

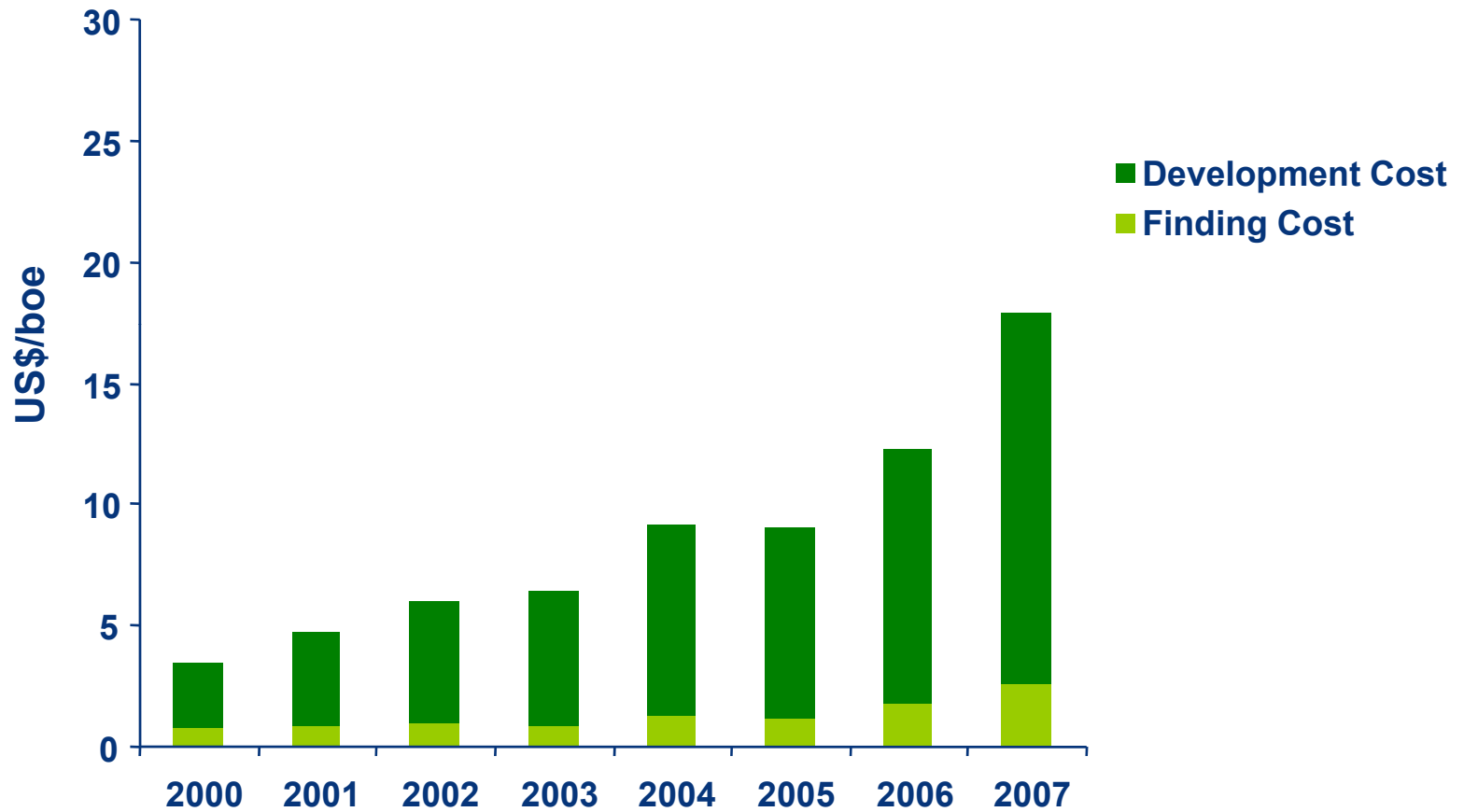
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Reported upstream costs have risen sharply...

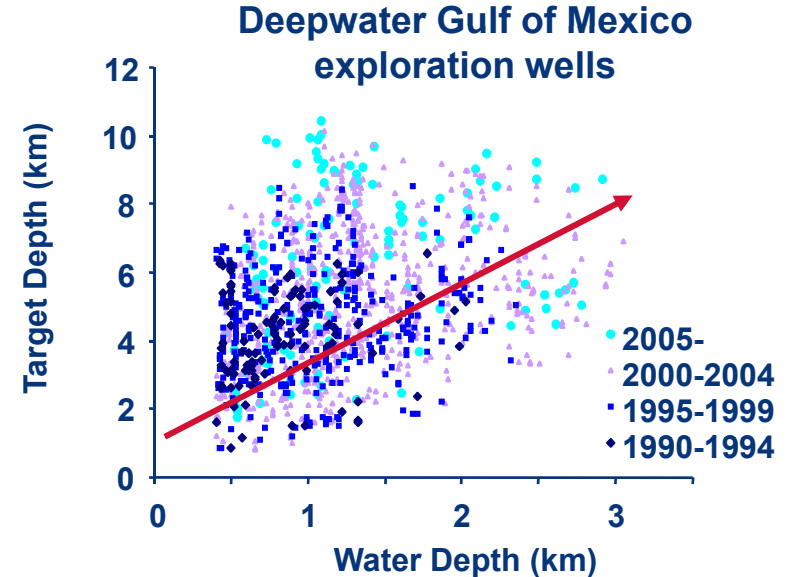


Source: Wood Mackenzie, company reports. Includes BP, Chevron, ConocoPhillips, ExxonMobil, Shell, Total

The three key drivers for these increases are...

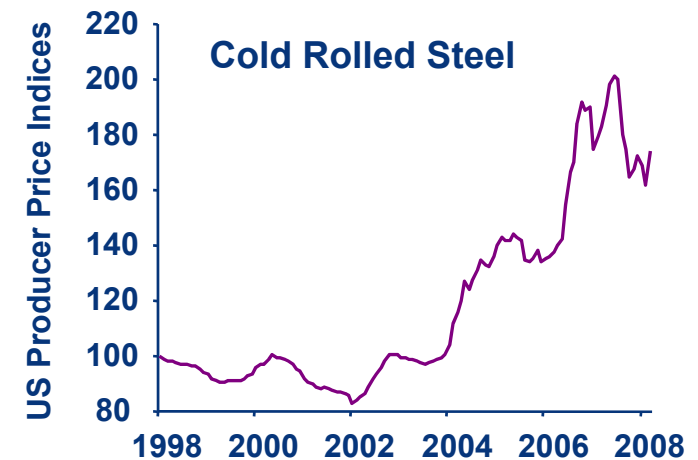
The industry is developing tougher reserves

- Remoter locations
- Deeper water – see chart
- Deeper reservoirs – see chart
- Tighter reservoirs



Labour and raw materials cost inflation

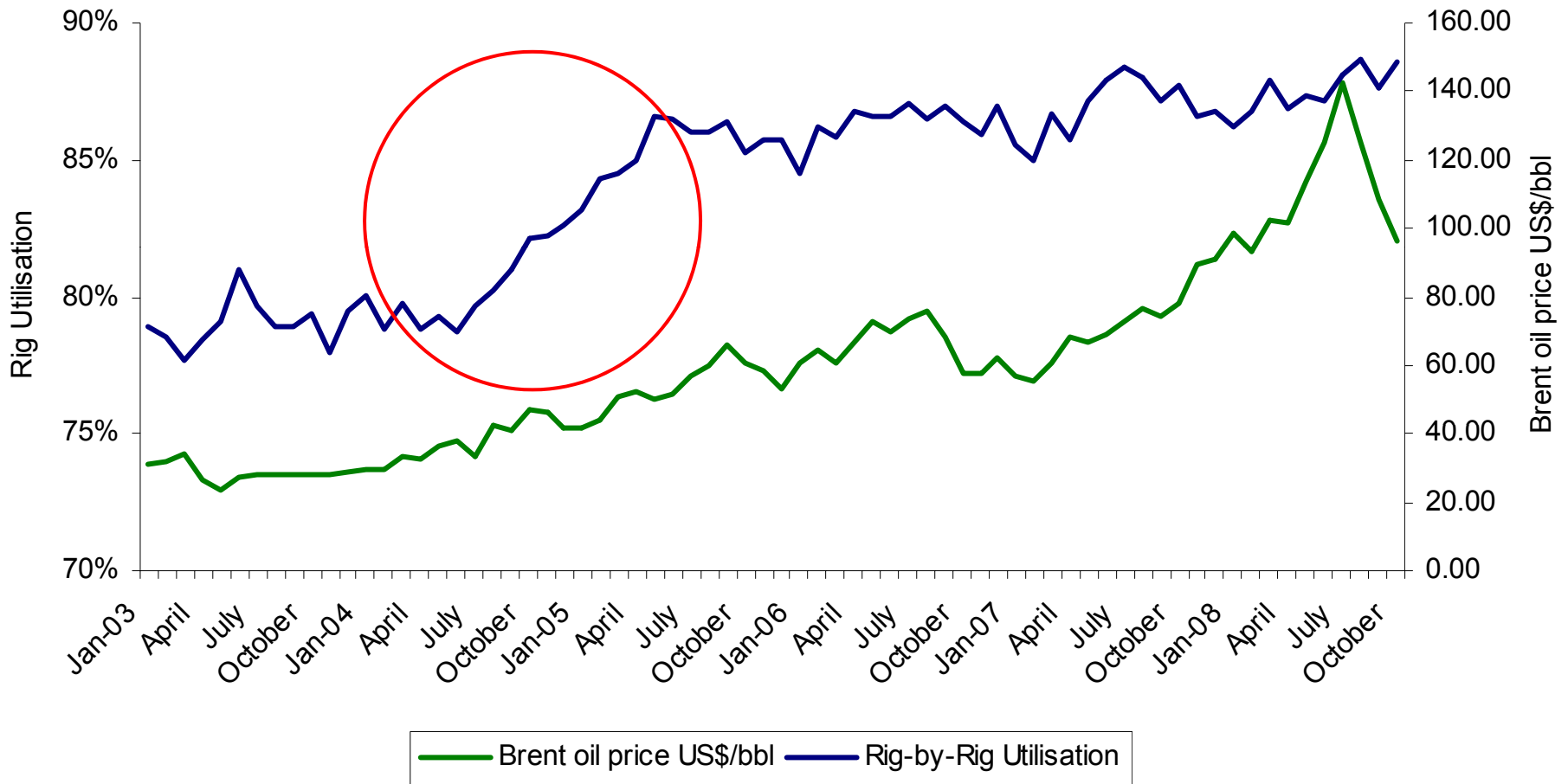
- Salaries
- Steel price – see chart
- Fuel price



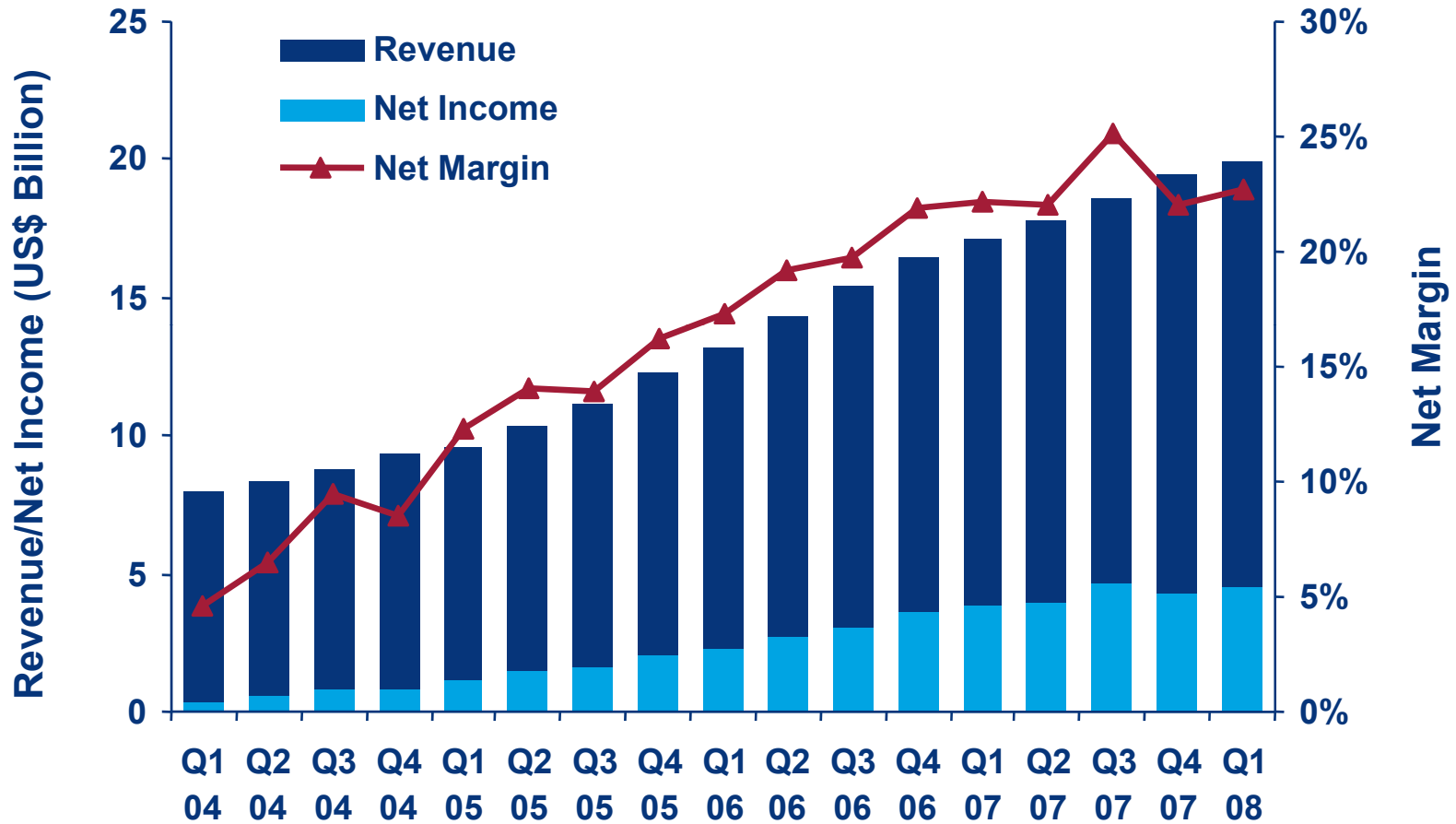
Higher service sector margins

- Demand for their services exceeds supply
- Long lead times to build capacity

The relationship between rig utilisation and oil price is less pronounced than might be expected

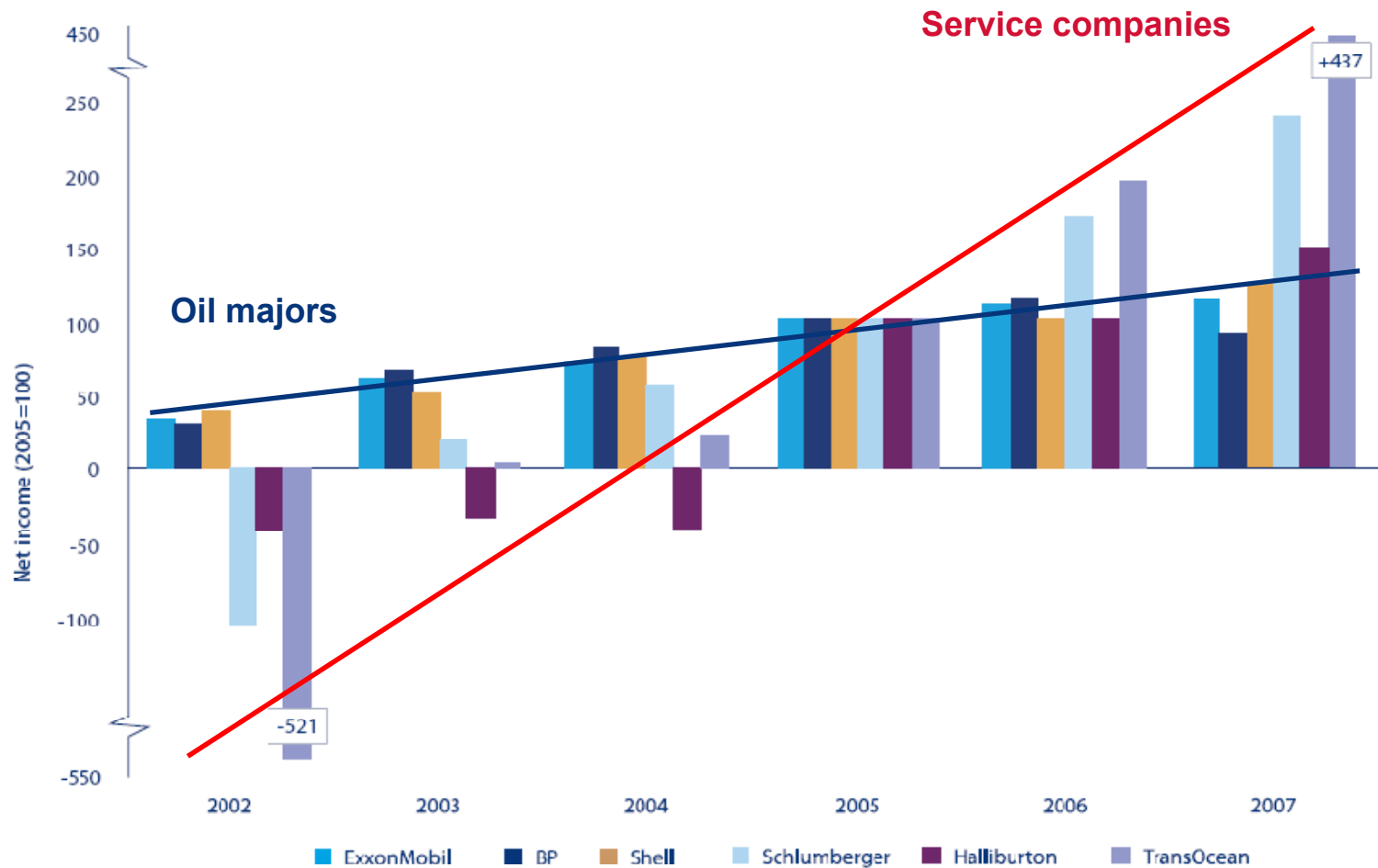


As the service sector's capacity has become constrained, its margins have improved



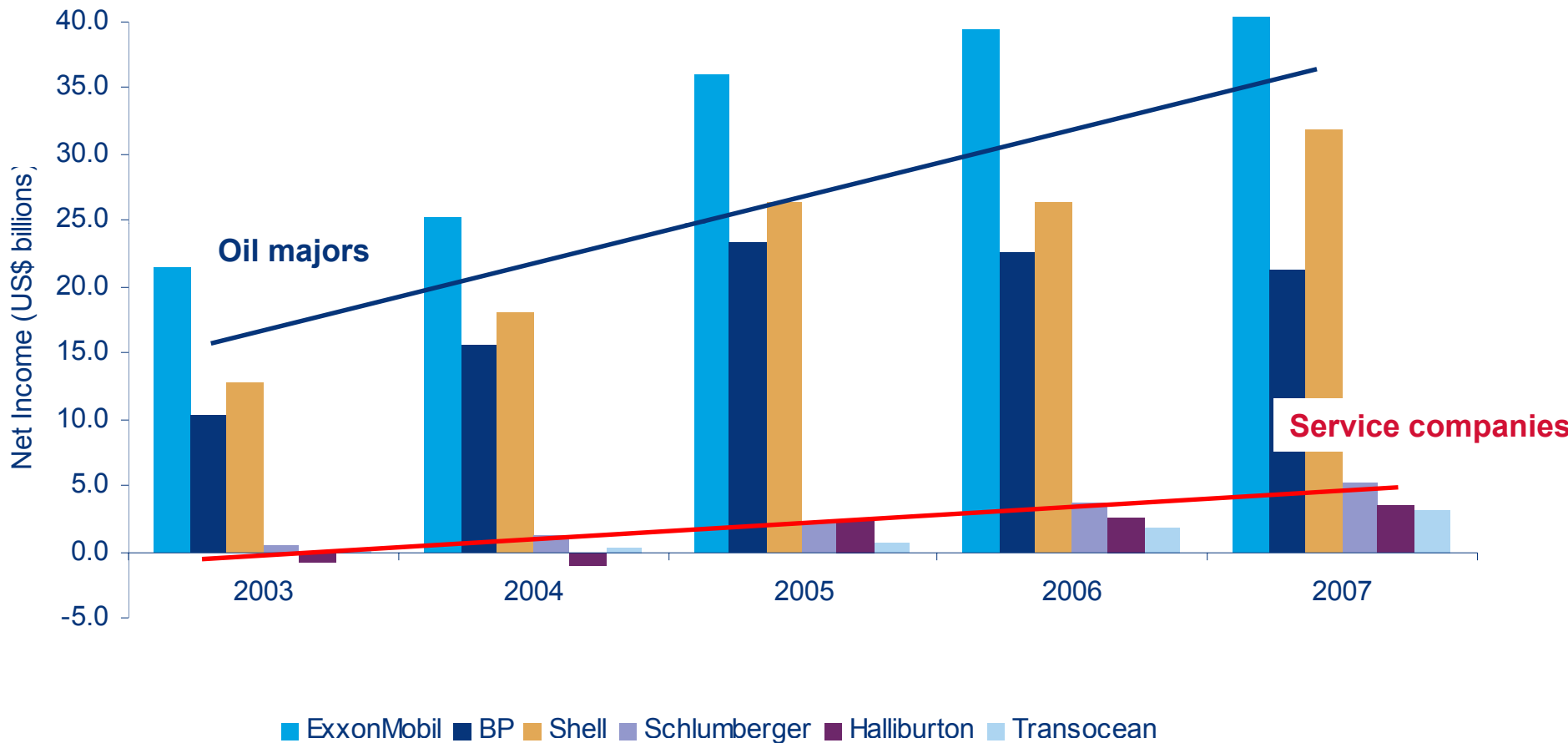
Source: Wood Mackenzie, company reports. Includes Schlumberger, Baker Hughes, Transocean, Weatherford, Smith International, Noble corporation, Global Santa Fe, Diamond, Enso, Pride, Rowan

However the sector's recent strength has grown from a low base



Source: Wood Mackenzie, company annual reports.

Although in dollar terms, the service sector operates on a different scale to the super majors



o what does this mean for the proposed LNG projects in Australia....

The proposed Australian LNG projects are not immune to cost inflation

This cost inflation is driven by:

- High demand for materials, labour and the service sector skills.

Capital costs are unlikely to fall in line with the recent fall in the price of oil in the short term

- Unless the oil price fall is sustained
- and/or projects are delayed or shelved.

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