AULD LANG SYNE '09

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2009 JACKUP REVIEW

As 2009 draws to a close and 2010 approaches, we are taking a look at the year behind us in the jackup market and providing thoughts and forecasts for the jackup market in the year ahead.

After drilling contractors posted record levels of earnings in the upcycle from 2004-2008, 2009 marked the beginning of an earnings descent likely to continue over the next year or two for many drilling contractors. When E&P spending was curtailed in 2009, rig utilization was quick to follow and leading edge rig dayrates deflated. For the drilling markets, 2009 was in many respects a transition period as market participants adjusted to a new reality defined by lower commodity prices, rig demand, dayrates and utilization. In the second half of 2009, some positive developments have emerged in most rig markets as crude oil prices have recovered materially off their lows, and the broader economy appears to have stabilized.

With oil prices recently stabilizing in the $70-$80 range and some E&P spending budgets likely to modestly rise from 2009 levels next year, many offshore rig markets around the globe appear likely to either experience stabilization or stage some sort of recovery in 2010. In the section below, we review key developments during 2009 for the jackup rig market.

2009 Jackup Market Review

As 2009 draws to a close, signs of stabilization have emerged in the worldwide jackup market. The stabilization, which has come sooner than many industry observers expected, has been largely due to the fact that crude oil prices have more than doubled from the bottom in March 2009. Although leading edge dayrates are well below year ago levels, some rigs have gone back to work, and new contracts or extensions are being secured for others as contracts expire. The result has been fewer additional idle jackups than earlier this year, and the decline in the global jackup rig count has tapered off as some degree of stability has returned.

As the graph below shows, the worldwide jackup rig count began to plummet about five months after the price of crude oil began its sharp descent. About seven months after crude oil prices bottomed, the jackup rig count began to stabilize. The jackup rig count has been moderately stable in the second half of 2009, finding support in the 315-325 range. The contracted jackup count remains well below the peak of just over 380 units in August 2008.

In response to the virtual nonexistence of jackup demand earlier this year, drilling contractors aggressively cold stacked jackups in 2009. While much of the cold stacking activity has occurred in the U.S. GOM (roughly half of all cold stacked jackups are currently located in this region), contractors have sidelined rigs in jackup markets worldwide in response to the downturn. The most pro-active cold stacker, Transocean, currently has just over 20 jackups, or about 1/3rd of its jackup fleet, cold stacked across the globe.

**Global Jackup Market Quick Facts**

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>Approximate proceeds generated by jackup contracts</td>
<td>$18 BN</td>
<td>$19 BN</td>
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<tr>
<td>Average jackups deployed under contract</td>
<td>335</td>
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<tr>
<td>Average jackup dayrate earned</td>
<td>mid-$140s</td>
<td>high-$130s</td>
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<tr>
<td>High jackup dayrate earned</td>
<td>low-$370s</td>
<td>low-$330s</td>
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<tr>
<td>Low jackup dayrate earned</td>
<td>high-$20s</td>
<td>mid-$30s</td>
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<td>Average global jackup utilization</td>
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<td>Approximate new jackup contracts for the competitive fleet</td>
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<tr>
<td>Newbuild jackup deliveries</td>
<td>24</td>
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<tr>
<td>Net change in cold stacked jackup count</td>
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<tr>
<td>Number of cold stacked jackups at year end</td>
<td>61</td>
<td>20</td>
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<td>Jackups sold</td>
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<td>10</td>
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<td>Crude oil Low/High price during the year</td>
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<td>$30/$145</td>
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<td>Average crude oil price</td>
<td>$61</td>
<td>$100</td>
</tr>
<tr>
<td>Natural gas Low/High price during the year</td>
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<td>$5.30/$13.60</td>
</tr>
<tr>
<td>Average natural gas price</td>
<td>$4.00</td>
<td>$8.90</td>
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</table>

*Accounts for developments through early December 2009.
**Average includes dayrates for all contracted jackups in 2009, regardless of fixture date

SOURCES: RigLogix, EIA

Global Jackup Rig Count vs. Crude Oil Price

SOURCES: RigLogix, EIA
This willingness to remove supply from the marketable fleet by cold stacking jackups has played a role in the apparent pricing equilibrium that has developed in late-2009. Unless conditions improve more than expected next year, we believe many of the rigs cold stacked in 2009 are likely to remain out of service until 2011 or beyond.

While jackup fixtures signed in 2009 have lowered the dayrate bar significantly, jackup market dayrates appear to have generally stabilized along with the rig count as the year draws to a close. Although every rig contract signed has its own defining factors that determine dayrate (like rig specs, specific operator requirements and duration), comparing the dayrates of fixtures for similar jackup sub types over time provides perspective on trends in real-time (or leading edge) pricing for new contracts. In the chart below, we plot dayrates by fixture date for premium jackups contracts outside of the GOM meeting our criteria. The chart demonstrates the dayrate decline from peak levels seen in mid-2008 as well as the ongoing stabilization in leading edge dayrates (in the $90-$120k range for premium international jackups).

Also evident in this chart is the scant number of jackup contracts signed in early 2009. The slack in contracting activity coincided with a decline in total jackup fleet utilization from approximately 86% near the end of 2008 to around 73% by mid-2009. It is worth noting that in the first half of 2009, crude oil prices averaged $52, compared to $72 for 2H2009, which bodes well for 2010 and helps explain the recent stabilization.

As we would be remiss to overlook the jackup markets in the GOM and Mexico, the chart below presents the number of new fixtures executed in these markets by quarter since 2008. A similar trend to that observed in other regional markets is evident in the GOM as contracting activity collapsed beginning in late-2008, bottomed in 1H2009 and has subsequently stabilized.

While 2009 was challenging period for the global jackup market to say the least, the last several months of the year have set a more positive tone going into the new year.
With oil prices recently stabilizing in the $70-$80 range and some E&P spending budgets likely to modestly rise from 2009 levels next year, most offshore rig markets around the globe appear likely to either experience stabilization or stage some sort of recovery in 2010. As discussed in further detail below, we forecast the worldwide jackup rig count to increase next year. However, the jackup fleet faces its share of challenges over the next twelve months, and the 2010 stabilization/recovery period will likely be unsynchronized as some rig types and regional markets fare better than others. In the sections below, we preview what 2010 has in store for the jackup rig market.

**Context for the 2010 Jackup Market**

Compared to a year ago, the jackup market is much changed. As the table above shows, going into 2010 there are nearly 3 times as many ready stacked and cold stacked units as there were at the beginning of 2008 and 2009. Global jackup utilization currently hovers around 70%, well below levels in early 2008 and early 2009. In fact, global jackup utilization has only been this low during four periods in the last 20 years. A cursory glance reveals that given the health of the jackup market as 2009 draws to a close, 2010 will begin in a challenging setting.

Although the statistics above highlight a tough environment going into 2010, recent jackup market indicators have been somewhat positive and stability has emerged as rig count and dayrate declines have flattened out (see discussion in our recent article titled 2009 Jackup Market Review). While stability has emerged, the biggest hurdle to overcome before any material leading edge dayrate recovery can occur is the overhang of jackup supply facing the market in 2010. As has been the case in prior cycles, absorption of idle capacity and expansion of backlog will likely be required before material dayrate recovery can begin.

Outside of the U.S. GOM, there are approximately 52 marketable units currently uncontracted, including ready stacked units and units enroute or in the shipyard for relatively short term work. A further 26 competitive, uncontracted newbuild jackups are scheduled for delivery through the end of 2010. In addition, close to 140 jackup contracts are set to expire throughout 2010. The graph below starts with the number of uncontracted marketable units today and accumulates uncontracted newbuild deliveries and jackup contract rollovers for the international fleet jackup fleet over the next year. We have excluded the U.S. GOM from this analysis due to spot nature of the market and minimal newbuilds targeting the region. Importantly, this analysis does not assume any new contracts. Other potential mitigating factors not contracts are set to expire throughout 2010. The graph below starts with the number of uncontracted marketable units today and accumulates uncontracted newbuild deliveries and jackup contract rollovers for the international fleet jackup fleet over the next year. We have excluded the U.S. GOM from this analysis due to spot nature of the market and minimal newbuilds targeting the region. Importantly, this analysis does not assume any new contracts. Other potential mitigating factors not

### 2010 Jackup Market Outlook

#### Going Into The New Year

<table>
<thead>
<tr>
<th></th>
<th>Going Into 2008</th>
<th>Going Into 2009</th>
<th>Going Into 2010</th>
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</thead>
<tbody>
<tr>
<td>Global Jackup Supply</td>
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<td>438</td>
<td>457</td>
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<tr>
<td>Global Jackup Demand</td>
<td>364</td>
<td>378</td>
<td>318</td>
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<tr>
<td>Global Utilization</td>
<td>88%</td>
<td>86%</td>
<td>70%</td>
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<tr>
<td>Global Uncontracted Ready Stacked Units</td>
<td>19</td>
<td>18</td>
<td>55</td>
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<tr>
<td>Global Cold Stacked Units</td>
<td>16</td>
<td>20</td>
<td>61</td>
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<tr>
<td>Earned Dayrate Average</td>
<td>low-$130s</td>
<td>mid-$140s</td>
<td>low-$130s</td>
</tr>
<tr>
<td>Competitive Uncontracted Newbuilds Delivering Next Year*</td>
<td>23</td>
<td>18</td>
<td>26</td>
</tr>
</tbody>
</table>

*Excludes newbuilds on order which will not compete with the global jackup fleet

**SOURCE:** RigLogix

#### 2010 International Jackup Availability
Regions facing the biggest supply challenges include Southeast Asia and the Middle East. Together, two regions alone account for over 60% of the international jackup contract rollovers through 2010 and are also likely target areas for many of the uncontracted newbuilds delivering next year.

Reviewing a mosaic of datapoints on jackup tendering activity, inquiries and recent contract awards, it is clear that jackup demand and bidding activity levels have increased in recent months, a trend likely to continue into 2010. In recent public commentary, drilling contractors have discussed increased visibility on rising jackup demand, and most expect to receive additional inquiries and requirements for jackups in the coming months. Furthermore, many E&P companies are expected to modestly increase their capital expenditure budgets from 2009 levels in 2010. Despite the supply challenges, which are likely to prolong a recovery on the dayrate front, we believe the rig count is headed higher next year (see graph below).

One potential trend to monitor in 2010 is talk of the inclusion of age limits on some recent jackup tenders and an increased focus by operators on high spec and newly built units in recent jackup requirements. With the overhang in supply, operators have the luxury of being somewhat picky when it comes to incremental rig requirements. Contractors with high concentrations of higher spec or recently delivered jackups (like Rowan and Scorpion) have recently disclosed that some tender documents released in 2H2009 have stricter age limits. While it would be an exaggeration to say that older or lower spec jackups will be completely marginalized as a result of this potential trend, it is likely that these units could face more dayrate pressure than higher spec, newer units. Amidst fierce competition for work, owners of higher spec units have the option to step down and compete for contracts with lower spec rigs, potentially forcing some lower spec rigs to keep dayrates repressed in order to stay active. A potential mitigating factor to note here that newly built rig owners, especially unestablished rig owners building rigs on a speculative basis, have higher dayrate hurdles due to financing costs in order to earn acceptable margins.

Currently, the average age of uncontracted ready stacked jackups and cold stacked jackups are 24 and 29 years old, respectively, compared to 22 years old for contracted jackups. Furthermore, utilization for jackups delivered in 2008 and 2009 stands at 79% today, above the global jackup fleet average around 70%. With more deliveries on the way over the next couple of years, it is to be expected that market share for high spec jackups delivered within the last 5-10 years will continue to grow. That said, we would be quick to note that age isn’t everything when it comes to a rig’s desirability. A contractor’s track record, operator needs and relationships, the specific rig’s maintenance and performance records and other factors are all taken into account. In the table above, we break down the jackup fleets of some of the larger jackup contractors by age and spec.

### Historical and Projected Worldwide Jackup Rig Count

**SOURCE:** RigLogix, RigOutlook
2010 RigOutlook for the Jackup Fleet

Although the jackup market faces some significant challenges next year, we believe that the jackup rig count is poised to post gains next year as demand recovers. According to proprietary forecasts prepared by our RigOutlook modeling team, worldwide jackup demand is expected to bottom slightly below current levels in 1Q2010. Our team’s predictive model, which has proven to be highly accurate (approximately 1% margin of error for 3Q09 predictions), forecasts the rig count to exit 2010 at almost 340 rigs, or approximately 7% higher than current levels. Meanwhile, although leading edge dayrates have stabilized as discussed above, average dayrates earned by jackups in most regions are likely to continue to decline as the backlog of contracts signed near the peak of the cycle burns off.

Drawn from the most recent edition of the RigOutlook Jackup Rig Demand report, the charts to the right provide our expectations for contracted jackup rig counts for 2010 for several key regional jackup markets. Interestingly, the rig count in the Arabian Sea is expected to increase over the next year while the rig count in Southeast Asia is forecast to stabilize after recent declines. Meanwhile, the rig count in the North Sea is forecasted to hold steady over the next year. While not shown in the charts below, the average earned jackup dayrate in the regions shown below is forecast to decline between 5-10% in 2010 as contracts with higher dayrates signed near the peak of the cycle roll over.

When reviewing these graphs, please note that the blue line shows the actual number of rigs contracted. For dates in the past, the red line indicates the demand that was modeled using the RigOutlook mathematical model. For our 2010 forecast, the black line indicates a “bullish case” level of demand that might result in the event of oil shortages or supply interruptions that could drive demand above expectations. The green line presents a “bearish case” level of demand that could result if the economic recovery falls short of expectations. The orange line indicates the level of demand that we expect to see over the next year.
In the report below, we review 2009 for the floating rig market. Throughout the report, we refer to midwater, deepwater and ultra-deepwater floaters. To clarify, we define midwater floaters as semisubmersibles and drillships capable of operating in water depths less than 4,000 feet, deepwater as semisubmersibles and drillships with water depths of 4,000 feet to 6,999 feet and ultra-deepwater as those units with a water depth capability of 7,000 feet or more.

2009 Floater Market Review

Although the industry-wide downturn is not yet evident in many common measures of floating rig market strength, the downturn of 2008/2009 certainly marred 2009, which on paper is arguably the strongest year on record for the floating rig market. The 2008/2009 period exemplifies the floating rig market’s resiliency to cyclical downturns in the near-term.

As the chart to the right shows, the worldwide floater rig count actually increased by almost 5% in 2009. This increase was largely due to a “carry forward” of strength from contracting activity prior to the peak of the upcycle in 2008. In fact, the only floater class that has actually sustained a rig count decline since the price of crude oil peaked and fell is the midwater segment, which is characterized by virtually no newbuild activity and shorter contract durations. In contrast, the deepwater and ultra-deepwater rig counts have increased since crude oil peaked, due to limited near-term availability, a significant backlog of long-term contracts and newbuilds delivered under contracts signed in the upcycle. As the year concludes, utilization for midwater floaters stands at 78%, below 91% for both deepwater and ultra-deepwater floaters.

Although leading edge floater dayrates have dropped well below 2008 highs in 2009 (see discussion below), earned dayrates paint a picture of strength similar to rig count trends. In fact, earned dayrates continued to increase for the floating rig fleet throughout the year, and the deepwater and ultra-deepwater fleets are likely to post additional earned dayrate gains through 2011 as new contracts start up and newbuild rigs deliver to commence contracts already fixed.

In 2009, the number of farmed out floater contracts has increased significantly as operators have sought to cut expenses by subletting slots of costly contracted time for ultra-deepwater floaters. In effect, increased levels of subletting cannibalize apparent near-term demand as operators become contractors by releasing contracted units into competition with available units.

Global Floater Market Quick Facts

<table>
<thead>
<tr>
<th>Metric</th>
<th>Low</th>
<th>High</th>
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<tbody>
<tr>
<td>Approximate proceeds generated by floater contracts</td>
<td>$25 BN</td>
<td>$20 BN</td>
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<tr>
<td>Average floaters deployed under contract</td>
<td>194</td>
<td>185</td>
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<tr>
<td>Average floater dayrate earned**</td>
<td>low-$360s</td>
<td>high-$290s</td>
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<tr>
<td>High floater dayrate earned**</td>
<td>low-$660s</td>
<td>high-$630s</td>
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<tr>
<td>Low floater dayrate earned**</td>
<td>high-$310s</td>
<td>mid-$410s</td>
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<tr>
<td>Average global floater utilization</td>
<td>85%</td>
<td>88%</td>
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<td>Newbuild floater construction orders</td>
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<td>34</td>
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<td>Newbuild floater deliveries</td>
<td>23</td>
<td>10</td>
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<tr>
<td>Number of ready stacked floaters at year end</td>
<td>12</td>
<td>4</td>
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<tr>
<td>Number of cold stacked floaters at year end</td>
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<td>5</td>
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<tr>
<td>Floaters removed from service</td>
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<td>Floaters sold</td>
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<td>4</td>
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<td>Crude oil Low/High price during the year</td>
<td>$34/$81</td>
<td>$30/$145</td>
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<tr>
<td>Average crude oil price</td>
<td>$61</td>
<td>$100</td>
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*Accounts for developments through early December 2009.
**Average includes dayrates for all contracted floaters during the year, regardless of fixture date

Source: RigLogix
The chart below depicts the number of farmed out floater contracts we have identified over the course of this decade for the floater fleet, showing the large increase in ultra-deepwater subletting activity since mid-2008. This trend is particularly negative for deepwater units as the ultra-deepwater units being farmed out are likely to compete for work that might ordinarily be completed with deepwater units. Currently, two of the six ultra-deepwater semis currently farmed out are sixth generation units.

One differentiating factor worth noting between the jackup and floater markets in 2009 was the volume differential in cold stacking activity. While cold stackings have likely aided in the recent stabilization of the jackup market (see our recent 2009 Jackup Market Review article for more details), aggressive cold stacking has not been observed in the floating rig fleet largely due to the fact that utilization has held up well for floaters to date. In 2009, global floater utilization only declined from 89% to 85%, compared to a decline of 17% in total utilization for jackups. While the number of jackups cold stacked in 2009 (41) significantly exceeded the number of jackups delivered (24), only five incremental floaters were cold stacked. It is worth noting that all 10 of the floaters cold stacked today are midwater units, which is the only floater class to have suffered material utilization declines in 2009. Like utilization changes, cold stacking of floaters tends to track behind the cold stacking of jackups as well. As shown below, in reaction to the 2001/2002 downturn, the number of cold stacked floaters did not begin to accelerate until late 2002, about a year after jackups were aggressively cold stacked.

Leading Edge Dayrate Trends

Although every rig contract signed has its own defining factors that determine dayrate (such as rig specs, region, specific operator requirements and duration), comparing the dayrates of fixtures for floaters with similar water depths over time provides perspective on real-time pricing trends (or leading edge dayrates) in the floater market. In the sections below, we look back on some recent 2009 contract awards by floater type and compare these to a handful of fixtures signed near the peak of the market (including some awards for newbuilds).
MIDWATER FIXTURES*

Late-2009 Sample

- Desire Petroleum finalized a four-well contract for the Ocean Guardian in early-October 2009 (LOI awarded in September) at a dayrate in the mid-$240s for work offshore South America.
- CNOOC and PTTEP signed short-term contracts for the Actinia in early-November 2009 at a dayrate in the mid-$200s for work offshore Southeast Asia.
- Petrofac signed a short-term contract extension for the Transocean John Shaw in early-December 2009 at a dayrate in the low-$250s for work in the North Sea.

Near Peak Sample

- Maersk Oil signed an 18-month contract for the D/S Deep Venture in late-August 2008 at a dayrate in the mid-$490s for work offshore West Africa.
- Shell signed a two-year contract for the Sedco 704 in early-September 2008 at a dayrate in the low-$420s for work in the North Sea.

*Excludes midwater fixtures signed in the Norwegian sector of the North Sea - a closed market that has commanded a 20-60% dayrate premium to the global midwater average over the past three years.

DEEPWATER FIXTURES

Late-2009 Sample

- Noble Energy signed a one-year contract for the Pride South Pacific in late-July at a dayrate in the low-$320s for work offshore Equatorial Guinea.
- OGX signed a one-year contract for the Ocean Star in mid-October 2009 at a dayrate in the low-$340s for work offshore Brazil. In connection with this award, Diamond agreed to a dayrate concession for the Ocean Quest, also contracted with OGX.
- Marathon signed a 120-day contract extension for the Noble Paul Romano in late-October 2009 at dayrate in the mid-$370s for work in the U.S. GOM.

Near Peak Sample

- Kosmos Energy and Noble Energy awarded over three years of term to the Atwood Hunter in late-June 2008 at a dayrate ranging from the high-$530s to the mid-$540s for work offshore West Africa.
- Noble Energy awarded a two-year contract to the Noble Paul Romano in September 2008 at dayrate in the mid-$600s for work in the U.S. GOM. The contract was later transferred to the Noble Clyde Boudreaux.

ULTRA-DEEPWATER FIXTURES

Late-2009 Sample

- Petrobras agreed to a three-year term for the Cajun Express in late-July 2009 at a dayrate in the low-$510s for work offshore Brazil.
- Noble Energy signed a 455-day contract for the Sedco Express in late-August 2009 at a dayrate in the high-$520s for work in the Mediterranean Sea.
- BP signed a three-year contract extension for the Deepwater Horizon in late-September 2009 at a dayrate in the high-$490s for work in the U.S. GOM.

Near Peak Sample

- Tullow awarded a three-year term to the Eirik Raude in early-February 2008 at a dayrate in the mid-$630s for work offshore West Africa.
- Petrobras awarded six-year terms to the newbuilds West Eminence, West Orion and West Taurus in early-April 2008 at dayrates from the mid-$610s to the high-$640s (inclusive of bonus potential) for work offshore Brazil.

While 2009 was a banner year for the floating rig fleet in terms of “reported results”, more uncertainty exists for floaters over the next several years given the number of rigs, including recently delivered newbuilds, rolling off of legacy contracts signed in the 2006-2008 upcycle.
With oil prices recently stabilizing in the $70-$80 range and some E&P spending budgets likely to modestly rise from 2009 levels next year, most offshore rig markets around the world appear likely to either experience stabilization or stage some sort of recovery in 2010. As discussed in further detail below, we forecast the worldwide floating rig count to remain relatively flat next year as increases in the deepwater and ultra-deepwater fleets are expected to be offset by decreases in the midwater fleet. However, the floater fleet faces an approaching pocket of availability, and the fate of the floaters that become available throughout 2010 and 2011 should provide a good barometer for the health of the market post the commodity price collapse. In the sections below, we preview what 2010 has in store for the floating rig market.

Throughout this report, we refer to midwater, deepwater and ultra-deepwater floaters. To clarify, we define midwater floaters as semisubmersibles and drillships capable of operating in water depths less than 4,000 feet, deepwater as semisubmersibles and drillships with water depths of 4,000 feet to 6,999 feet and ultra-deepwater as those units with a water depth capability of 7,000 feet or more.

Context for the 2010 Floater Market

Circumstances for the floating rig market as 2010 begins are significantly different than at the beginning of 2008 and 2009. When the ball drops and 2010 is rung in, the floating rig fleet will be about 10% larger than a year prior. By the time the current newbuild cycle has wound down and all rigs on order are delivered over the next several years, the floating rig fleet will stand near 310 units - about double its size at the beginning of this decade. Although supply growth is the most obvious change in the floating rig market, there are about twice as many cold stacked and ready stacked floaters today as there were a year ago. Average earned dayrates have marched higher with the commencement of contracts signed near the peak of the market, and floating rig demand measured by rig count is also higher than year ago levels, bolstered by the 23 floaters delivered in 2009.

As shown below, term contracts already locked in will drive the proceeds generated by floating rig contracts higher in both 2010 and 2011 even if no additional contracts are signed. Ultra-deepwater contracts are largely responsible for the 2010-2011 backlog, and E&P capex has increasingly targeted ultra-deepwater rigs as strong crude oil prices and technological

### Annual Floater Contract Proceeds

- **Ultradeepwater**
- **Deepwater**
- **Midwater**
- **Average Crude Oil Price**

Source: RigLogix, EIA
advances have improved ultra-deepwater economics over the last 5-10 years. Ultra-deepwater spending accounted for approximately 37% of floater spending in 2009, up from 29% in 2008. Looking forward, ultra-deepwater constitutes 50% of the 2010 floater contract backlog and just over 60% of 2011 backlog. Worth monitoring over the next several years is the extent to which the increasing commitment to ultra-deepwater rigs will impact demand for 4th/5th generation deepwater semis rolling off contract.

While the offshore rig market today is fundamentally different in many ways as compared to earlier in the decade, a look in the rearview mirror provides context that cannot be overlooked as we move into the new year. The jackup market sustained a much more devastating year statistically than floaters in 2009 (see our 2009 Jackup Market Review), however trends in the floater market have historically lagged those in the jackup market due to differences in contract duration, lead time between fixture and start date and other factors. As the chart above shows, plotting total utilization for jackups versus floaters reveals a significant floater trend lag in the last downturn in the 2001/2002 timeframe. Prior to the 2001/2002 downturn, jackup utilization peaked five months ahead of the floater market. Following the downturn, the jackup market experienced a more V-shaped bottom/recovery while the floater market experienced a more U-shaped bottom/recovery, reaching its lowest utilization level almost full year after the jackup market.

**Global Floater vs. Jackup Utilization Trends**

2001/2002

2008/2009
Jackup utilization peaked in August 2008. Floater utilization peaked four months later in December. Jackup utilization appears to have stabilized towards the end of 2009…

Floater Availability

Partially due to the lack of near-term availability, there have been very few deepwater and ultra-deepwater floater contracts awarded in 2H2009. In fact, a waiting game between operators and contractors has developed as operators look towards the chunk of deepwater and ultra-deepwater contract expirations in 2011. Operators seem willing to wait for the availability to pressure dayrates further before fixing long term contracts, while contractors remain reluctant to succumb to dayrate reductions in order to secure backlog.

The following charts demonstrate the number of floaters becoming available (comprised of both newbuild deliveries and expirations of existing contracts) each quarter over the next two years. It is worth noting that this analysis does not assume any new contract awards or account for other potential mitigating factors like delays or cancellations for newbuilds or cold stacking of units rolling off contract. Looking at availability in 2010, the midwater market faces the biggest supply challenge and will likely see more utilization pressure than the deepwater markets. In fact, approximately 40% of the currently contracted midwater fleet rolls of contract in 2010, compared to only 24% for the deepwater fleet and 12% for the ultra-deepwater fleet. However, moving into 2011, another 26% of the current deepwater rig count will be available and 48% of the contracted
ultra-deepwater fleet will be available. Much of the ultra-deepwater availability comes in 2H2011 as 23 ultra-deepwater rigs are scheduled to become available during those two quarters alone.

While it is still too early to say with certainty how this availability will be absorbed and what it will ultimately mean for dayrates, the lead time between floater fixture dates and start dates will likely continue to decrease for floater contracts awarded over the next year or two as operators stall and contractors resist caving in to lower dayrates. In fact, this trend has already started to play out in the numbers as the average lead time between contract award date and contract start date for 2009 floater fixtures was down about 50% from 2008 levels. Furthermore, the number of floater fixtures signed in 2009 was down materially from 2008 levels. The waiting game and lack of near-term availability will likely result in a somewhat quiet 1H2010 for deepwater/ultra-deepwater datapoints and contracting activity with activity potentially picking up towards the back half of the year.

Although anxiety levels are likely to rise in the floater industry as 2011 approaches, it is important to note that crude oil prices currently stand above the average price for any year except 2008 - a fact which should be supportive of the floater market going forward if the price of crude holds or improves. Interestingly, over half of the contracted floaters on the orderbook today (most of which are ultra-deepwater units) were ordered when crude oil prices were below the $80 mark. Delays or cancellations of uncontracted newbuilds on order could help mitigate the supply situation as well.

On the flip side, many of the ultra-deepwater rigs delivered during this decade will pay back construction costs in full as their contracts generate dayrate over the next several years - a factor which could further pressure dayrates as these rigs become available. Furthermore, the number of days required to drill a ‘pre-salt’ well has declined over the past 2-3 years. The first wells drilled in the GOM and Brazil took 180-240 days on average. Now these wells are being drilled in 90-120 days and further efficiencies could be realized in the new decade. In general, only rigs delivered after 1995 are capable of the reduced drilling time, but with over 70 deepwater and ultra-deepwater rigs on order, this trend’s impact on rig demand will likely begin to play out more fully over the next several years.

In the following table, we provide details on select floating rigs with availability in 2010 for each floater category.

Petrobras remains the principal wildcard in the floater poker game. Petrobras is by far the largest deep and ultra-deepwater rig operator in the world today, and in addition to the 43 floating rigs Petrobras has currently deployed, the NOC is supporting the construction of a further 21 floaters on the RigLogix orderbook. While the NOC plans to satiate its incremental floater demand primarily through newbuilds and local content in the new decade, it is possible that financing difficulties for contractors...
building rigs, infrastructure challenges or the delay of newbuild deliveries could force Petrobras to procure incremental rigs from existing supply over the next several years. If a price war develops in the 2011-2012 time frame, Petrobras may look to lock up available supply for long terms at lower dayrates - a strategy the NOC has exploited in the past.

In late-2009, the Brazilian NOC issued tenders to shipyards for the construction of up to nine rigs to be built and owned by Petrobras. Additionally, requirements for up to 19 rigs were issued to drilling contractors, with deliveries to be staggered from 2014 to 2017. The tenders require that the rigs be constructed in Brazil and meet local content requirements.

2010 RigOutlook for the Floater Fleet

Although the floater market faces increasing uncertainty given the supply poised to become available over the next couple of years, we expect the global floater rig count to float on near current levels next year. According to proprietary forecasts prepared by our RigOutlook modeling team, worldwide floater
demand is expected to average several rigs above current levels in 2010, at 202 units for the year. Specifically, we believe the deepwater/ultra-deepwater rig count will continue to rise (2010 average forecast to be about 20% above 2009 average), offsetting expected decreases for the midwater fleet (2010 average forecast to be 12% below 2009 average). Our team’s predictive model for the floating rig market, has proven to be highly accurate historically. In fact, over the past three years, the worldwide deepwater forecast accuracy is within 13% of actual demand and dayrates. Meanwhile, although leading edge dayrates have decreased as discussed in our 2009 Floater Market Review and may face additional pressure given the availability of floaters over the next 24 months, average dayrates earned by the global floater fleet are forecast to stay roughly in line with current levels next year.

It is important to note that in the graph on the previous page, the <4,000 ft floater category includes North Sea rigs, particularly those deployed in Norway. These harsh environment rigs typically have higher/more stable utilization and help to support the midwater rig count in 2010 in the analysis above.

Drawn from the most recent edition of the RigOutlook Deepwater Demand report, the charts to the right provide our expectations for contracted floating rig counts for 2010 for several key regional markets. Interestingly, the deepwater/ultra-deepwater rig count in the U.S. Gulf is expected to grow by about 17% next year as contracts already in place commence. Meanwhile, the floater rig count in Brazil is forecast to expand to 62 rigs by the end of 2010 compared to 49 rigs today. Alternatively, the deepwater/ultra-deepwater floating rig count in West Africa is forecast to fall a couple of rigs to end 2010 at 21 units. Not shown in the charts to the right, the average earned global midwater floater dayrate is forecast to decline modestly over the course of the year and average in the high-$290s, while the average earned global ultra-deepwater dayrate is forecast to rise modestly and average in the mid-$470s for the year.

When reviewing these graphs, please note that the blue line shows the actual number of rigs contracted. For dates in the past, the red line indicates the demand that was modeled using the RigOutlook mathematical model. For our 2010 forecast, the black line indicates a “bullish case” level of demand that might result in the event of oil shortages or supply interruptions that could drive demand above expectations. The green line presents a “bearish case” level of demand that could result if the economic recovery falls short of expectations. The orange line indicates the level of demand that we expect to see over the next year.
With 2009 in the books, we are taking a look at the year behind us in the rig market and providing thoughts and forecasts for the onshore rig market in the year ahead.

After drilling contractors posted record levels of earnings in the upcycle from 2004-2008, 2009 marked the beginning of an earnings descent likely to continue over the next year or two for many drilling contractors. When E&P spending and activity levels were curtailed in 2009, rig utilization and leading edge dayrates followed. For the drilling markets, 2009 was in many respects a transition period as market participants adjusted to a new reality defined by lower commodity prices, rig demand, dayrates and utilization. In the second half of 2009, some positive developments have emerged in most rig markets as crude oil prices have recovered materially off their lows, and the broader economy appears to have stabilized. In the report below, we review 2009 for the land rig market.

Along with the empirical recovery observed in the rig count, anecdotal evidence supporting the recovery in rig demand has emerged. Commentary from land drilling company management teams in late-2009 has been positive, with contractors noting the strength of land rig demand in shale plays like the Haynesville and Marcellus and increased inquiry levels across multiple markets. Although pricing leverage still lies with operators given the idle capacity on the sidelines, leading edge dayrates appear to have stabilized in most markets for now, and in some cases, small increases have been noted. Additionally, long-term contracts have been signed in the back half of 2009 for some newbuild

2009 U.S. Land Rig Market Review

With the pull back that began in 3Q2008 carrying into 2009, the first half of the year continued one of the largest rig count declines in the industry’s history. However, after 2009 “half-time”, the land rig market began to stage a comeback, with the rig count growing and multiple positive indications emerging in the back half of the year. While the U.S. land rig count today (1,139) remains significantly below year ago levels (1,547) and the 2008 average (1,790), the rig count is now about 40% above the bottom in early June 2009 and almost back to February 2009 levels.

U.S. LAND RIG MARKET QUICK FACTS

<table>
<thead>
<tr>
<th></th>
<th>2009*</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average U.S. land rig count</td>
<td>1,035</td>
<td>1,790</td>
</tr>
<tr>
<td>Average percent of rigs drilling for oil</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>Average percent of rigs drilling for natural gas</td>
<td>75%</td>
<td>80%</td>
</tr>
<tr>
<td>Average horizontal drilling rigs as a % of total</td>
<td>42%</td>
<td>29%</td>
</tr>
<tr>
<td>Average directional drilling rigs as a % of total</td>
<td>19%</td>
<td>20%</td>
</tr>
<tr>
<td>Average vertical drilling rigs as a % of total</td>
<td>40%</td>
<td>51%</td>
</tr>
<tr>
<td>Average reported revenue/rig day**</td>
<td>$22,000</td>
<td>$21,500</td>
</tr>
<tr>
<td>Average reported margin/rig day**</td>
<td>$10,450</td>
<td>$9,950</td>
</tr>
<tr>
<td>Average reported utilization**</td>
<td>41%</td>
<td>80%</td>
</tr>
<tr>
<td>Crude oil low/high price during the year</td>
<td>$34/$81</td>
<td>$30/$145</td>
</tr>
<tr>
<td>Average crude oil price</td>
<td>$61</td>
<td>$100</td>
</tr>
<tr>
<td>Natural gas low/high price during the year</td>
<td>$2.50/$6.10</td>
<td>$5.30/$13.60</td>
</tr>
<tr>
<td>Average natural gas price</td>
<td>$4</td>
<td>$9</td>
</tr>
</tbody>
</table>

*Accounts for developments through late December 2009.
**Includes reported and estimated data for public contractors tracked by Rigzone
rigs, and after a hiatus in the early part of the year, it appears that the spot market for available rigs has returned.

In 2009, market share changes favored those contractors with higher concentrations of high spec rigs. Among the large public contractors that Rigzone tracks, Helmerich & Payne was the biggest beneficiary of this development, averaging 2% higher market share in 2009 year-over-year, while Patterson-UTI averaged 6% less market share over the same period. However, in the final quarter of 2009 Patterson-UTI made some significant rig count increases. Given relatively strong rig demand in emerging shale plays, which generally require higher horsepower rigs than the conventional plays, contractors with higher spec drilling rig fleets have fared better than those with higher concentrations of lower spec units. That said, in late-2009, quite a few lower spec rigs have returned to work on a spot basis as operators looked for low cost approaches to monetize the commodity price recovery.

A Differentiated U.S. Recovery

While the rig count has recovered nicely in 2H2009, the rebound has been bifurcated in two primary ways; oil drilling activity has exceeded natural gas drilling activity and horizontal drilling activity has exceeded vertical drilling activity.

With crude oil prices rallying more than 75% in 2009 while natural gas prices finished the year about flat, oil drilling activity has been the primary demand driver behind the land rig market recovery in the second half of 2009. In fact, since the June land rig count bottom, the oil rig count has more than doubled while the natural gas rig count is up only about 10%. Today, for every U.S. rig drilling for oil, there are approximately two rigs drilling for natural gas, which is the lowest level for this ratio in more than a decade.

In 2009, what is likely a secular variation in land drilling activity continued to develop, as the horizontal rig count
the rise in “market share” of horizontal and directional drilling rigs at the expense of vertical drilling rigs. In 2004, horizontal drilling activity only comprised about 10% of the rig count compared to almost 50% today. Look for the secular shift toward horizontal drilling to continue as the next cycle unfolds and more rigs are deployed in unconventional plays.

For more details on the recent U.S. land rig downturn and the ongoing recovery, please refer to the Rigzone Land Rig Review series.

2009 International Land Rig Market Review

On the international front, the land rig count held up much better overall in the downturn than did the U.S. rig count. However, the overall international rig count (measured by the sum of the rig count in the major markets tracked by Baker Hughes) still stands below year ago levels and fell approximately 16% in the downturn. So far, the international land rig count has recovered approximately 8% from the bottom.

Digging deeper into the regional sectors comprising the international rig count reveals that some markets have held up much better than others. Asia Pacific, which currently accounts for almost 20% of the international land rig market tracked by Baker Hughes, only fell by 8% in the downturn and has subsequently recovered to match its 2008 peak. However, a different story played out in Europe and the Middle East, as the rig count in those regions fell by 45% and 21%, respectively. In the recovery, the European land rig count has recovered 33%, while the Middle Eastern rig count is up about 9%. The table below presents regional rig count statistics for key international land rig markets.

**INTERNATIONAL LAND RIG SUMMARY TABLE**

<table>
<thead>
<tr>
<th>Region</th>
<th>November '09</th>
<th>Year Ago</th>
<th>5 Year Average</th>
<th>2009 Low</th>
<th>2008 High</th>
<th>Downturn</th>
<th>Recovery To Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td>40</td>
<td>55</td>
<td>33</td>
<td>30</td>
<td>55</td>
<td>-45%</td>
<td>33%</td>
</tr>
<tr>
<td>Middle East</td>
<td>221</td>
<td>244</td>
<td>224</td>
<td>203</td>
<td>257</td>
<td>-21%</td>
<td>9%</td>
</tr>
<tr>
<td>Africa</td>
<td>54</td>
<td>45</td>
<td>45</td>
<td>42</td>
<td>55</td>
<td>-24%</td>
<td>29%</td>
</tr>
<tr>
<td>Latin America</td>
<td>284</td>
<td>320</td>
<td>275</td>
<td>268</td>
<td>325</td>
<td>-18%</td>
<td>6%</td>
</tr>
<tr>
<td>Asia Pacific</td>
<td>142</td>
<td>135</td>
<td>125</td>
<td>131</td>
<td>142</td>
<td>-8%</td>
<td>8%</td>
</tr>
<tr>
<td>Total</td>
<td>741</td>
<td>799</td>
<td>701</td>
<td>686</td>
<td>815</td>
<td>-16%</td>
<td>8%</td>
</tr>
</tbody>
</table>

**INTERNATIONAL LAND RIG COUNT* VS. CRUDE OIL PRICE**

*Rig count limited to regions tracked by Baker Hughes

**RIG COUNT BY DRILLING TYPE**

**INTERNATIONAL LAND RIG COUNT**

SOURCE: BAKER HUGHES

SOURCE: BAKER HUGHES, EIA, RIGZONE

continued to rise as a percentage of the total rig count.

Driven by a heightened focus on developing shale play acreage, the shift away from vertical drilling toward horizontal drilling has become empirically visible over the last several years. This trend was not only limited to the recovery phase in 2H2009; the horizontal drilling allocation increased significantly during the pullback as vertical and directional drilling activity levels suffered larger declines. In fact, in 35 of the last 52 weeks, the weighting of horizontal rigs in the total U.S. rig count has increased. In the chart to the left, the average rig count by drilling type is shown over the last several years demonstrating...
With oil prices recently hovering in the $70-$85 range and North American E&P capex expected to rise from 2009 levels next year, the rig count recovery that began in the second half of 2009 appears poised to carry forward into the New Year. As discussed in further detail below, we forecast the U.S. land rig count to rise throughout 2010, exiting the year near 1,385 rigs (compared to 1,167 today). Notable land rig market dynamics to monitor in the New Year include the ongoing secular shift toward horizontal drilling (which has already marginalized some lower spec supply), the rig supply overhang facing the Lower 48 market and uncertainty over the ultimate impact the shale plays will have on natural gas supply/demand fundamentals. In the sections below, we preview what 2010 has in store for the land rig markets in the U.S. as well as some select international regions.

Context for the 2010 Land Rig Market

As the new decade gets underway, the total U.S. land rig count remains about 30% below levels a year ago. However, contrary to the downward trend a year ago, the rig count is moving higher as 2010 begins. Notable differences in the granularity of the rig count relative to prior years include the heavier weightings of oil directed drilling and horizontal drilling in the active rig fleet. In terms of results reported by the large drilling contractors we monitor, utilization stands out as the biggest negative relative to a year ago. Reported margin and dayrate figures remain close to year ago levels, on average, supported by term contracts and the mix shift toward higher spec rigs in the active fleet as utilization has declined.

The graph below shows the roller coaster land rig market participants have been riding lately - a long climb beginning in 2003, a seemingly vertical drop off in 2008-2009 and now another rise fueled by shale activity and higher crude oil prices (more details can be found in our 2009 Land Rig Market Review). While more thrills may be in store, proprietary forecasts prepared by our RigOutlook modeling team forecast the U.S. land rig count to trend gradually higher going forward. The graph below reflects both the historical rig count and our latest projections for the total U.S. land rig count in 2010. Additional forecasts and more details on our expectations for the U.S. rig count in 2010 are provided later in this report.

The production impact from a potential ramp up in rig count and more shale activity should be monitored in 2010, although production declines will likely continue to show up in reported production statistics due to reduced drilling activity over the last 18 months. In fact, the EIA expects a 3% decline in 2010 U.S. natural gas production due to steep declines from initial production for recently drilled wells and the lagged effect of lower drilling activity levels in 2009.
E&P Prospects Looking Rosier as 2010 Gets Underway

Exploration and production companies are starting the year with several advantages working in their favor including lower service/drilling costs, drilling efficiency gains, a rebound in commodity prices and a smattering of borrowing base increases. After sharply curtailing investment plans in 2009 on the heels of the credit crunch and economic collapse, a sense of renewed optimism among E&P companies has surfaced during 2010 budgeting season.

Plans to increase land rig counts in 2010 have been enunciated by E&P company after E&P company. Multiple E&P management teams have discussed strategies to lock in oil service and drilling costs in the late-2009 to early-2010 time frame to ensure that they will be able to operate with lower cost structures throughout the year. While this is unlikely to have a big impact on drilling rig dayrates near-term given the amount of idle capacity yet to be absorbed, it is likely to help tighten the market and result in improving utilization for land rigs over the course of the year.

North American E&P Budget Increases Bode Well for Activity Levels

Given the direct ramifications of E&P capital expenditure programs on rig count and demand for other oil services, we have undertaken a study to evaluate the direction of E&P spending plans for 2010. Specifically, we have focused our efforts on about 30 E&P companies active in the Lower 48 land market. When possible, the portion of capital budgets allocated to U.S. exploration activities targeting onshore prospects has been isolated. Flushed out in more detail in the charts the right, the punch-line of our capital budget evaluation is an expected 10% year-over-year increase in E&P spending plans targeting North American land plays.
For the sample of about 30 E&P companies we considered, planned 2010 U.S. spending totals $28.6 billion, compared to $26.0 billion in 2009. Not surprisingly, the biggest increase in spending plans was found for the small cap independents (+45%), followed by the mid cap independents (+18%) and finally the larger E&P companies (+7%). Less than five of the companies we evaluated plan to materially decrease their 2010 budgets (by 5% or more), and roughly half plan to expand their budgets by 20% or more. The previous chart lays out the estimated percentage change in planned budgets from 2009 to 2010 for each company we evaluated.

Many of the companies in our study appear to be basing their capital spending budgets on oil prices under $80 and natural gas prices at or under $6.00, which implies some upside to planned spending levels if commodity prices rise above these levels for a significant portion of 2010. Furthermore, while most of these companies are planning to spend within cash flow, we are impressed with the level of reinvestment indicated by our budget study.

Study Constituents Comprise Over One-Third of the U.S. Land Rig Market

While there are many E&P companies involved in plays in the Lower 48, we believe our sample provides a good cross section of operators in the land rig market as the companies we studied currently account for more than one-third of the total land rig count. Shown below is the number of land rigs deployed by the companies in our study today as well as near the peak and bottom of the market. This universe of E&P companies still has about 25% fewer rigs contracted today than near the peak of the market, but the rig count for these companies has already recovered about 35% from the bottom.

### Enhanced Drilling Efficiency and Lower Service Costs Support Budget Increases

While the commodity price rebound and the fact that 2009 budgets were slashed certainly explains a portion of the 2010 budget increases, we believe the extent to which drilling/completion costs have declined and drilling efficiency gains are also key factors in the budget and planned rig count increases at this stage in the cycle. Quite simply, better well economics and higher returns are attracting more investment dollars from E&P companies.

One mid cap independent E&P company recently noted that its cost for a completed well in the Piceance Basin is currently tracking around $1.7 million, which is down 20% from the cost to complete a similar well a year ago of around $2.1 million. In the Williston Basin, operators have noted that drilling and completion costs are down about 35-45% relative to year ago levels. It is worth noting that these cost reductions are due to a combination of a reduction in drilling/completion days as well as the deflation in service/drilling costs.

A general consensus seems to be developing among E&P companies that well costs are not going to trend lower indefinitely and are currently approaching a floor. Thus, it seems that many operators, especially those with undeveloped shale acreage, are accelerating their drilling programs for 2010.
2010 RigOutlook for the Land Rig Fleet

With the momentum of 2009 rig count increases carrying into 2010, we expect the U.S. land rig count to rise gradually for the rest of the year. According to proprietary forecasts prepared by our RigOutlook modeling team, 2010 U.S. land rig demand is expected to average nearly 20% above the 2009 average, at around 1,230 units for the year. On the international front, the land rig count is forecast to average 710 units for the year, which is roughly in line with the 2009 average (see previous graph).

Our team’s predictive land rig model passed the test of forecasting the most recent downturn in the Lower 48 land rig market. In fact, the model forecasted a peak in August 2008 (actual peak was in September), was off on the peak rig count by less than 5% and included a significant decline, although the actual decline was even deeper than our forecast.

On the international front, a diffusion of shale drilling technologies from the U.S. to international markets appears to be underway with unconventional gas being targeted in Eastern Europe, Canada and several other regions - a trend that is likely to drive demand increases for high spec rigs abroad.

Drawn from the most recent edition of the RigOutlook Worldwide Land Rig Demand report, the charts to the right provide our expectations for land rig demand in 2010 for several key international markets. Interestingly, the rig counts in the Middle East and Latin America bottomed in late summer 2009, about two to three months after the other regions - a typical pattern that has played out in historical cycles. Canada remains a highly seasonal market, and we foresee the historical pattern of spring breakup followed by increased drilling activity in the latter part of the year playing out again in 2010.

When reviewing these graphs, please note that the blue line shows the actual number of rigs contracted. For dates in the past, the red line indicates the demand that was modeled using the RigOutlook mathematical model. For our 2010 forecast, the black line indicates a “bullish case” level of demand that might result in the event of oil shortages or supply interruptions that could drive demand above expectations. The green line presents a “bearish case” level of demand that could result if the economic recovery falls short of expectations. The orange line indicates the level of demand that we expect to see over the next year.