Floating Production
What's New in December

Jim McCaul – IMA/World Energy Reports

Our "What's New" has a new format. First we provide a brief overview of the key statistics. Then we discuss a few important recent developments in the industry. Hope you like the new format.

1. Industry Profile

Installed units -- 258 oil/gas floating production units are now installed on offshore fields. Of the total installations, 64% are FPSOs, 16% are production semis, 9% are TLPs, 8% are production spars and 3% are production barges. Another 13 LNG regasification units and 94 FSOs are in service.

Order backlog -- 66 production floaters and 9 storage/offloading units are on order as of beginning December. Of the production units on order, 56% are FPSOs, 17% are another type of oil/gas production unit and 27% are LNG liquefaction or regasification units.

Available units -- 20 oil/gas production units are currently off field and available for redeployment. FPSOs account for 75% of the available units, production semis the remaining 25%. In addition five LNG regas carriers are currently employed as trading tankers and are available for modification as FSRU terminals.

Storage units -- 104 floating storage units are in service, on order or available.

Planned floater projects -- 246 floating production projects are in various stages of planning as of beginning December. Of these, 59% involve an FPSO, 11% another type oil/gas production floater, 23% liquefaction or regasification floater and 7% storage/offloading floater.

Breakdown of Planned Projects by Type Production System Required
(As of 1 December 2014)

Type System Required	Number of Projects
FPSO	145
OTHER FPS	27
FLNG	34
FSRU	23
FSO	17
Total	246

Further details -- World Energy Report's monthly ***Floating Production Systems – Projects in the Planning Stage, Units on Order, Installed Systems and Available Units*** has all the details. Please see https://www.worldenergyreports.com/reports for further information.

2. *Petrobras*

The Brazilian oil company is by far the major customer for floating production systems. It has more than 50 floating production units at various stages of planning. Within the next 18 months alone the company is expected to place orders for seven FPSOs. But this requires funding – and anything that creates barriers to Petrobras being able to raise capital should be of concern to the entire floating production supply chain.

Recent developments raise questions about the ability of Petrobras to fund future projects. Investors are getting very anxious about Petrobras. Moody's in late October downgraded Petrobras credit rating to Baa2, one of the lowest investment grade ratings. The company's stock in early December hit lows (under $9 on the NYSE) not seen since 2005. Petrobras market value has declined 55% since early September.

Many things are causing the anxiety. Allegations of systemic bribery on capital projects are certainly not helping the company's image. Inability to issue the 3rd quarter financial statement has investors worried. But mostly it is the cumulative feeling that Petrobras is being used as an ATM machine by the government. The company's financial performance is being squeezed by price constraints on refined products sold in Brazil and increasingly higher costs and delays resulting from local content polices.

The election results have also spooked investors. There is a feeling that the policies of the past will continue and Petrobras will soon hit a barrier in being able to raise funding for planned projects. The pressure on Petrobras is occurring in an environment where the government has just announced its largest monthly deficit on record, inflation is running 6.4% and Brazil's sovereign debt is rated by S&P at BBB-, the lowest investment grade status.

Ultimately, this is a local matter for which Brazilians will find a solution. But in the meantime the issues in Brazil are adding uncertainty to the near term outlook for floating production system orders.

3. *Oil Prices*

The oil market is under pressure – and crude prices have been falling. Demand growth has slowed a bit, supply has grown – and OPEC has refused to curtail output. The result has been a 20% drop in the price of Brent crude since early October, 35% drop since mid-year. Brent was trading around $72 per barrel on 2 December, down from $90 two months ago. $110 five months ago.

Should prices continue to fall, marginal projects will be threatened. Smaller projects, like Aje off Nigeria, are candidates for delay if crude prices continue to fall. Large projects being planned by oil majors, such as Stampede in the GOM, are relatively insulated from short term oil price fluctuations. But some analysts (e.g., *Carbon Tracker*, Aug 2014) see even large projects like Bosi, Gato do Mato, Nsiko, Bonga and Johan Castberg as cancellation candidates at today's oil price level.

In our recent five year forecast of production floater orders we assumed oil prices would trend in the $80 to $100 range. Should oil remain in the $60 to $80 range, which is beginning to look more possible, our forecast of production floater orders is lowered by 15%.

4. Deepwater Drill Rigs

In late October Maersk chartered a new deepwater drillship to Total at an average rate of $378,000 per day on a short term contract. Not too long ago this drillship would have been commanded a rate of $550,000 to $650,000 per day.

There are similar stories. In November Sevan Drilling was forced to lower its day rate on its ultra-deepwater semi *Sevan Driller* from $500,000 per day to $350,000 per day. LLOG, the field operator, basically gave Sevan the choice of lowering the rate on an existing contract -- or stacking the rig and earning nothing.

Pressure on deepwater drill rig pricing will likely continue for a year or two. According to broker Kennedy Marr, 70 ultra-deepwater drillships/rigs are on order, 34% of which have no contract.

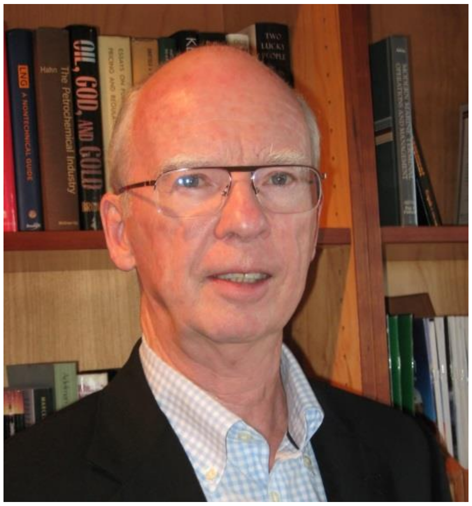
This is bad news for drillers, but good news for floating production. Anything that reduces the cost of finding and developing deepwater fields improves the outlook for floating production system orders.

About Jim McCaul

Jim is the founder and manager of IMA, a consulting firm providing market analysis, competitive benchmarking and business planning support in the maritime and offshore sectors. Over the past 40 years IMA has performed more than 350 business consulting assignments for 170+ clients in 40+ countries.

One of the firm's specialties is analyzing requirements for floating production systems. IMA has published more than 50 reports since 1996 analyzing this business sector and has been engaged by numerous clients to assist in analyzing specific market opportunities in the floating production sector. Please visit www.imastudies.com for more information on IMA.

Jim is also the co-founder of World Energy Reports, a New York based business intelligence service for the floating production industry. Please visit https://www.worldenergyreports.com/reports ***for more information about the new business intelligence service. There's nothing like it elsewhere!***


Hahn
The Petrochemical Industry
OIL, GOD, AND GOLD
TWO LUCKY PEOPLE