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## News Release

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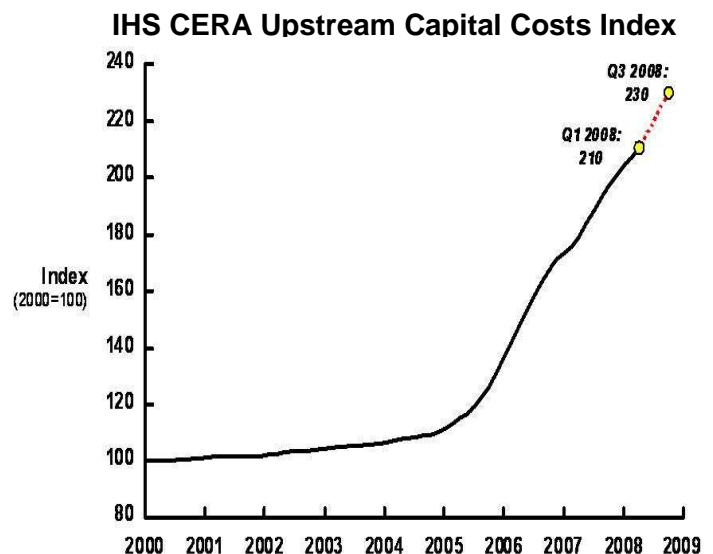
### **Latest IHS CERA Upstream Capital Costs Index Shows Construction Costs for New Oil and Gas Facilities Continue to Rise, but Change Near** *Cost index rises 9.2% in the past six months, but show moderation in past two months*

**CAMBRIDGE, Mass.** (November 20, 2008) — According to the most recent IHS CERA Upstream Capital Costs Index (UCCI), the costs associated with constructing new oil and gas upstream facilities have reached a record high. Continued high activity levels and tightness in the upstream services and equipment markets across the board led costs to increase 9.2 percent in the past six months – a rate 3.2 percent higher than the previous six months.

The latest increase raised the index to 230 points from its previous high of 210. The values for the IHS CERA UCCI are indexed to the year 2000, meaning that a piece of equipment that cost \$100 in 2000 would cost \$230 today. Driven by high

demand and escalating fuel prices, cost increases reached even higher points during July and August 2008, but have moderated as of the end of Q3 2008.

“Hidden in these substantial increases are the first signs of what may be a change in direction,” said Daniel Yergin, CERA chairman and IHS executive vice president. “Moderation in the last two months of the third quarter was a response to the unfolding financial crisis and the spending cutbacks and points to a precursor to a downward turn in the direction of the UCCI.”



Source: CERA

Of the seven localities tracked by the IHS CERA UCCI, Asia, Russia, South America and Africa saw the highest levels of cost change, registering 11.8 percent, 10.3 percent, 10.3 percent and 10.1 percent increases, respectively.

“Variations in cost escalation across regions over the past six months were most influenced by local activity levels, inflation, currency exchange rates and steel costs,” added Pritesh Patel, director for the Capital Costs Analysis Forum for Upstream, a CERA Industry Forum.

The IHS CERA UCCI is a proprietary measure of project cost inflation similar in concept to the Consumer Price Index (CPI). It provides a benchmark for comparing costs around the world and draws upon proprietary IHS and CERA databases and analytical tools.

The increase was driven by a continued high level of upstream oil and gas activities and a marked increase in the cost of steel and subsea equipment. Upstream steel costs have grown by an unprecedented 32 percent from the first quarter to the third quarter of 2008 because raw material and scrap metal costs. Though significant in comparison with the 10 percent increase seen in the previous six-month period, this increase is in line with the UCCI report issued six months ago.

Subsea equipment demand remains strong, with more deepwater developments planned – especially in South America and West Africa. Steel cost increases have added pressure to an already tight market, with an increase of 14 percent in the past six months, and there has been no change in lead times since the first quarter of 2008.

“This tight situation and the attendant cost increases are generally expected to persist in the short term, as the market response in the oil and gas markets is primarily ‘wait and see,’” added Patel. “However, there are forces at work that could create significant downward pressure on costs in the mid term, and possibly even the short term.”

Patel noted that in certain market segments, supply and demand for services have begun to achieve balance and the global nature of the services and equipment industry means that oversupply in one area can quickly be used to address demand in others. In addition, the global economic crisis is putting the breaks on global oil demand, which was already decelerating in response to high prices.

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### **About the IHS CERA Upstream Capital Costs Index (UCCI)**

The IHS CERA UCCI tracks the costs of equipment, facilities, materials, and personnel (both skilled and unskilled) used in the construction of a geographically diversified portfolio of twenty eight onshore, offshore, pipeline and LNG projects. It is similar to the consumer price index (CPI) in that it provides a clear, transparent benchmark tool for tracking and forecasting a complex and dynamic environment. The UCCI is a work product of CERA’s Capital Costs Analysis Forum for Upstream

(CCAF-U). The UCCI can be tracked on the IHS Index Web Site: [www.ihsindexes.com](http://www.ihsindexes.com). For information on the Capital Costs Analysis Forum for Upstream, contact Pritesh Patel at [ppatel@cera.com](mailto:ppatel@cera.com)

**About CERA ([www.cera.com](http://www.cera.com))**

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