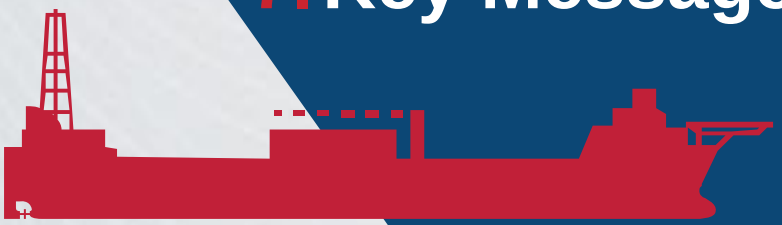


CONTRACT CHALLENGES & OPPORTUNITIES FOR FPSO CONTRACTORS IN TODAY'S ECONOMY

CHRIS BRETT
Vice President, Legal

TEEKAY OFFSHORE

1. Teekay Offshore
2. Competitor Landscape
3. Recent Trends
4. The Simplifying / Layering Dynamic
5. Example: Force Majeure
6. Example: Payment Disputes
7. Key Messages



TEEKAY OFFSHORE



- 10 FPSOs (incl. 5 at TK Corp)
- 7 FSOs
- 36 Shuttle Tankers
- 1 Hi-Load System
- 4 300ts Ultra Long Distance AHTs (under construction)
- 2 Floating Accommodation units (under construction)

TEEKAY OFFSHORE PARTNERS L.P.
Market Cap: US$3.16b
EBITDA (FY '13): US$397m
www.teekayoffshore.com

TEEKAY OFFSHORE

FPSO Fleet



Petrojarl Banff
(CNR)



Petrojarl
Foinaven (BP)



Petrojarl Knarr
(BG)



Petrojarl Varg
(Talisman)



Voyageur Spirit
(EON)



Petrojarl I
(Hot Stacked)



Hummingbird Spirit
(Centrica)



Petrojarl
Cidade de Itajai
(Petrobras)



Petrojarl Cidade
de Rio das Ostras
(Petrobras)



Piranema Spirit
(Petrobras)

TEEKAY OFFSHORE

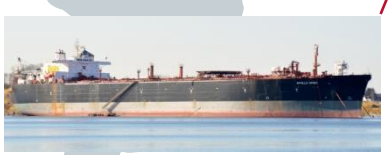
FSO Fleet



Randgrid
Gina Krog Field (Statoil)



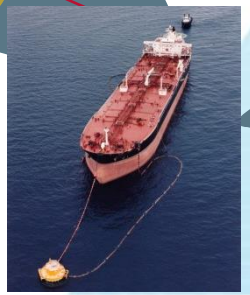
Navion Saga
Volve Field (Statoil)



Apollo Spirit
Banff Field (CNR)



Falcon Spirit
Al Rayyan Field (Occidental)



Dampier Spirit
Stag; NWS; NA fields (Apache Energy)



Pattani Spirit
Platong Field (Chevron)



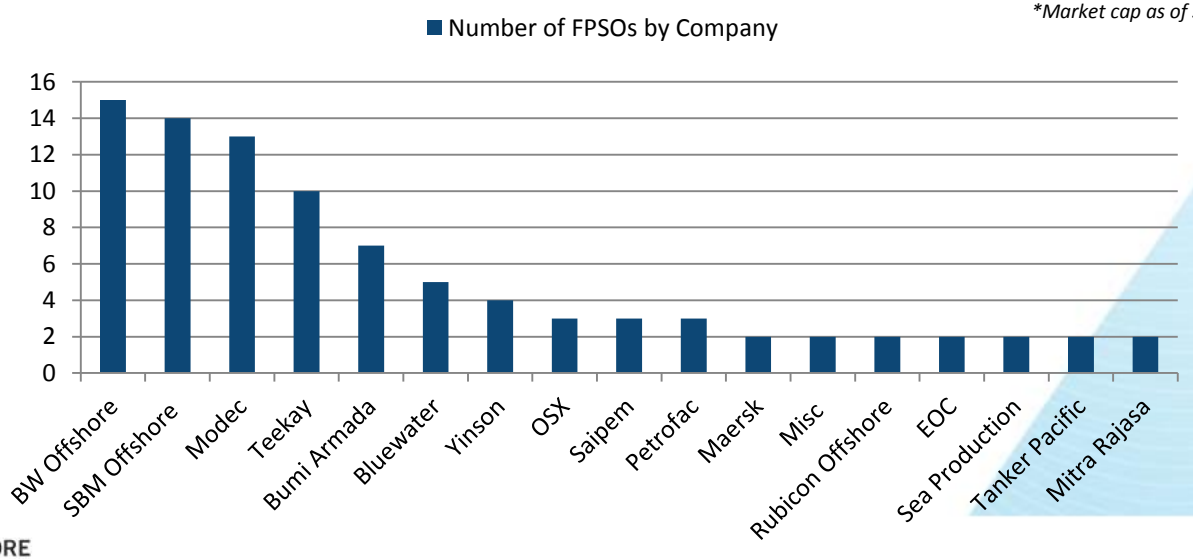
Navion Clipper
Bualuang Field
(Salamander Energy)

TEEKAY OFFSHORE

FPSO Contractor Competitor Landscape

	BW Offshore	SBM Offshore	Modec	Teekay Offshore	Bumi Armada
# of vessels	15 FPSOs 1 FSO	14 FPSOs 2 FSOs 1 Semi Sub 2 MOPU	13 FPSOs 3 FSOs	10 FPSOs 7 FSOs	7 FPSOs
Market Cap* ($ USD)	$ 822 million	$ 2.960 billion	$ 1.546 billion	$3.16 billion	$ 3.401 billion
($ in millions USD)	**FY' 13**	**FY' 13**	**FY' 13**	**FY' 13**	**FY' 13**
EBITDA	$ 447	$ 577	$ 17	$ 397	$ 310
Total Assets	$ 3 340	$ 7 118	$2 047	$3 806	$ 2 741
Geographical Focus	Worldwide	Worldwide	Worldwide (tendering in Brazil)	North Sea and Brazil	Asia Pacific and West Africa, expanding into the North Sea

**Market cap as of September 24th 2014*



1. FPSO Contractor Market Maturing
   More Contractual Discipline
2. Newer Entrants Active
   Same Discipline?
3. Smaller NOCs Taking on Challenging Projects
   No Shared Memory / More Field Dependent
4. North Sea Becoming More Contested
   Are the risks properly understood and priced?
5. SBM Brazilian Absence
   Impacting the local Supply/Demand Dynamic
6. Oilco's Wanting More Involvement
   Blurring of Lines – More Risk?

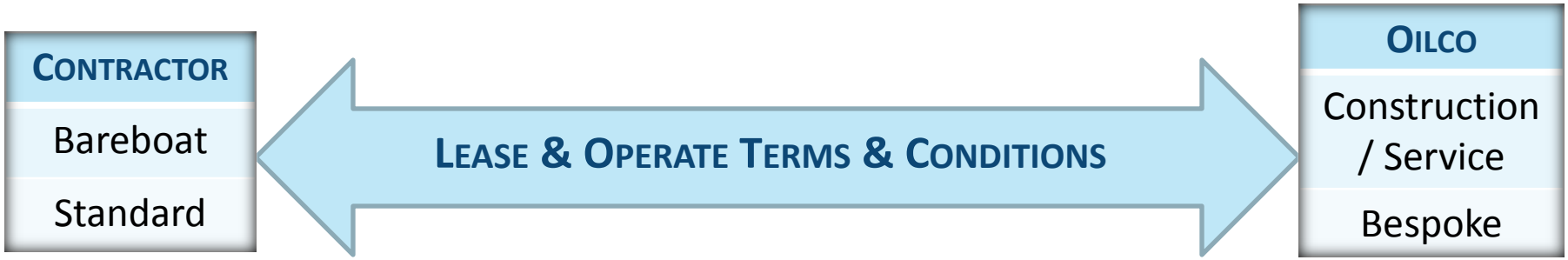
CURRENT TRENDS

REMINDER: FPSO LEASE & OPERATE CONTRACTS

- **Represents the main contract between the Oil Company (JV Operator) and the FPSO Contractor**
- **Can be a single agreement or split between separate Bareboat and Operations Agreements.**
- **Some general principles apply but each contract is project specific**
- **Can range from a simple shipping Bareboat Agreement with an operations element tagged on to a complex suite of 10+ interrelated agreements and countless appendices**

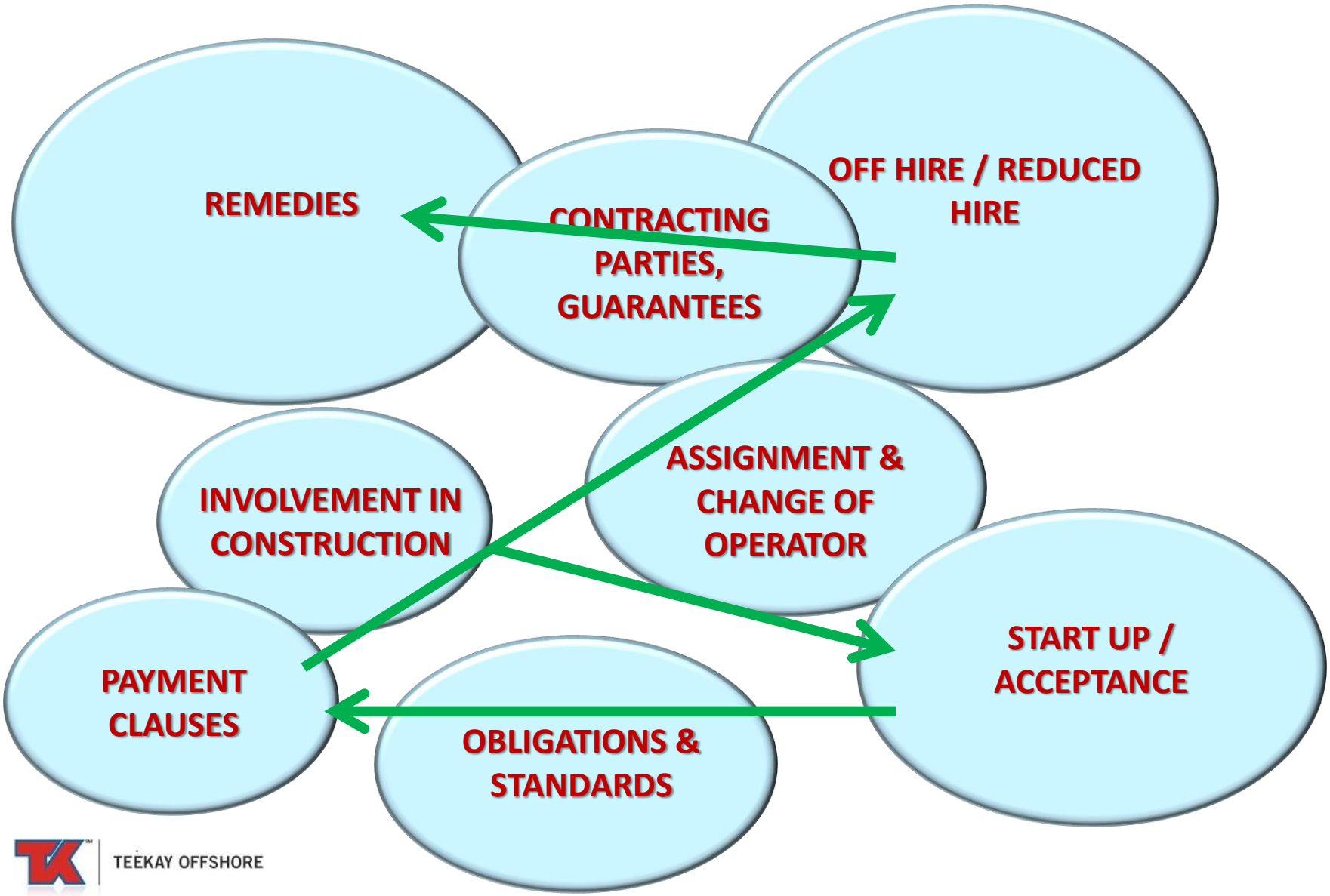


SIMPLIFYING / LAYERING DYNAMIC



SIMPLE APPROACH	LAYERED APPROACH
• ROI/Asset focused	• Production focused
• Looking to protect dayrate	• Looking for a toolbox of remedies
• Typically lean & efficient	• Many stakeholders to manage
• Life of asset & Redeployment	• Life of field and optionality
• Financial security	• SPVs, Liability & JOA Constraints
• FEED (Detailed please)	• FEED (Fast-track please)

THE CONTRACTUAL BATTLEGROUND



EXAMPLE: FORCE MAJEURE

- FM originally a clause to relieve the supplier from an obligation to perform in the event of circumstances outside their control.
  - In such case, Seller is provided with a suspension of its obligation to perform and an extension of time (if relevant).
- In a Bareboat / Charter scenario, the Charterer's use of the vessel may be affected but the Vessel Owner is excused from liability and the charter rate continues to be paid.
- If prolonged FM, then the Charterer needed a right to terminate (unreasonable to keep paying indefinitely while not getting the benefit of performance).
- Under certain CRINE/LOGIC contracts we see reciprocal FM
- Dayrate link – FM Rate

What was originally designed as a clause to protect the supplier in certain circumstances now becomes a mechanism to reduce dayrate

EXAMPLE: PAYMENT DISPUTES

What Contractual Clauses Lead to Payment Disputes?

- Contractual right to dispute invoices
- Extensive/unreasonable administration requirements
- Stakeholder Complexity (It's our JV partner!)
- Long audit rights (2+ years)
- Long and detailed obligation clauses
- Reimbursable Opex
  - Defective parts and faulty workmanship
  - G&A and corporate overheads
  - Narrow budget approval processes

Is a constant battle for the Contractor to be paid ultimately in the Oil Company's best interest?

KEY MESSAGES?

1. **FPSO market is maturing leading to more discipline in bidding and terms**

2. **Newer Entrants making a mark – impact on terms and conditions?**

3. **As projects continue to become more expensive and complex the terms and conditions requested by Oil Companies seem to be following suit.**

4. **With increased complexity in terms and conditions ('layering') it is not enough to know / protect individual positions on individual clauses – you need to see the red thread.**



QUESTIONS

