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MARKET FORECASTS

Floating to a buoyant future

The floating production market is to continue to develop through to 2010 says **Owen Williams**, analytical services manager at Infield Systems (**Booth 2459**) in today's exclusive sector forecast.

The global market for floating production systems, which has grown consistently throughout the past decade (both in terms of units and expenditure), is forecast to continue to develop through to 2010, with the announcement of new projects and increased innovation expanding the sphere of opportunity. The third edition of the *Global perspectives floating production market update to 2010*, produced by Infield Energy Data Analysts, provides key market information on the nature and scale of this growth and its underlying drivers.

The last five years have seen an acceleration in the rate of the growth of this vibrant market, on the back of the increased development of deep and ultra-deepwater fields. This is a trend we expect to continue in numerical if not financial terms. A total of 138 units are forecast to be installed in the period to 2010, compared with 73 in the past five years. Sixty two of the units expected to come onstream through to 2010 will be located in deep or ultra-deepwaters, compared with just 34 between 2001-2005.

Financially the industry is rapidly approaching what we believe will be the peak of capital expenditure on the current wave of floating production systems, which we expect to occur this year with an annual expenditure expected to total over \$6.7 billion. This is not to suggest that the market is entering a period of long term decline, but that a combination of a significant number of hub developments, within a short timeframe has created an artificial spike in market spend.

While the surge in current market activity in Asia and Latin America is a major factor strengthening floating production capital expenditure for the period to 2010, the continued dominance of large floating production projects offshore West Africa (driven by such key deepwater FPSO installations as Kizomba C, Plutonio, Akpo and Agbami) is the defining characteristic of market activity through to 2010. While subsequent levels of activity are expected to tail off slightly in the currently booming Asian and Latin American markets, annual expenditure in Africa for the period to 2010 will not peak until 2010 (reaching approximately \$2.2 billion).

Looking beyond this year's expected peak Infield believes the floating production sector will continue to maintain a pivotal position within the offshore industry, combining with increasing levels of innovation to provide a firm basis on which the offshore industry will continue to flourish. Prospects out towards 2008/09 and beyond actually show an increase in the number of proposed facilities but these will be more varied in size, design and field objectives. Indeed floating production activity is forecast to experience growth in every region other than North America through the period 2006-2010, relative to the previous five years period.

High oil prices have had the effect of moving forward the long list of identified prospects waiting to be developed, particularly in shallow waters. Indeed the vast majority of floating production facilities due to be installed over the next five years are increasingly directed towards specific fields with smaller associated developments and so are generally smaller and less capital intensive.

We have continually expressed the belief that the current driver of global activity, deepwater developments, would experience a relative slowdown in comparison with the hectic pace of the last few years. The deepwater sector is still

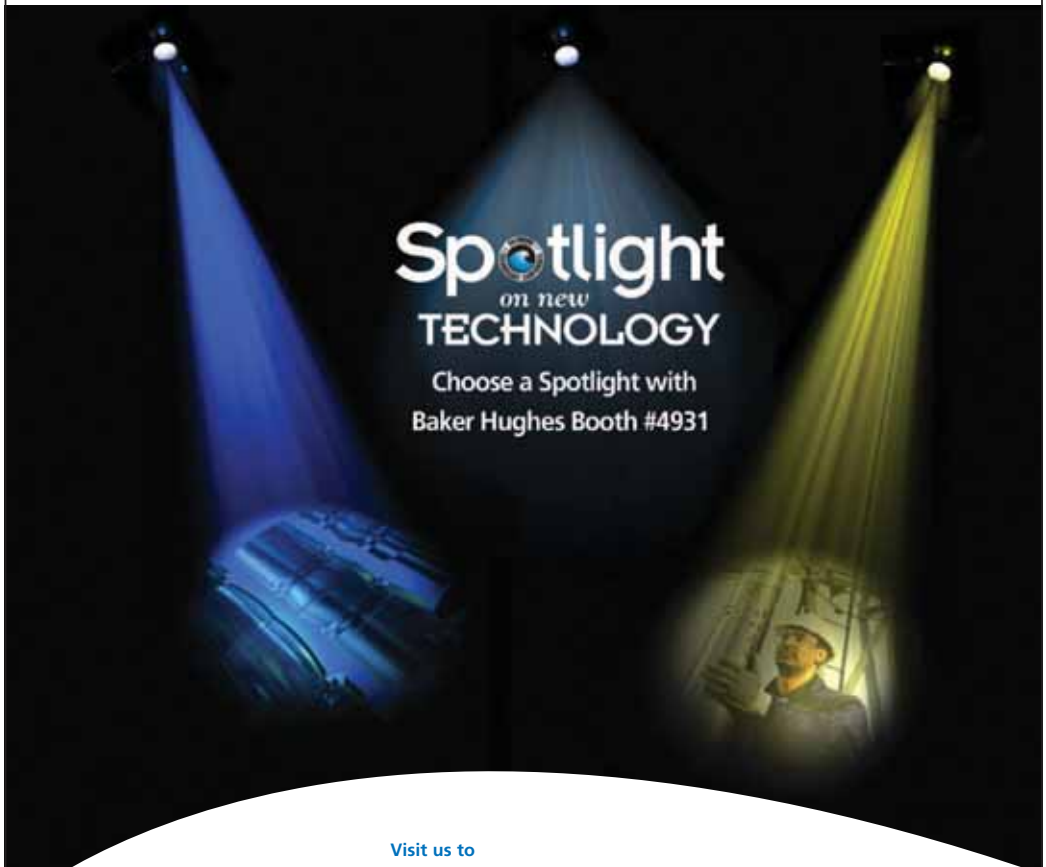
moving ahead, representing 59% of expenditure over the next five years, but without the concentration of multiple large projects that

have artificially inflated the expenditure profile of the last few years.

The relative balance between newbuild and

converted vessels is expected to be maintained even as the number of facilities increases and the overall value decreases. Furthermore, as the demand for floating production systems continue to grow we see an increasing number of redeployments, a phenomenon we expect to continue, even with its inherent difficulties, partly as a consequence of schedule pressures, but also a reflection of small field developments becoming economic under the current oil price.

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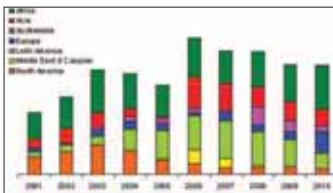
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