

ReedHycalog rig census confirms significant fleet size, utilization gains in US, Canada

RECORD OIL AND gas prices during the past year resulted in significant gains in US and Canadian rig fleet size and utilization during 2004, according to the 52nd **ReedHycalog Rig Census**. Fleet utilization tightened in all areas, with US utilization rates reaching levels common in the 1980s.

For the first time, the census includes international land figures, yielding interesting results, according to ReedHycalog.

This is also the second year that the company was joined with **RigData** to compile the US census, **Nickle's Rig Locator** to monitor Canadian activity and **ODS-Petrodata** to summarize the global offshore mobile rig fleet.

The global offshore mobile rig fleet declined by 5% this year, with 641 units compared with 673 rigs in 2004. However, the offshore fleet experienced a 12% increase in activity and utilization during the same period.

Internationally, the Middle East had the highest utilization rate with 94% followed by Latin America with 86%, Africa with 73% and the Far East with 66%.

KEY SURVEY RESULTS

- The US rig fleet expanded to 2,026 rigs from 1,988 in 2004. This 38 rig net increase results from 211 additions and 173 deletions during the past year;
- The largest gain to the US fleet, 124 units, was due to rigs brought back into service after being inactive. However, a large number of rigs, 133, were removed from service, offsetting this gain;
- The total number of US rigs meeting the census definition of "active" was 1,920, up from 1,674 in 2004, a 15% increase;
- US rig utilization increased to record 95% from 84% last year;
- Based on recent US activity, day-work contracts continue to be the most prominent of all drilling contracts at 82%, gain-

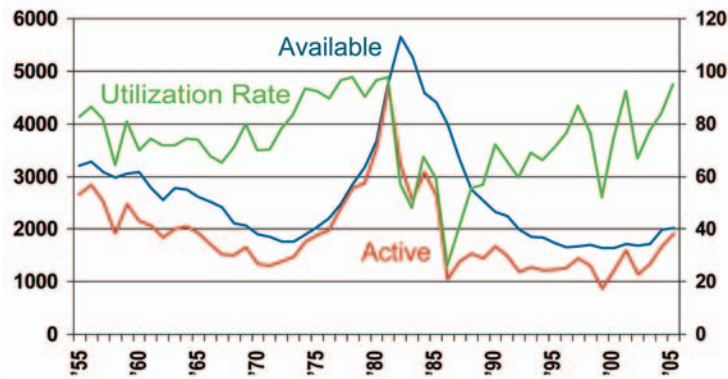
ing an additional five percentage points since 2004;

- The Canadian fleet reached another record high, to 741 units from 680 last year. Canadian utilization increased to 74% from 66% during the spring census;

US RIG FLEET

There was a 211-rig increase in the number of US rigs in 2005 due primarily to

U.S. available vs. active rigs vs. utilization, 1955-2005



improved market conditions. This compares to 338 rigs added to the fleet in 2004.

However, 95 of the rigs in last year's count were considered "new identified", meaning the rig owners had not been included in previous calculations.

US rigs brought back into service was essentially flat in 2004, with 124 such units compared with 125 in that category in 2004. These rigs were counted in previous years but were removed from the census for being inactive or inoperable. They were subsequently counted in the active fleet due to improved market conditions in the US.

Rigs assembled from component parts totaled 58 in 2005 compared with 79 such rigs tallied in 2004.

A significant number of new rigs entered the US fleet for the third straight year, with 23 newly manufactured rigs this year. These rigs bring to 103 the total of newly manufactured rigs added to the fleet during the past three years,

accounting for approximately 5% of the entire US fleet. The 23 new rigs this year include 22 land rigs and one barge rig, according to ReedHycalog.

To illustrate the strong demand for drilling rigs presently, only 48 newly manufactured rigs entered the US market from 1988-2001.

The final category of fleet additions, rigs moved into the country, included six rigs in 2005 compared with seven rigs moved into the country in 2004.

US FLEET DELETIONS

Rigs removed from the US fleet in 2005 totaled 173, a dramatic increase compared with the 69 units removed from the fleet in 2004. ReedHycalog's census rules exclude counting rigs that have been stacked for a significant amount of time or require significant capital expenditure to be operable.

In 2004, two categories were combined, those rigs stacked for longer than three years, and those requiring large capital outlays. These combined categories were renamed "Removed from Service." In 2005, 133 rigs were removed from service compared with 55 rigs in 2004.

Rigs sold for parts or cannibalized for other rigs totaled only eight in 2005, down from 13 in this category in 2004. ReedHycalog believes that many of the 133 rigs removed from service will move into this category during the next several years and eventually re-enter the fleet in the future in the category "Assembled from Parts."

Rigs are also removed from the US fleet by moving to other countries. In 2005, 29 rigs left the US, compared with only one rig counted in this category in 2004. Interestingly, 22 of the 29 rigs were offshore units, most of which mobilized to Mexico, while seven were land rigs.

Rig owners reported three offshore units sustaining irreparable damage either as a result of blowouts or hurricanes during

the past year. None were reported during 2004. Those rigs that were damaged or destroyed during Hurricanes Katrina and Rita are not included in the 2005 census due to the time period when the census was conducted, 4 May to 17 June.

US RIG ACTIVITY

The ReedHycalog census considers a rig active if it is drilling at any time during the 45-day census period. As a result of this criteria, the 2005 active rig count was 1,920 rigs, a 15% increase over the 1,674 units working in the 2004 census.

The utilization rate for US land rigs during the 2005 census period was 95% compared with 86% in 2004. For US offshore rigs, the utilization rate rose to 90% from 71% in 2004.

Jackups recorded a 96% utilization rate in 2005, up from 77% in 2004. Platform rigs, although not counted in the ReedHycalog census, posted the lowest utilization rate of 68%, up from 46% in 2004.

CANADIAN ACTIVITY

This is the second year of the census that Canadian rigs were included. Seventy

rigs were added to the fleet in 2005 while nine rigs were removed, resulting in a fleet of 741 rigs, a 9% increase over 2004.

The Canadian rig fleet grew by 70 units, mainly through rig building and reactivation. This compares with 41 units added to the fleet in 2004. Newly manufactured rigs totaled 43 in 2005 compared with 39 in 2004.

Additionally, 23 rigs were reactivated compared with none last year. Also, three units assembled from parts were added to the Canadian rig role while one unit moved into the country.

A total of nine rigs were removed from the Canadian census, including five that left the country and four that were retired or used for parts to keep other rigs operating.

Canada posted 550 rigs active during the census period, 100 more rigs than in 2004, and translating into a 22% increase. The utilization rate rose to 74% this year compared with 66% in 2004.

GLOBAL OFFSHORE RIGS

The global offshore rig fleet posted a decrease of 32 rigs in 2005, or about 5%

of the fleet. The offshore fleet in 2005 totaled 641 rigs compared with 673 units in 2004. The 641 rigs are comprised of eight submersibles, 44 offshore drill barges, 156 semisubmersibles, 24 tender-assisted units, 375 jackups and 34 drillships.

The number of offshore rigs retired in 2005 totaled 43 compared with only 15 in 2004. Two rigs were considered destroyed and were removed from the fleet totals.

On the plus side, 13 rigs were added to the global offshore fleet in 2005, including eight brought back into service, four newly manufactured rigs and one assembled from parts, according to ReedHycalog.

The global offshore rig fleet, excluding platform rigs and inland drill barges, recorded an 85% utilization rate during the 2005 census period compared with 72% in 2004. Total working rigs were 545 compared with 486 in 2004, an 11% increase in activity.

INTERNATIONAL LAND RIGS

ReedHycalog expanded its rig census in 2005 to include international land rig

activity for the first time. Census criteria for international rigs was made simpler to facilitate the count. For example, active and available rigs were counted without utilizing the 45-day time-frame of the historical US, Canadian and offshore statistics.

Also, some rigs that were technically available were actually contracted and awaiting start of their project.

Additionally, some international regions include large numbers of available rigs, however, these rigs include older technology and it was questioned whether they would be available to move and become marketable outside their present regions.

Not surprisingly, the Middle East has the highest number of rigs, and also posts the highest utilization rate of those rigs at 94%. The region with the next highest utilization rate is Latin America with 86% followed by Africa with 73%, Europe with 72% and Asia with 66% utilization.

RIG OWNERS

While the number of rig owners had fallen steadily since 1987 until 2003, the number of rig owners has increased each year since then.

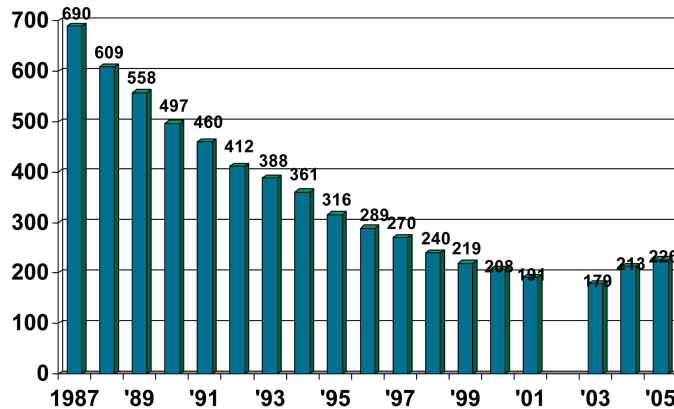
In 2004 the total number of rig owners rose from 179 to 213. In 2005, that figure rose again by 13 to 226 companies.

ReedHycalog said during its presentation of the 2004 rig census that it didn't believe the increase in the number of companies was a trend but rather a result of better accuracy in its own census data. The company also said then that it believed mergers and acquisitions would continue to drive the curve over the years.

However, the company said that while the trend of mergers and acquisitions continues, this year's census has also found a number of new small companies entering a rejuvenated and stronger contract drilling industry, and that the number of new companies in the 2005 census for

the first time are actually newly established companies.

U.S. rig owners 1987-2005



CONTRACTOR CONCERNS

Part of the rig census is a survey that asks drilling contractors to list their top concerns. This year, about 23% (52) of the total contractors surveyed provided that information. Survey participants operate rigs in every US region and a few Canadian markets as well.

In 2004, the top three concerns in order were rig rates, crew availability and insurance costs.

In 2005 the top contractor concern is crew availability, which isn't surprising due to the number of new rigs entering the fleet in 2005 and the high number expected during the next 12 months.

The second highest concern was availability of rig parts. Again, this should-

n't be surprising against the number of rigs entering the fleet in 2005, and the number of rigs expected to be added to the fleet in the next year.

Of the survey respondents, 57% said they plan to expand their current rig fleets during the next five years. Among all of the respondents, they plan to increase their fleets by 77 refurbished units and 73 new rigs.

The third most important concern is rig rates. ReedHycalog said drilling contractors reported an average 18% increase in dayrates this year compared with 2004, with land rig rates posting a 22% increase among US respondents and offshore contractors reporting a 10% increase in dayrates.

Drilling contractors also reported that costs for maintenance and labor are up about 18% in 2005, helping to explain the concern about rig dayrates. Additionally, many drilling contractors also reported increased crew costs, up an average 11% over 2004.

2006 UTILIZATION FORECAST

Last year ReedHycalog predicted that the available rig fleet would grow 10% over 2003's figure to 2,187 rigs. The available rigs actually increased to 2,026, a net gain of 38 units over 2004.

The company also predicted that the number of active rigs would rise to 1,925 units, about a 15% increase over 2004. ReedHycalog was nearly spot on with this prediction as the number of active rigs during the 2005 census period totaled 1,920.

For 2006, Reed Hycalog predicts that the US available rig count could increase by another 3% and that the active rig count could rise by another 5%. Based on these prognostications, according to the company, rig utilization could improve to 97% in 2006. ■

U.S. change in available rigs 1956-2005

