Major Projects and Operational Trends
Marine Technical Society, Houston Section

28 May 2015 | George Pettigrew, Vice President and Head of Chissonga
Agenda

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2. What happened to oil prices?
3. How is the industry responding?
4. Impacts to contractor demand and supply
5. Macro outlook and cost impact
6. Summary and conclusions
7. Q & A
Maersk Group overview

- Operate mainly in the transport and energy industries
- Approx. 89,000 employees
- 2014 revenue: USD 47 billion

**Companies of particular strategic importance:**

**TRANSPORT**
- Maersk Line
- APM Terminals
- APM Shipping Services

**ENERGY**
- Maersk Oil
- Maersk Drilling

**Strategic investments:**
- Maersk Container Industry
- Höegh Autoliners
Maersk Group portfolio and targets

**Maersk Line**
Self-funded Earnings Before Interest (EBI) 5%-points > peers Grow with market 2014

**Maersk Oil**
400,000 boe/d Return on Invested Capital at least 10% during rebuild 2020

**APM Terminals**
USD 1bn Net Operating Profit After Tax (NOPAT) Global leader 2016

**Maersk Drilling**
USD 1bn NOPAT Significant position in ultra-harsh, ultra-deep 2018

**APM Shipping Services**
Maersk Supply Service, Maersk Tankers, Svitzer and Damco 0.5bn NOPAT Self-funded 2016

**Investments:** Maersk Container Industry, Höegh Autoliners, Others
About Maersk Oil

- Upstream oil and gas company
- Focused international footprint spanning 12 countries
- Track record of unlocking the value from complex energy challenges
- Specialists in applying the right technology solutions for specific customer needs
- Strong focus on safe and responsible operations

**Key figures**

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<tbody>
<tr>
<td>Employees:</td>
<td>4,500</td>
</tr>
<tr>
<td>Operated fields</td>
<td>25</td>
</tr>
<tr>
<td>Gross acreage</td>
<td>54,000 km²</td>
</tr>
<tr>
<td>Operated production:</td>
<td>550,000 bpd</td>
</tr>
<tr>
<td>CEO:</td>
<td>Jakob Thomasen</td>
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What happened to oil prices?
Understanding the 2014 price collapse

At its core, the 2014 price collapse was the culmination of an unsustainable trend in fundamentals at USD 100+ per barrel.

Source: IHS for Maersk Oil
IHS Estimate: Dated Brent to average USD $51-$63/bbl

**Short term oil price outlook (nominal)**

- **Upside:** Additional non-OPEC or OPEC involuntary outages including new Iran sanctions or Venezuela where lower oil prices are compounding economic problems.

- **Downside:** Stronger-than-expected Libyan or Iraqi output; weaker-than-expected Asian demand, increased inventories.

**Long term oil price outlook (nominal)**

- **2008/09 - Demand shock:**
  - Cross industry demand declines
  - Financial and credit crisis
  - Global recession
  - Cost decrease due to lower demand for raw materials

- **2014/15 - Supply shock:**
  - Global economy recovering
  - Lower oil prices, accelerates economic growth
  - Economic growth lead to raw materials demand growth
How is the oil industry responding?
As the price of oil hovers in the $55-65/bbl range and the global supply glut persists, many companies are hitting the “pause” button on the sanctioning of new major capital projects.

Billions of dollars’ worth of spending on major upstream and downstream projects have been placed on hold.
"Challenges during down cycles are more complicated today than before... At this moment, the global industry is poised to potentially cancel about $1 trillion in capital funding.”

– Amin Nasser, Senior VP for Upstream Operations, Saudi Aramco, 9 Mar 2015
Industry responses to lower oil price

**Cost cutting and reduced investment**
- Relative to 2014, a total of US $120 billion (24%) has been cut from upstream budgets in 2015 \(^1\)
- Exploration spending cuts; some E&P companies reducing planned investments by as much as 80% (compared to 2014)

**Strategy review and portfolio rationalisation**
- Companies “pause” investments in new projects. Large number of projects are challenged at $45-60/bbl
- Investments in existing assets are being reduced, while many pre-FID projects in deepwater, oil sands and the arctic are reconsidered
- Companies considering portfolio disposals as part of overall response

**Acquisitions and divestitures**
- Lots of (distressed) assets on the M&A market. Companies with limited flexibility to cut spend are ‘forced’ sellers
- Uncertainty about valuations. Players take time to react/wait for sign-posts on shape of oil price recovery

**Industry examples:**
- **bp**
  - Freezes salaries for 84,000 staff globally.
- **Suncor**
  - Restructured and laid off 1,000 employees as a direct response to the low oil price. Spend USD 15 billion less than planned over the next three years.
- **Husky Energy**
  - Giving up exploration in Angola and the Norwegian Arctic.
- **Statoil**
  - Husky has deferred a 2.8 billion oil-sand project offshore Canada.
  - Statoils 540 MMBBL oil discovery, Johan Castberg, has been deferred.
- **Shell**
  - Makes USD 70 billion bid for UK’s BG Group.
- **Apache**
  - Divestment of Malaysian assets. Price of USD 2.0 billion.
  - Apache divested non-core conventional gas assets in Southern Louisiana for an aggregate USD 1.4 billion.

*Source: Wood Mackenzie, Companies’ capital budget for 2015*
US$60/bbl breakeven still puts many projects at risk
Spending on sanctioned projects expected to continue as planned; pre-FID projects face delay/cancel risk

Committed vs. uncommitted topside projects

<table>
<thead>
<tr>
<th>Year</th>
<th>Committed %</th>
<th>85%</th>
<th>48%</th>
<th>17%</th>
<th>5%</th>
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<tr>
<td>2015</td>
<td>98%</td>
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<td>2019</td>
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<td>5%</td>
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Source: IHS for Maersk Oil
High cost deepwater project developments most likely to be pushed back

Development project by water depth

© 2015 IHS

Source: IHS for Maersk Oil
Global uncertainty for major capital projects

Setbacks for selected upstream developments

- Dec 14: Chevron Rosebank FID pushed further back
- Mar 15: Statoil delay 15000.00s Castberg + Snorre C
- Jan 15: Premier delays Vette
- Dec 14: ExxonMobil + Rosneft scrap Arctic deal
- Jan 15: Statoil put Greenland on ice
- Mar 15: ConocoPhillips cancels Tommeliten A.
- Mar 15: BP delays Sullom Voe terminal
- Dec 14: Chevron abandon Ukrainian shale
- Feb 15: South Stream cancelled
- Jan 15: Kinder Morgan withdraws application for Lobos CO2 pipeline
- Feb 15: BP delays Mad Dog II
- Dec 14: Excelerate put Lavaca Bay FLNG on hold
- Jan 15: Shell to retender Bongo Southwest/Aparo
- Jan 15: Total retenders Zinia Ph. 2
- Feb 15: Cobalt delays FID on Cameia
- Jan 15: Premier delays Sea Lion
- Dec 14: Woodside delays Browse FEED
- Feb 15: Santos postpones Ande Ande
- Feb 15: Shell cancels Arrow LNG

Legends
- Cost/oil price related
- Politically/other relate

Source: IHS for Maersk Oil
Impacts to contractor demand and supply
Major contractors in O&G industry should be busy in 2015 with ongoing projects, but will position for uncertain future.

**Contractor new orders development**

- New orders all segments March 2010-December 2014
- Large contracts awarded for projects not yet sanctioned—future backlog at risk?

**Contractor backlog development**

- Backlog all segments March 2010-December 2014

**Global development in FEED awards**

- Accumulated Visible FEED* Contract Awards

**Comments**

- New orders increased by 18% quarter on quarter and 21% year on year mainly driven by very strong order intake in the EPC segment during the first half of the year.
- Subsea Equipment and Construction yards have seen the strongest year on year declines annual order intake down 17% and 30% respectively.
- Large EPC contracts awarded for projects not yet sanctioned during the first half of 2014 could mean that some of the future backlog is at risk.
- Overall backlogs increased by 9% year on year, however has seen quarter on quarter declines through the last half of 2014.
- Backlog in the offshore construction vessel segment declined 8% year on year, while the EPC backlog grew by 23%. The two remaining segments saw a relatively flat development during 2014.
- FEED awards were down 21% in both 2013 and in 2014.

*Includes contracts defined as either conceptual study or FEED.
Future cost cutting scope limited by already pressured contractor margins
Rig market experiencing increasing pressure

Source: IHS for Maersk Oil
Macro outlook and cost impact
Global economic growth to improve

Annual GDP growth forecasts

2013: World GDP +2.6%
2014: World GDP +2.8%
2015f: World GDP +3.0%
2016f: World GDP +3.4%

Regional GDP growth 2012–19

© 2015 IHS

** North America includes United States and Canada, but not Mexico.

Source: IHS Economics; 23 February 2015.
Steel prices expected to increase with global economic growth

- Oversupply and more recently cheaper iron ore have pressed steel prices down
- Prices will rebound on improved demand following higher activity in US and world economy

*Source: IHS for Maersk Oil*
Equipment/bulk costs lowered on weaker demand outlook; however, costs will trend upward in 2016
Summary and conclusions
Summary and conclusions

- **Oil price outlook**
  - Longer and deeper oil price decline compared to 2008-09
  - Upward pressure longer-term, gradual recovery towards 2020

- **Operators and demand outlook**
  - Increased focus on cost/capital discipline; upstream spending to decline ~15% in 2015
  - Offshore seeing slower reaction than onshore due to longer average duration of projects
  - Large number of ongoing projects and NOC spending limits overall industry downturn

- **Contractors and supply outlook**
  - Strong backlogs among major contractors
  - Quick to respond to downturn, cutting costs and reducing capacity

Source: IHS for Maersk Oil
Summary and conclusions

- **Global economic outlook**
  - Unlike the recession in 2008-09, global economy is now growing
  - Lower oil prices to enhance recovery in global economic growth

- **Cost development**
  - Raw material prices expected to increase with stronger economic growth
  - O&G costs expected down in 2015, then increasing with underlying raw material prices

- **Sourcing implication**
  - Increasing buyers’ negotiation power expected as demand tumbles in 2015
  - Highest cost-cutting potential within drilling and other vessel-based segments

**Now is the time to start positioning for the next industry upturn.**

*Source: IHS for Maersk Oil*
Questions