

HORIZON OFFSHORE SERVICES

Global Offshore Intelligence & Advisory Division
Market Intelligence Report · May 2026 ·

THE GREAT OFFSHORE DRILLING MARKET RECKONING – MAY 2026

Upcycle, Discipline & the Race Against Demand

Strategic Assessment of the Global & U.S. Offshore Drilling Markets · Prepared by Horizon Offshore Services

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|--|--|---|---|
| \$43.8B Global Market (2025) Est. by Mordor / Fortune BI | \$87.5B Projected by 2034 7.87% CAGR | 502 Active Global MODUs 80% Utilization - 2025 Census | 94% Drillship Util. (2027F) Westwood / Wood Mackenzie |
| \$450K 7G Day Rate Benchmark Transocean Barents, Apr 2026 | \$102B Petrobras Capex (-2028) 280 pre-salt wells | 49 Rigs Active in Brazil 33 actively drilling - Mar 2026 | 86.5% Drillships: Golden Triangle Brazil · GOM · W. Africa |

PREPARED BY: Horizon Offshore Services - Executive Leadership & Client Advisory

CLASSIFICATION: Strategic Market Intelligence

Numeric Sources: Westwood Global Energy Group · Wood Mackenzie · Esgian Rig Analytics · SPE-JPT · Drilling Contractor · Deepwater Insight · Bloomberg · Company Filings

Foreword from Horizon Offshore Services

At Horizon Offshore Services, we have navigated every major offshore cycle of the past three decades - from the shallow-water boom of the 1990s to the deepwater renaissance of the 2000s, through the catastrophic 2014 - 2020 collapse, and now into what we assess to be the most consequential structural inflection in the history of our industry.

This report represents Horizon Offshore Services definitive assessment of where the global offshore drilling market stands, where it is heading, and - most critically - how our clients, partners, and stakeholders should position themselves to capture the opportunity and navigate the risk that lie ahead. The analysis draws on Horizon's proprietary market intelligence network, decades of operational and commercial experience in every major offshore basin, and the most current third-party research available from Westwood Global Energy Group, Wood Mackenzie, Esgian, and the authoritative publications of the drilling industry.

We do not deal in comfortable consensus. The pages that follow represent Horizon Offshore Services unvarnished, authoritative perspective on the five questions that will define the next decade of offshore drilling. Our clients deserve nothing less than clarity, precision, and the courage to call the market as it is - not as the industry might wish it to be.

Horizon Offshore Services - Global Offshore Intelligence & Advisory Division

Houston · Louisiana · Greece · May 2026

Executive Summary: The Inflection Point Is Now

The global offshore drilling market stands at its most consequential structural juncture since the 2014 collapse. Horizon Offshore Services' assessment is unambiguous: this is not a transient recovery. It is a structural transformation - one driven by irreversible deepwater capital commitments, a fleet that cannot respond quickly to demand, and a supply side that has been permanently rationalized by a decade of financial discipline.

With the global market valued at approximately US\$43.8 billion in 2025 and trajectory-locked toward US\$87.5 billion by 2034 at a compound annual growth rate of 7.87%, the magnitude of this opportunity is not in dispute. What is contested - and what Horizon Offshore Services resolves definitively in this report - is the timing, architecture, and distribution of returns across the cycle. The five strategic questions addressed herein are the ones our clients are asking us daily, and our answers carry the full weight of Horizon's analytical authority and market access.

▶ **HORIZON OFFSHORE SERVICES - CORE ASSESSMENT (MAY 2026)**

▶ *The offshore upcycle is structural, not cyclical. Supply scarcity is now a managed strategic asset.*

- ▶ *Newbuild drillships remain disciplined through 2027. The trigger is US\$550K+/day sustained for 7G units.*
- ▶ *Day rates will surge materially in 2027 - 2028 as reactivation pools exhaust and demand locks in.*
- ▶ *Brazil, Guyana, Namibia, and the GOM (GOA) create a synchronized demand wave that supply cannot match.*
- ▶ *The 2026 - 2027 contracting window is the last opportunity to secure long-term coverage at competitive rates.*

Scaling the Markets: Global & U.S. Offshore Drilling by the Numbers

The Global Arena: A US\$43.8 Billion Industry in Structural Acceleration

Horizon Offshore Services analysis of the global Mobile Offshore Drilling Unit (MODU) fleet - cross-referenced against the 2025 NOV Rig Census, Westwood RigLogix data, and Wood Mackenzie's floating rig demand forecasts - establishes the following as the authoritative market baseline for 2025 - 2026.

The global MODU fleet comprises 629 rigs, of which 502 are active at a marketed utilization rate of 80% - the second-highest since 2015. Within this fleet, the drillship segment is the market's primary value driver: utilization among marketed drillship units ran at 91% in 2025, rising to a projected 94% in both 2026 and 2027 per Westwood. This is the operating margin between functional supply and structural scarcity - and Horizon's intelligence confirms that this gap will not be resolved by reactivations alone.

The rig type breakdown by revenue share reveals the market's true center of gravity: Jack-ups command 43% to 45% of revenue, anchored by prolific Middle East and Southeast Asian shallow-water programs; drillships account for 26% to 34% of revenue but carry a 7.05% CAGR through 2030 - the fastest growth rate of any rig class, driven by ultra-deepwater pre-salt and frontier development; and semisubmersibles represent 20% to 25% of marketed capacity, with high-specification harsh-environment units on the Norwegian Continental Shelf commanding rates that are setting international benchmarks.

| Region | 2025 Revenue | Share | 2025–2030 CAGR | Primary Demand Driver |
|-------------------------------|--------------|--------|----------------|----------------------------------|
| Asia-Pacific | \$18.11B | 41.4% | ~3.4% | CNOOC, Petronas, ONGC deepwater |
| Middle East & Africa | \$9.82B | 22.4% | 5.57% | Saudi Aramco, ADNOC, Angola |
| Latin America (Brazil-led) | \$3.82B | 8.7% | 4.7% (fastest) | Petrobras pre-salt, Búzios FPSOs |
| Northwest Europe | ~\$5.5B | ~12.6% | ~3.8% | Norway NCS harsh-env semisubs |
| North America (US GOM) | ~\$3.75B | ~8.6% | ~3.2% | Ultra-deepwater drillships |
| Rest of World (Namibia, etc.) | ~\$2.8B | ~6.4% | ~5.1% | Namibia, Suriname, frontier |

The U.S. Market: Disciplined, Concentrated, and Strategically Loaded

The United States offshore market - centered entirely on the Gulf of Mexico - is, in Horizon's assessment, the world's most specification-intensive and price-insensitive offshore basin. With a market value projected to reach US\$3.75 billion by 2032, the GOM is defined not by rig volume but by the quality and commercial terms of every unit deployed. Virtually every contracted floater in the GOM is a premium sixth- or seventh-generation drillship. This is not a market that tolerates compromise.

The 2025 Rig Census recorded 94 U.S. offshore rigs - four fewer than 2024 - while U.S. oil production simultaneously hit a record 13.4 million barrels per day. This structural decoupling of rig count from output growth is permanent and reflects the technological superiority of the surviving, high-graded fleet. The GOM's 27 to 28 active rigs operate at 89% to 91% utilization - a level that Westwood's Americas Research Director Cinnamon Edralin describes as a "very balanced market with a limited number of players." The concentration of supermajors in the GOM - ExxonMobil, Chevron, Shell, BP - creates a structural demand floor that is insulated from the price volatility that affects shallower, more competitive markets.

Drillship activity in the Golden Triangle - South America at 43.2% of contracted units, U.S. Gulf at 28.4%, and West Africa at 14.9% - collectively accounts for 86.5% of all contracted drillship activity globally. The GOM's position within this Triangle is not merely geographic; it is strategic. It is the basin that sets day rate precedents and contract structure standards that cascade through the entire global market.

Question I: Are We Entering a Prolonged Upcycle for Offshore Drilling?

Horizon's Answer: Yes - and this upcycle is categorically different from every prior cycle in the industry's history. It is not driven by speculative capital or commodity price euphoria. It is driven by structural supply scarcity meeting irreversible, multi-decade deepwater demand. That combination is the most powerful - and most durable - pricing force in any commodity market.

Since the 2014 to 2016 collapse evaporated hundreds of billions in contractor equity, cold-stacked an entire generation of floaters, and forced mass consolidation across every tier of the service industry, the global offshore fleet has contracted dramatically and permanently. The industry lost not just rigs, but the institutional capacity and financial appetite to build new ones quickly. Now, as multiple deepwater hotspots simultaneously enter their most capital-intensive development phases, the demand signal is multi-year, contractually committed, and geographically diverse.

The Evidence Is Overwhelming - And Horizon Has Been Here First

Petrobras alone has earmarked US\$102 billion to drill 280 additional pre-salt wells through 2028, and is adding 14 new offshore production units between 2025 and 2028 - each requiring 12 to 15 development wells to bring online. ExxonMobil's Guyana operations generated US\$10.4 billion in profit in 2024 from Stabroek's 11-plus billion barrels at a US\$30 per barrel breakeven - one of the most economically durable deepwater franchises in the world. Namibia's Venus field, at over 3 billion barrels with production costs below US\$20 per barrel, is locking in first-oil ambitions for the early 2030's, requiring years of pre-production drilling that will compete for the same narrow pool of qualified rigs.

In Norway - a market Horizon monitors with particular intensity - Transocean's April 2026 announcement of the Barents securing a US\$450,000 per day rate on a 1,095-day contract with Vår Energi is not a data point. It is a directional signal. Norwegian operators, who operate some of the world's most technically demanding programs, are locking in multi-year coverage at rates that affirm contractor confidence in the upcycle's durability.

The short-term turbulence - Petrobras delaying its Búzios contract decisions into 2026, the Saudi Aramco jackup suspension cascading sentiment downward through late 2025, Wood Mackenzie's floater demand average falling from 121 rigs in 2024 to 107 in 2025 - is tactical noise against a structural signal of extraordinary power. Westwood projects marketed drillship utilization recovering to 94% in both 2026 and 2027, with the 2027 tightening Edralin characterizes as substantial. The trajectory is set. The only variable is pace.

"Horizon Offshore Services commercial & technical teams have seen every offshore cycle since 1994. This one is different - not because the demand is louder, but because supply is no longer able to respond."

| Market Indicator | 2024 | 2025 | 2026F | 2027F | Horizon Read |
|----------------------------------|----------|----------|---------|----------|---------------------------|
| Marketed Drillship Util. | ~92% | 91% | 94% | 94%+ | Structurally tight |
| Marketed Semisub Util. | ~85% | 84% | 88% | 92% | Accelerating |
| Marketed Jackup Util. | ~94% | 89–90% | 90–91% | 91%+ | Stable recovery |
| Active Global MODUs | 512 | 502 | ~505 | ~510+ | Flat to slight growth |
| Floater Demand (ex-China/Russia) | 121 avg. | 107 avg. | 106 | 110+ | Inflecting upward |
| UDW Benign Floater Day Rate | ~\$440K | ~\$425K | ~\$415K | ~\$450K+ | Near-term dip, then surge |

▶ HORIZON OFFSHORE SERVICES — UPCYCLE CONVICTION STATEMENT

We are not entering a boom. We are entering a decade of structural scarcity. The contractors who managed supply discipline through 2025–2026 — Transocean, Valaris, Noble — are now holding the assets that operators will fight for from 2027 onward. Horizon Offshore Services advises clients to treat the current softness not as a red flag, but as the last entry point before the cycle asserts its full pricing power.

Question II: Will Newbuild Drillships Re-Enter the Conversation, or Will the Industry Remain Capital Disciplined?

Horizon's Answer: Capital discipline holds through 2027 - but it will crack. The newbuild conversation is not a question of if; it is a question of who moves first, at what day rate,

with what contractual backstop. And the contractor who moves too early will destroy the rate environment they were trying to capitalize on.

Why the Scars of 2016 Are Still Governing Behavior

During the 2011 to 2014 supercycle, contractors ordered drillships at US\$700 million to US\$800 million per hull — vessels that arrived into a market where day rates had collapsed from US\$600,000-plus to below US\$150,000. The industry lost an estimated \$20 billion to \$30 billion in enterprise value. Transocean, Diamond Offshore, Seadrill, Paragon, Vantage, and Pacific Drilling all went through bankruptcy or near-bankruptcy processes. The institutional memory of that destruction is embedded in every board room, every lending committee, and every equity analyst covering the sector in 2026.

The fleet management behavior of the major contractors confirms that discipline is not merely stated — it is being executed. In 2025, Transocean divested six drillships and two semisubmersibles. Valaris sold three semisubmersibles and one jackup. Noble divested three floaters. This is deliberate fleet high-grading: Reducing unit count while concentrating ownership in the premium assets that will command the highest rates in the tightening cycle. The industry is managing scarcity as a strategic weapon, not waiting for the market to deliver it.

The Newbuild Economics - Why the Threshold Is Higher Than Most Believe

At current construction costs of US\$700 million to US\$850 million per hull — plus US\$50 million to US\$100 million in yard preparation, US\$30 million to US\$50 million in integrated systems commissioning, and 24 to 36 months of construction — a contractor would need sustained day rates above US\$550,000 to US\$600,000 per day over a minimum contractual horizon of seven to eight years to achieve returns that justify the capital risk. On a present-value basis, with a cost of capital above 10% for energy infrastructure in the current financing environment, the hurdle is even higher.

Current day rates — sixth-generation drillships in Brazil at US\$280,000 to US\$365,000 per day on a local-adjusted basis, seventh-generation units targeting US\$420,000 to US\$540,000 internationally — do not clear that bar. Norway's US\$450,000 per day Barents contract is compelling directional evidence, but it is a single data point. Sustained, multi-basin rate discovery above US\$550,000 per day for new awards would be the genuine trigger — and Horizon Offshore Services assesses this is a 2027 to 2028 phenomenon, not a 2026 one.

Where the Edges Are Already Cracking

The Eldorado Drilling sale of the seventh-generation newbuild drillships Dorado and Draco to Turkey's TPAO represents the most significant newbuild-adjacent transaction of this cycle. These were vessels completed at a Korean yard during a prior cycle, acquired by TPAO at what Horizon Offshore Services assesses as a distressed valuation relative to replacement cost, for sovereign resource development purposes. This is not market-driven newbuild activity. It is an opportunistic strategic acquisition by a national oil company — and it removes two potential competitive supply units from the market while demonstrating that yard-ready assets have real strategic value.

More structurally significant is the reactivation pipeline: the Tidal Action (formerly West Libra), a seventh-generation drillship reactivated at Hanwha Ocean's yard and contracted to Petrobras for approximately \$500 million total contract value. This reactivation-to-contract model — the industry's first line of supply response — is nearly exhausted. Horizon Offshore Services estimates that no more than five to eight commercially viable drillship reactivations remain globally, and this pool will be substantially depleted by mid-to-late 2026.

"Newbuilds are a 2028 - 2030 story. The capital conversation opens in late 2027. Whoever orders first shapes the next decade — but whoever orders too soon destroys the rate environment they were betting on."

| Scenario | Day Rate Trigger | Order Window | Delivery | Horizon Probability |
|---------------------------------|-------------------|--------------|-----------|---------------------|
| Discipline holds — no orders | Sub-\$500K | N/A | N/A | 60% |
| 1–3 NOC-backed strategic orders | \$500K–\$550K | Late 2027 | 2030–2031 | 28% |
| Full newbuild cycle re-opens | \$550K+ sustained | 2028 | 2031–2032 | 12% |

▶ HORIZON OFFSHORE SERVICES — NEWBUILD POSITION STATEMENT

Horizon Offshore Services advises all contractor clients: do not order before the market gives you three consecutive quarters of 7G day rates above US\$540,000 in non-Brazil markets. Do not allow the fear of missing the cycle to force premature capital commitment. The yard lead time works in your favor — any order placed in 2027 will not compete with today's tight market. Order discipline today is rate protection for 2027 - 2030.

Question III: How Will Day Rates Evolve as Availability Tightens Further?

Horizon's Answer: Day rates are in the last innings of a tactical soft patch. The 2026 softness is real, temporary, and entirely consistent with the structural bull case. By 2027, the combination of exhausted reactivation supply, synchronized deepwater demand, and contractor pricing discipline will deliver a day rate environment materially superior to anything the industry has seen since 2013.

The 2025 - 2026 Soft Patch: Diagnosing the Dip

Near-term drillship rates fell below US\$400,000 per day for several spot transactions in late 2025 and early 2026 — a development that caused alarm among equity investors but which Horizon Offshore Services had anticipated in its Q3 2025 client briefings. The dip reflects the confluence of three tactical factors, none of which are structural: Petrobras's deliberate delay of its Búzios and Mero contract decisions into 2026, creating artificial gap windows in contractor schedules; the Saudi Aramco jack-up suspension of more than 40 units in 2024 cascading negative sentiment across all rig classes despite being jackup-specific; and an emerging global crude supply glut that pressured oil company capital allocation committees into deferral mode.

Wood Mackenzie estimates ultra-deepwater benign floater rates averaged approximately US\$425,000 in 2025, dipping modestly to around US\$415,000 in 2026 — a decline of approximately 2.4%. In the context of

a structural upcycle building toward 2027, this is not a reversal. It is a pause. And pauses, in Horizon's experience, are where the best long-term positions are built.

The Brazil contracting dynamic from Petrobras's Búzios and Mero tenders in early 2026 is instructive for understanding the bifurcation within the market. Brazilian regional contractors — Foresea, Constellation, Ventura — accepted sixth-generation drillship rates of US\$280,000 to US\$300,000 per day in headline terms, reflecting both their lower-cost domestic operating structures and their strategic prioritization of utilization over rate. Adjusting for Brazil's cost framework, these rates are internationally equivalent to approximately US\$340,000 to US\$365,000, consistent with what Transocean's Deepwater Orion achieved at a blended US\$365,000 adjusted rate. The market is not breaking down — it is segmenting. And that segmentation is creating opportunities.

The 2027 Inflection - Horizon's Rate Forecast

Seventh-generation drillship contractors are making the most consequential strategic bet in the current market: accepting shorter Brazil extensions of approximately 365 days rather than locking into multi-year commitments at depressed rates. Seadrill's decision to move the seventh-generation West Carina out of the Brazil market, and Noble's absence of the Faye Kozack from the tender process, are explicit expressions of conviction that international rates will be materially higher by 2027. Horizon agrees with this positioning entirely.

Norway has already provided the 2027 rate preview: Transocean's Barents, a sixth-generation harsh-environment semisubmersible, locked in US\$450,000 per day on a 1,095-day contract with Vår Energi in April 2026. For seventh-generation drillships in premium international markets — U.S. GOM (GOA) ultra-deepwater, West Africa deepwater, Norwegian Continental Shelf frontier — the 2027 tightening points to sustained rate discovery in the US\$480,000 to US\$560,000 range. Horizon's base case for peak 2027 to 2028 rates on top-specification units is US\$500,000 to US\$580,000 per day — a 25% to 40% premium over current soft-patch spot rates.

| Rig Segment | H1 2026 (Actual/Est.) | H2 2026F | H1 2027F | Horizon Peak (2027–28) | Horizon Signal |
|------------------------------|-----------------------|---------------|---------------|------------------------|---------------------|
| 7G Drillship — Premium Intl. | \$415K–\$520K | \$415K–\$520K | \$450K–\$560K | \$500K–\$580K | ● Strong Buy Signal |
| 6G Drillship — Benign Env. | \$340K–\$450K | \$360K–\$450K | \$390K–\$470K | \$430K–\$510K | ● Constructive |
| Harsh-Env 6G Semisub (NCS) | \$420K–\$530K | \$430K–\$540K | \$450K–\$555K | \$460K–\$570K | ● Benchmark Leader |
| Standard Harsh-Env Semisub | \$200K–\$250K | \$210K–\$260K | \$230K–\$270K | \$250K–\$290K | ● Stable |
| Premium Jackup (Harsh-Env) | \$130K–\$185K | \$130K–\$190K | \$140K–\$200K | \$150K–\$220K | ● Recovery Mode |

► **HORIZON OFFSHORE SERVICES — DAY RATE ADVISORY POSITION**

Operators with uncontracted 2027 - 2028 drilling programs are in the danger zone. Every month without coverage is a month closer to the rate surge window. Horizon Offshore Services is actively advising operator clients to engage contractors now on multi-year terms — accepting modest 2026 day rates in exchange for 2027 - 2030 program certainty. The blended cost of early commitment will be substantially below the spot market reality of a tightened 2027 market.

Question IV: Can Supply Realistically Keep Pace with Brazil's and Other Deepwater Hotspots' Ambitions?

Horizon's Answer: No. Not without structural supply expansion that the market is not currently positioned to deliver on the timeline required. The demand ambitions of Brazil, Guyana, Namibia, and the synchronizing global deepwater portfolio will materially outpace the available supply of qualified drillships from 2027 onward. This is the defining supply-demand imbalance of the decade.

Brazil: The Single Most Consequential Drilling Market on Earth

Horizon Offshore Services operates with particular depth and conviction in the Brazilian market, where our intelligence network extends from Petrobras's Búzios development operations through the regional driller community to the subsea supply chain that supports pre-salt production. The numbers are extraordinary: as of March 2026, 49 offshore drilling rigs are operating in Brazilian waters, with 33 actively drilling. Petrobras's Búzios field alone has surpassed 900,000 barrels per day of production. Valaris - one of the most analytically rigorous voices in the contractor community - estimates that Brazil will contribute nearly one-third of all global drillship demand through 2029.

The FPSO expansion program is the deepest structural driver of this demand. Petrobras is adding 14 offshore production units between 2025 and 2028, and each vessel requires 12 to 15 development wells drilled before meaningful production can begin. At that well-per-FPSO intensity, the implied drilling requirement is between 168 and 210 development wells in a four-year window - in addition to the ongoing infill and workover programs required to maintain production at existing fields like Búzios, Mero, Sapinhoá, and Roncador. This is not a drilling program. This is a drilling imperative.

Petrobras's recent contracting behavior reveals the tension between its ambitions and its current leverage. The Búzios and Mero tenders yielded day rate concessions - reductions coupled with extensions - that Petrobras leveraged from a position of temporary surplus availability in 2025. Sixth-generation units received multi-year extensions at US\$280,000 to US\$300,000 per day locally. Seventh-generation units accepted only short 365-day extensions, preserving their optionality for international markets. The pattern reveals that sophisticated contractors understand exactly when Petrobras's leverage peaks and when it reverses. By 2027, when the FPSO fleet is operational and production targets become production imperatives, Petrobras will be competing - not negotiating.

The Synchronized Global Deepwater Surge - Horizon's Basin-by-Basin Assessment

What makes this cycle uniquely challenging for supply is not any single basin. It is the synchronization. For the first time in the offshore industry's history, six major deepwater basins are simultaneously at or approaching peak drilling demand intensity within the same three-to-five-year window.

- ▶ Brazil (Santos and Campos Basins) : Peak FPSO deployment 2025 - 2028, requiring continuous ultra-deepwater drillship commitment. Constellation alone holds 25% of Brazil's rig market. Petrobras's US\$102 billion capex program is non-negotiable.
- ▶ Guyana (Stabroek Block) : ExxonMobil's franchise generating US\$10.4 billion in 2024 profit accelerates development. Every new Yellowtail-class FPSO requires multi-well pre-production drilling. Guyana's production capacity is expanding toward 1.3 million barrels per day by 2027.
- ▶ Namibia (Orange Basin) : Venus (3B+ barrels) and Mopane-3X both in appraisal-to-development transition. First oil ambitions for early 2030's require sustained exploration and appraisal drilling through 2028.
- ▶ Norway NCS : Aker BP's Omega Alfa, Equinor's sustained programs, and Vår Energi's multi-rig commitments lock up harsh-environment semisubs at rates that are setting global benchmarks. Not competing with Brazil's drillships - but absorbing every available harsh-environment floater.
- ▶ West Africa (Angola, Congo, emerging Namibia) : Azule Energy's Gajajeira find, Galp's Mopane-3X, and the broader Sub-Saharan exploration renaissance require deepwater drillships at exactly the same specification - and in the same vintage years - as Brazil's program.
- ▶ U.S. Gulf of Mexico : The Shenandoah field expansion from 120,000 to 140,000 BOPD, Armstrong's Sockeye-2 development, and Oxy's Baqiyah discovery continue to sustain ultra-deepwater demand in the world's most commercially disciplined basin.

The total marketed drillship fleet is approximately 85 units globally. Of these, seven to ten are in mobilization, maintenance, or transitional status at any given time, leaving approximately 75 to 78 working units. When Brazil absorbs 30% to 35% of supply, Norway and the NCS lock up a significant portion of harsh-environment floaters, and the GOM commits its 28% of the Golden Triangle's drillship activity to multi-year programs, the buffer available for Guyana, Namibia, West Africa, and Southeast Asia is structurally inadequate to meet simultaneous development ambitions. This is not a forecast. It is arithmetic.

▶ **HORIZON OFFSHORE SERVICES — SUPPLY GAP ASSESSMENT**

Horizon's basin-by-basin demand modeling projects a structural shortfall of 8 to 14 qualified drillship-months per quarter beginning in Q3 2027, assuming no newbuild deliveries and current reactivation trajectories. This is the gap that will drive day rate appreciation. Clients positioned with contracted rig capacity entering this window will have a decisive competitive advantage over operators who enter the spot market.

Question V: How Quickly Will Supply Respond - And What Does the Race Look Like?

Horizon's Answer: Supply cannot respond quickly enough to prevent a significant rate surge in 2027 - 2028. The structural barriers to supply expansion - exhausted reactivation pools, constrained shipyard capacity, prohibitive financing conditions, and 24-to-36-month construction lead times - create a window of three to four years during which demand will materially outpace available supply. This is the window Horizon Offshore Services is positioning its clients to exploit.

Phase 1: Reactivation - The First Line Is Nearly Exhausted (2023 - 2026)

The cheapest and fastest supply response mechanism has always been the reactivation of cold-stacked and warm-stacked assets. In 2023 to 2025, approximately 12 drillships and 12 semisubmersibles were identified as reactivation candidates globally. The best of these - represented by the Tidal Action / West Libra reactivation at Hanwha Ocean for Petrobras at a US\$500 million total contract value - have already found contracts. Horizon's proprietary reactivation database indicates that no more than five to eight commercially viable drillship reactivations remain globally.

The remaining cold-stacked candidates are characterized by one or more of three disqualifying conditions: technical obsolescence (fifth-generation specification units that cannot compete for current deepwater programs); structural degradation after extended cold-stack periods requiring US\$150 million to US\$250 million in capital restoration; or ownership complexity, with rigs held in bankruptcy estates or by non-operator financial entities unwilling to fund reactivation at current market rates. The reactivation pool will be effectively depleted by mid-to-late 2026, removing the market's safety valve precisely as demand is building toward its 2027 peak.

Phase 2: The Newbuild Decision Window - The Critical Juncture (2026 - 2027)

With reactivations exhausted, the industry enters the newbuild decision window - the period during which the choice between order discipline and speculative commitment will shape rate outcomes for the remainder of the decade. Horizon Offshore Services assessment, stated plainly: The barriers to newbuild supply are higher in 2026 than at any point in the previous cycle, and they are rising.

Korean shipyard capacity - the only source of premium drillship construction - has been systematically redirected toward LNG carriers, containerships, and offshore wind installation vessels. Samsung Heavy Industries, Hyundai Heavy Industries, and Hanwha Ocean - the three yards capable of building seventh-generation drillships - are operating at near-full capacity with backlogs extending into 2029. A new drillship order placed in 2026 or 2027 would face delivery in 2030 to 2032. The market impact of any order placed today is not felt until the next decade - a structural lag that is a floor under day rates through 2030.

Financing conditions compound the barrier. Bank lenders who sustained US\$15 billion to US\$20 billion in offshore energy loan losses between 2016 and 2020 require extraordinary credit support - a sovereign-backed NOC, a major oil company take-or-pay contract backstop, or equity terms that price in a cost of capital above 12% - before committing to newbuild project finance. These conditions demand day rates materially above US\$550,000 per day to deliver investable returns.

Phase 3: The Rate Surge Window — The Opportunity (2027 - 2030)

The combination of Phase 1 exhaustion, Phase 2 capital barriers, and synchronized deepwater demand creates what Horizon Offshore Services assesses as a three-to-four-year window of extraordinary rate appreciation beginning in Q3 2027. This is the window Horizon Offshore Services has been preparing clients to position for since our Q2 2024 strategic advisory. The contractors who will capture it most fully are those with high-specification fleets, contracted backlog that generates cash flow through the soft patch, and the financial flexibility to capture incremental premium in a tightening market.

Transocean - with 24 ultra-deepwater units including the deepest-water-rated vessels in the world - is the primary beneficiary. Noble, with 24 floaters following the Diamond Offshore acquisition, holds the most diversified deepwater fleet. Valaris's Brazil-anchored DS-series drillships, including the DS-4 extended through 2030 at US\$447 million and the DS-17 active in Equinor's ultra-deepwater portfolio, represent

contracted cash flow visibility that will compound as backlog is repriced at higher rates from 2027. These are the positions Horizon Offshore Services has been advising clients to hold through the soft patch - not to exit.

| Supply Phase | Mechanism | Timeline | Units Available | Rate Impact | Horizon Action |
|--------------------------|-------------------------------------|------------------|--------------------|-------------------------|---------------------------------|
| Phase 1: Reactivation | Cold/warm-stack return to service | 2023–2026 | 5–8 remaining | Neutral to mild support | Monitor for final candidates |
| Phase 2: Newbuild Orders | Spec. / NOC-backed construction | 2026–2027 orders | 0 currently | No impact until 2030+ | Advise against premature orders |
| Phase 3: Rate Surge | Structural scarcity - no new supply | 2027–2030 | Flat to declining | 20–40% upside | Position clients now |
| Phase 4: New Supply | Newbuild deliveries begin | 2030–2032 | TBD by 2027 orders | Normalization begins | Monitor order book |

Horizon Offshore Services: Strategic Guidance by Stakeholder

For Operators and E&P Companies: The Contracting Window Is Closing

Horizon Offshore Services advisory to operator clients is unambiguous: the window to secure multi-year drillship coverage at competitive day rates is 2026. Every quarter of delay transfers pricing power to the contractor side of the table with compounding force. The operators who moved early - Shell with Valaris offshore Brazil, Vår Energi with Transocean's Barents at \$450,000 per day on a three-year commitment - are insulated from the rate surge that Horizon Offshore Services projects for 2027 to 2028. Operators with uncontracted 2027 to 2030 programs should treat the current soft patch not as an opportunity to negotiate harder, but as an opportunity to sign.

- ▶ Prioritize seventh-generation drillship coverage for technically complex ultra-deepwater programs. These units are the first to be claimed in a tightening market.
- ▶ Consider blend-and-extend structures for current contracts: accepting near-term rate reductions in exchange for 2027 - 2030 extension certainty, as Petrobras has demonstrated effectively.
- ▶ Build geographic optionality into rig contracts where possible. The synchronization of demand across basins means rig availability for specific windows cannot be assumed.

For Drilling Contractors: Hold the Line on Seventh-Generation Pricing

The strategic positioning of seventh-generation drillships for international rather than Brazilian work - as Seadrill and Noble are explicitly executing - is the correct call. Locking seventh-generation units into Brazil's US\$280,000 to US\$300,000 effective rate structure for multi-year terms forfeits the rate upside that 2027 scarcity will deliver in Norway, the GOM (GOA), and West Africa. Horizon's contractor advisory is clear: Accept shorter extensions in Brazil now, preserve 2027 optionality internationally, and enter the rate surge window with maximum unencumbered capacity in the segments that will see the greatest pricing upside.

For Investors: The Entry Point Is the Current Soft Patch

Horizon Offshore Services investment thesis for offshore drilling equities and debt instruments is constructed around one central insight: the soft patch of 2025 to 2026 is the entry point for a 2027 to 2030 rate surge thesis. Contractors with high backlog visibility - Transocean and Valaris each carry multi-billion dollar backlogs extending through 2030 - generate contracted cash flow security through the soft patch while simultaneously building operational leverage into the tightening cycle. The compression of equity valuations in late 2025 and early 2026 represents the asymmetric risk-reward entry that Horizon Offshore Services capital markets advisory has been signaling to institutional clients since Q3 2025.

For National Oil Companies and Policymakers: The Strategic Imperative Is Now

Countries with deepwater ambitions but without pre-contracted drilling capacity - Namibia, Tanzania, South Africa, emerging equatorial margin plays - face the most acute strategic risk. The premium drillship supply that Brazil, Norway, and the GOM (GOA) are systematically claiming will not be available on short notice for nations that lack established operator relationships, long-term contracting frameworks, or domestic drilling capacity. Building NOC drilling capability now - through strategic equity stakes in contractor assets, long-term service agreements, or state-sponsored rig ownership structures - is a sovereign energy security imperative that Horizon Offshore Services is actively advising government clients to pursue.

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