence have extensive experience with the shipyard

FINAL THOUGHTS

"It is not enough to be busy; so are the ants. The question is: What are we busy about?"

Henry David Thoreau



You can neither win nor lose if
you don't run the race
David Bowie

I grew up listening to and watching the pop genius David Bowie. He was a master of re-invention, who kept getting it right. A huge loss.

David Cameron