

Outlook by the numbers:

ReedHycalog Annual Rig Census shows US rig fleet nears 2,300, global offshore fleet at 654

THE HIGH OIL and gas prices that the world saw in 2005 continued into 2006, bringing increases in most rig fleet categories and regions and spurring rig owners to mobilize additional units, according to the 53rd ReedHycalog Annual Rig Census.

“Not only has the market upswing encouraged contractors to reactivate or refurbish their inventory of older units, but rig building programs have also been established and are now coming to fruition,” said ReedHycalog president **John Deane**.

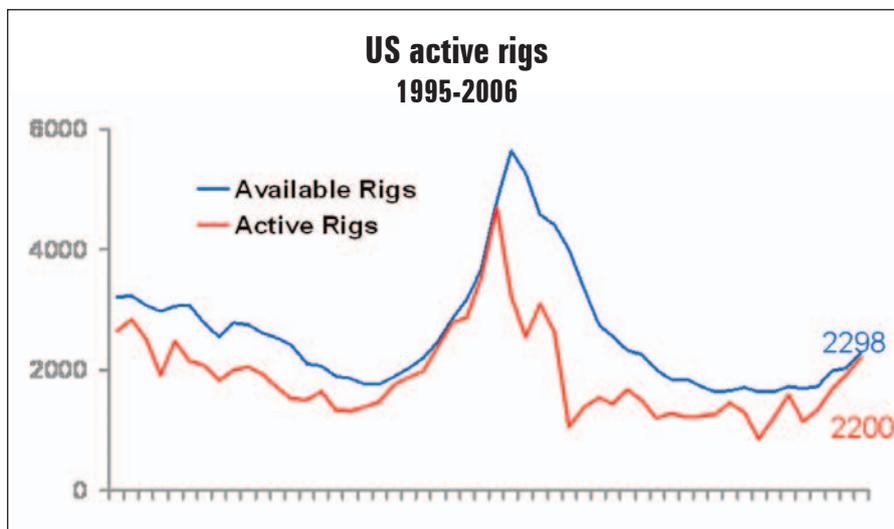
KEY HIGHLIGHTS

- The US rig fleet increased by 272 to 2,298 units. Most of the rig additions were newbuilds.
- The number of active rigs in the US was 2,200, up from 1,920 last year.
- US rig utilization stepped up another percentage point to 96%.
- The total number of US rig owners increased by 31 to 257.
- In Canada, the total fleet went up to 799 from 741.
- Canadian utilization rose 10 percentage points to 84%.
- Worldwide, the offshore mobile fleet gained 13 units for a total of 654.
- Global offshore mobile utilization stayed unchanged at 85%.

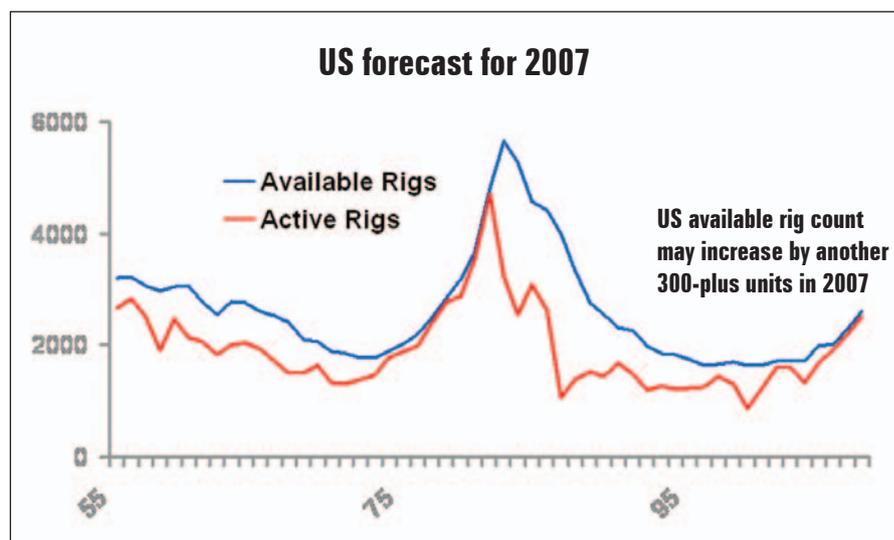
US RIG FLEET

After gaining 211 units in 2005, the US fleet showed solid growth again in 2006, gaining 391 units. Newbuilds numbered 238, making up a significant majority of the 391 additions and representing a 10-fold increase over the 23 newbuilds that were added in 2005. That jump points clearly to the fact that the building boom is in full swing.

Last year, 124 units were brought back into service and 58 were assembled from parts, compared with this year's 95 and 53, respectively. The decreases in both categories indicate the number of avail-



The graph above shows that the US active rig count is up to 2,200 this year out of a total 2,298 available. Rig utilization rose to 96%. The graph below shows the census' 2007 forecast, with utilization expected to stay at 96% and for both the available and active rig counts to increase by approximately 15%.



able rigs/equipment left to bring back is fast dwindling.

Also, 5 rigs were moved into the US this year, compared with 6 from 2005.

There were 119 rig deletions in 2006, compared with 173 deletions in 2005. The “removed from service” category — which includes rigs that have been stacked for more than 3 years, that require significant expenditure to be put back to work, or that were auctioned for parts or taken apart to supply other

rigs — totaled 99 units, down from 141 in 2005.

Strong US rates also kept rigs in the country, with only 14 rigs moved out of the US, compared with 29 in 2005. Six rigs were destroyed by hurricanes in the 2006 census period.

The 391 additions and 119 deletions add up to a net gain of 272 units, pushing the total US fleet to 2,298, up 13% from 2,026 rigs in 2005. The 2,298 rig count sits 60% below the industry's 1986 high

of 5,644 rigs and 40% above the 2000 low of 1,636 rigs.

ACTIVE RIGS

In the 2006 census period, the active rig count climbed by 15% over the previous year, going from 1,920 to 2,200 active rigs. This marks the first time since the mid-1980s that active rigs have topped 2,000.

Rig utilization, defined as the ratio of active to available rigs, was measured at 96% this year. This means 96% of all available rigs worked during the census period, 3 May to 16 June. This 96% utilization perches well above the historic mean for the census' 53 years of 75%. Looking historically, utilization reached its peak in 1981 at 98% and its low in 1986 at 26%.

The census also measured fleet utilization by depth capacity. While all depth ranges saw utilization rates of at least 90%, rigs with deeper drilling capabilities continued to show the most improvement in utilization, rising from 93% last year to 98% this year.

CANADA

The Canadian rig fleet rose to a record 799, which is 8% more than last year and was boosted primarily by newly manufactured rigs and also by rigs assembled from parts. Rig activity jumped 22% to 669 active rigs. This is the 2nd consecutive year that a 22% activity increase was measured.

For utilization, the fleet saw a 10% rise from 74% to 84%. The census noted that the census period occurred outside of Canada's December-March drilling peak.

OFFSHORE MOBILE RIGS

With higher costs and longer lead times, it's no surprise that the global offshore mobile fleet did not see the same growth as the land fleet in 2006 — although dozens of new offshore units are expected to be delivered in the next few years.

Excluding platform and inland barge rigs, the offshore fleet saw a 2% increase (a net gain of 13 units) for a total of 654. There were 29 additions, with 9 of those being newbuilds and 20 being reactivations. In comparison, only 8 were reactivated in 2005. There were also 16 deletions this year, including 10 retirements and 6 destroyed by Hurricanes Katrina and Rita.

The US still dominated the offshore fleet distribution, with 23% of the global fleet.

Other major offshore areas included the Middle East and South America (both 12%), Northwest Europe (11%), Southeast Asia (10%), West Africa (8%), the Indian Ocean (6%), Mexico (5%) and the Mediterranean/Black Sea (4%).

The active offshore rig count went up from 545 to 557, a 2% increase that matched the 2% increase in the total fleet. This meant the utilization rate stayed steady at 85%.

INTERNATIONAL LAND RIGS

This is the second year that the census has tracked international land rig numbers. It measured an overall utilization rate of 95%, up 12% from 2005's 83%. This year, statistics from the former Soviet Union and China were included, although census takers noted some skepticism over the 100% utilization reported from both areas.

Including the former Soviet Union's reported 100% utilization, Europe's overall utilization was 96%. Not including the FSU, Europe's rate drops to 58%. That is a reduction from the 72% measured in 2005 due to higher rig availability this year in Italy and Turkey.

For Asia without China, its utilization was 75%, up from last year's 66%. Factoring in China's reported 100% utilization, that rises to 97%.

Africa, boosted primarily by exceptional performance in Algeria, went from 73% in 2005 to 99% in 2006. The Middle East stood at 88% (down from 94% last year), and Latin America had 92% (up from 86% last year).

US RIG OWNERS

For about 2 decades, there had been a steady and significant decline in the number of US drilling contractors, from 497 measured in 1990 to 179 measured in 2003. While mergers and acquisitions continue, many new companies have been established this year. The count of drilling contractors is now 257, up 31 from last year's 226.

The census also found that more operators are establishing their own drilling companies: 28 operators this year versus 17 in 2005. Operators now own about 5% of the overall US fleet, up from 3% the previous year.

CONTRACTOR CONCERNS

An optional survey, whose participants represented 57% of the total US fleet

and 18% of the Canadian fleet, indicated that drilling contractors were optimistic about their future and believe commodity prices will remain strong for the next several years.

Among the top 3 concerns reported by these respondents, the top 2 remained the same: crew availability and availability of rig parts. In 2005, rig rates was the No. 3 concern. This year, that has been bumped off by concerns over drill pipe replacement. According to survey respondents, maintenance costs also have increased 14% over the past year.

2007 FORECAST

The census predicts that utilization next year will remain strong at 96%. The US fleet could grow by another 300-plus units. The active rig count is expected to increase another 15%. Overall, confidence remains high that commodity prices will stay strong, as will rig demand, activity and utilization.

ReedHycalog works with RigData, Nickle's Rig Locator and ODS Petrodata on the Annual Rig Census. For more information, visit www.grantprideco.com.