The Commercial Side - lease or buy an FPSO? Existing or New build?

Per O Bergstol

Fearnley Offshore

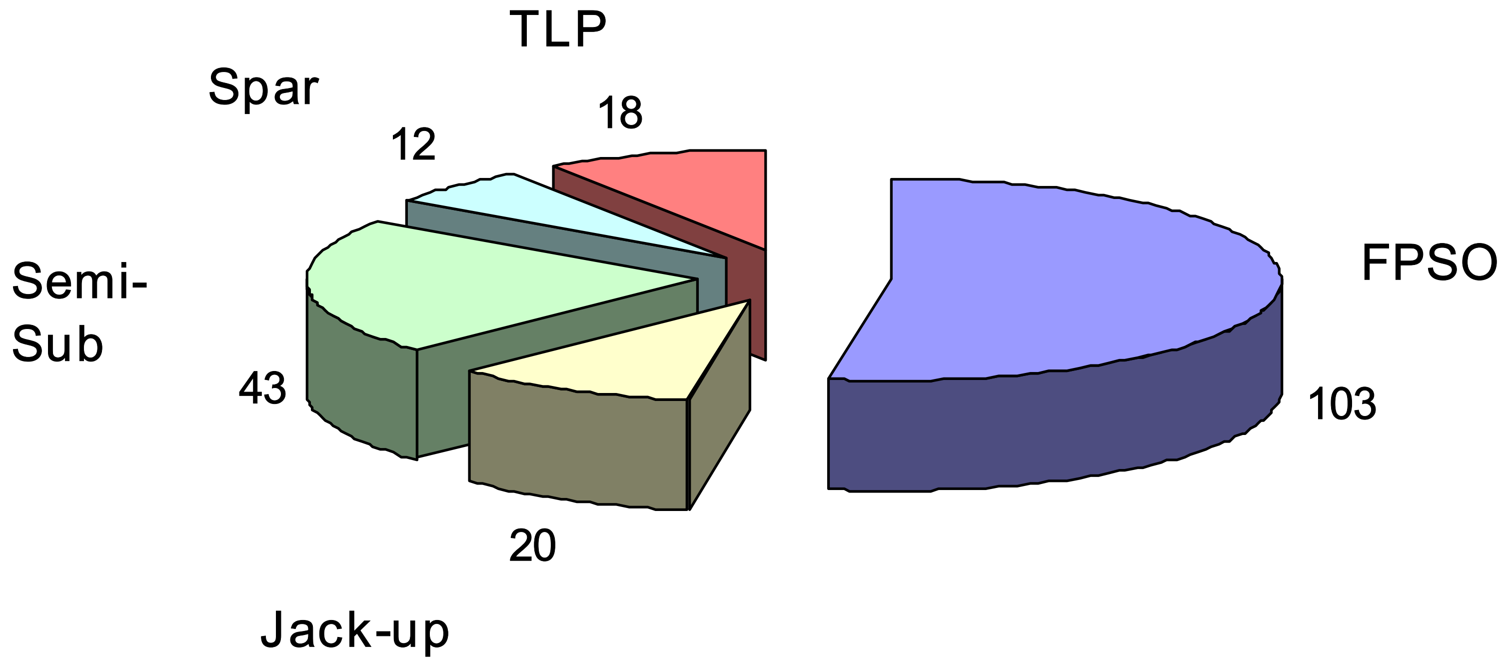
FPSO Global Workshop – Houston 24 & 25 September 2002

Floating Production Market

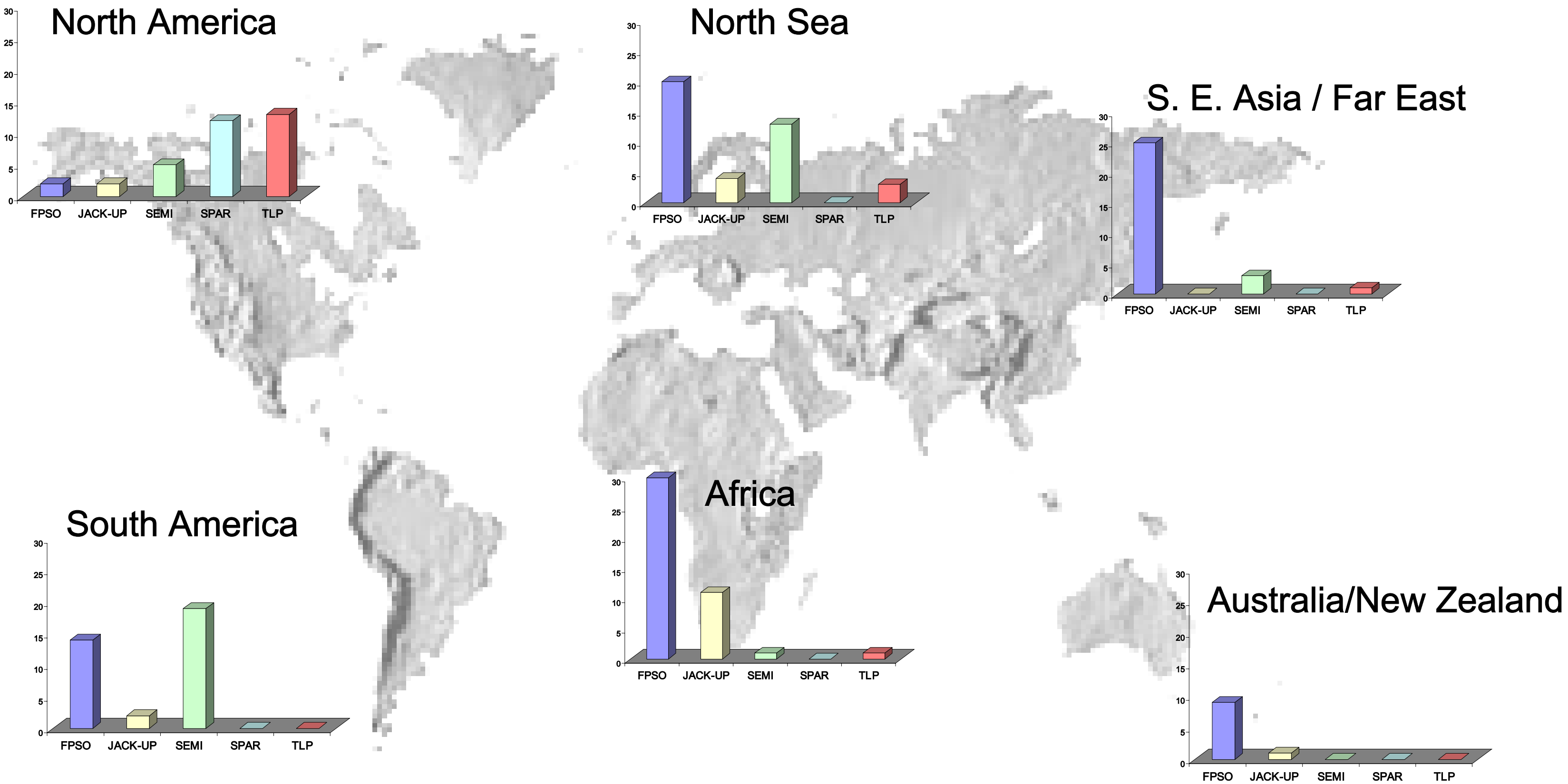
September 2002

- High and steady activity level
- FPS concept accepted as production solution
- Limited availability of existing units
- End user focus on limiting exposure
- High risk and complex contracts in lease market
- Limited number of contractors/yards/fabricators
- Fast track developments
- Emerging second-hand market

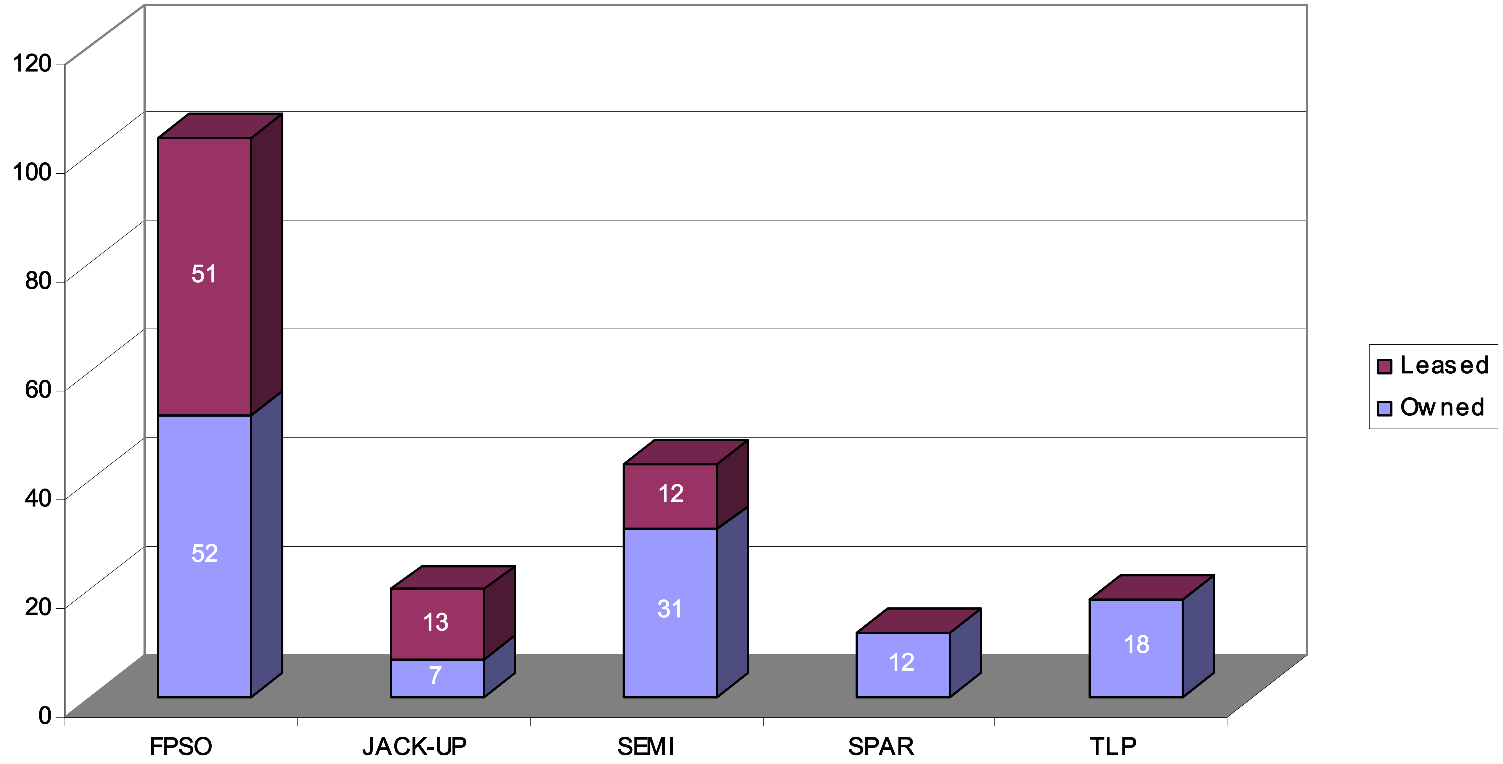
Mobile Production Units Worldwide
Concept Distribution



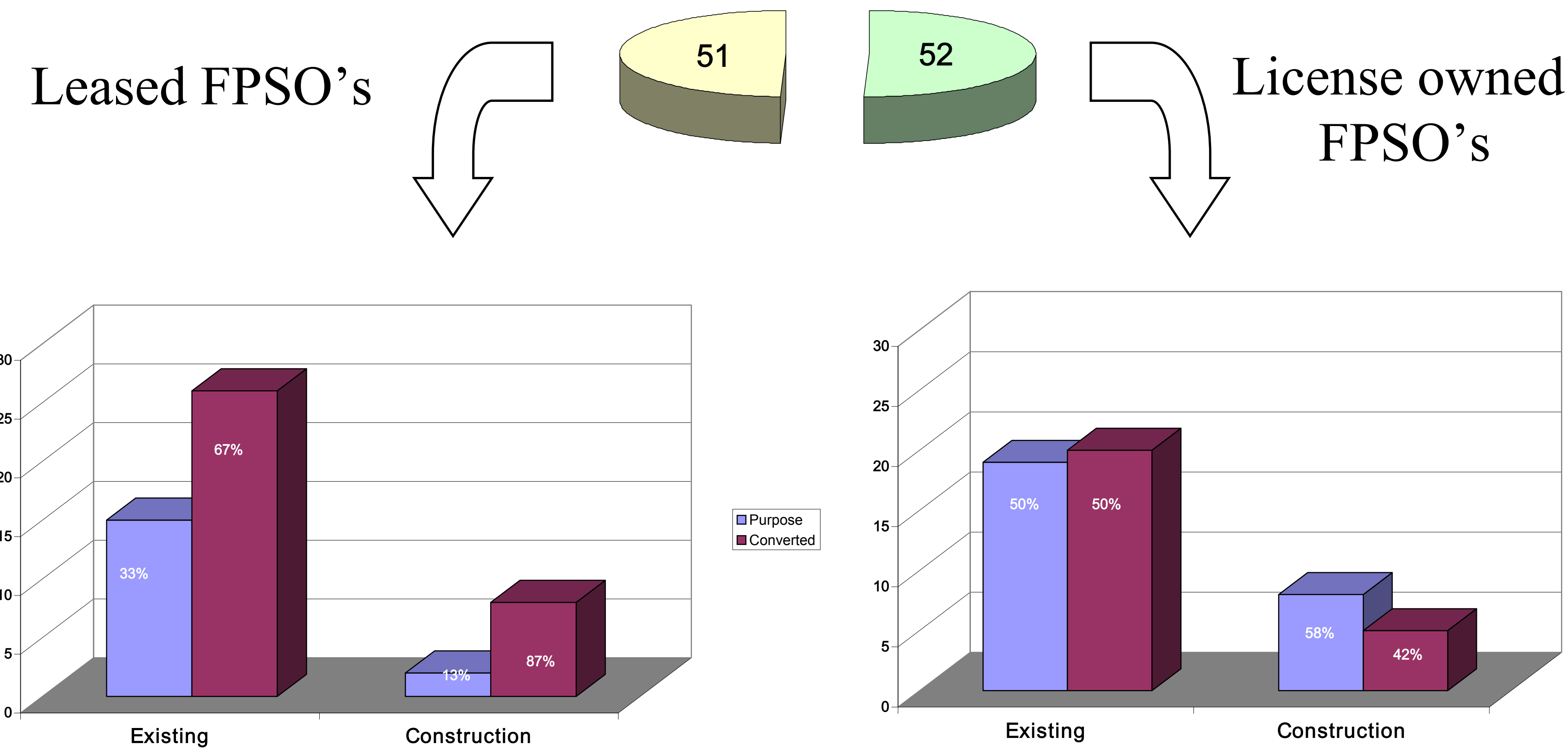
Mobile Production Units Worldwide
Area Distribution



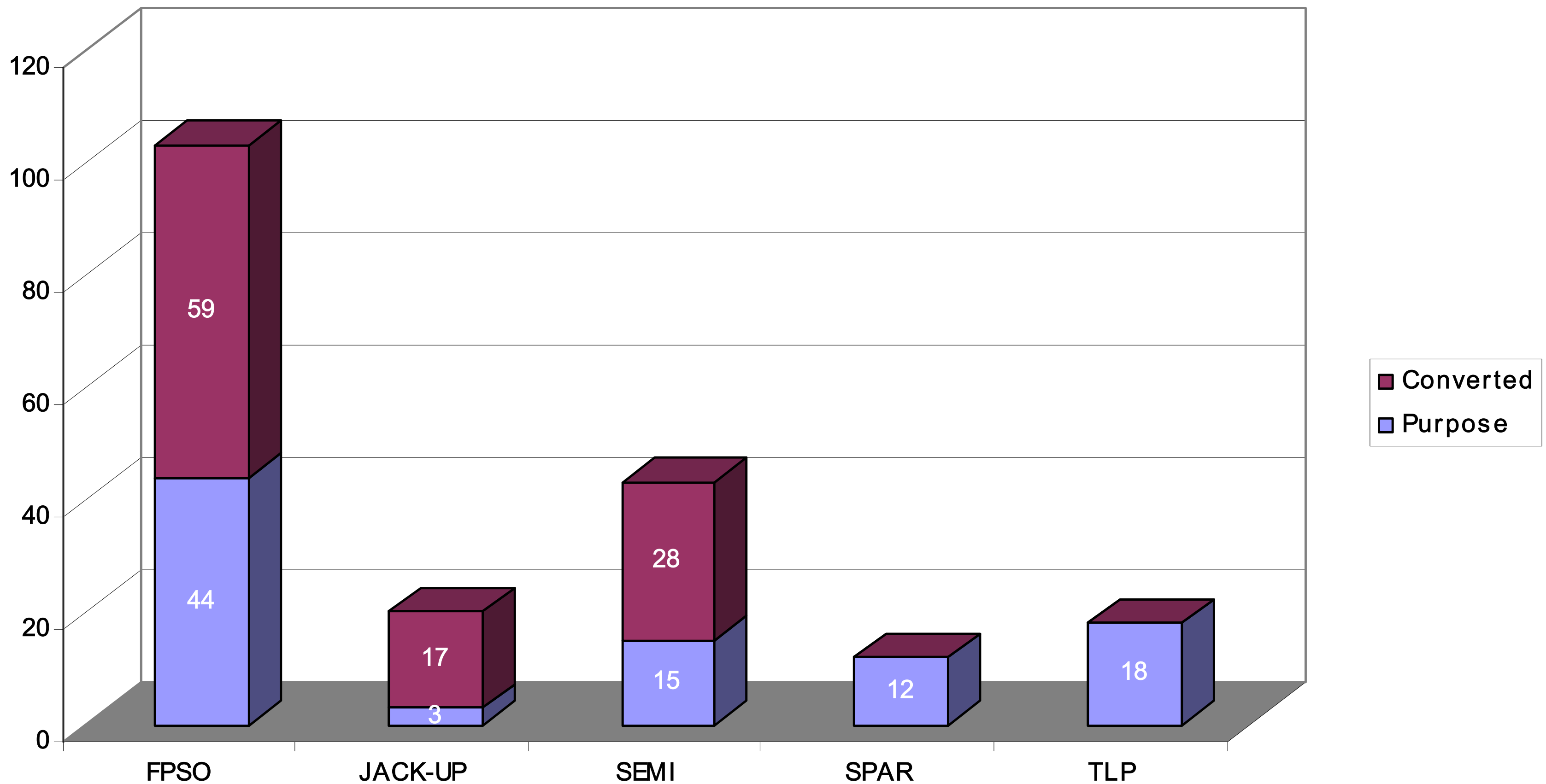
Mobile Production Units Worldwide
Operator Owned vs Leased



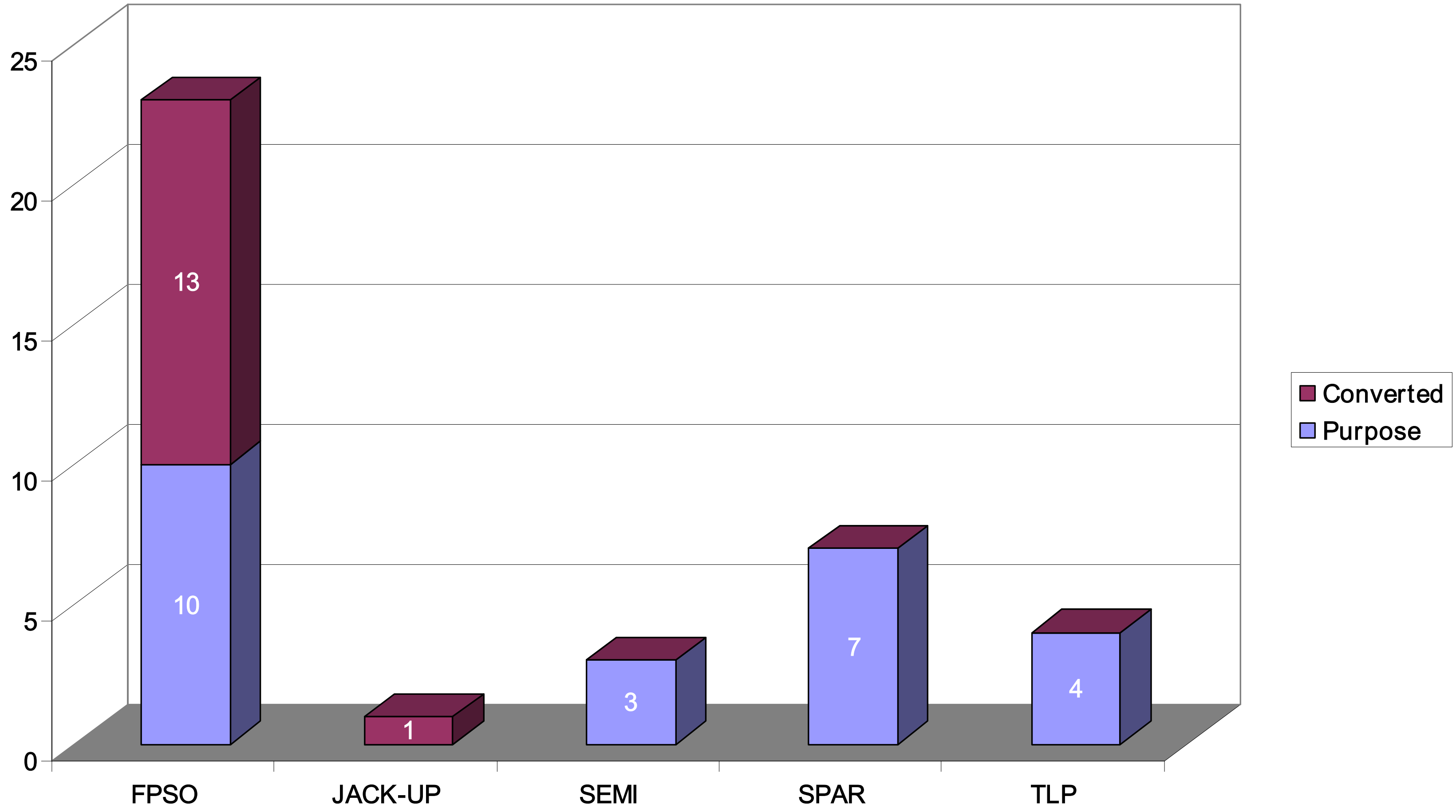
FPSO’s Worldwide
Purpose built vs Conversion



Mobile Production Units Worldwide
Purpose built vs Conversion

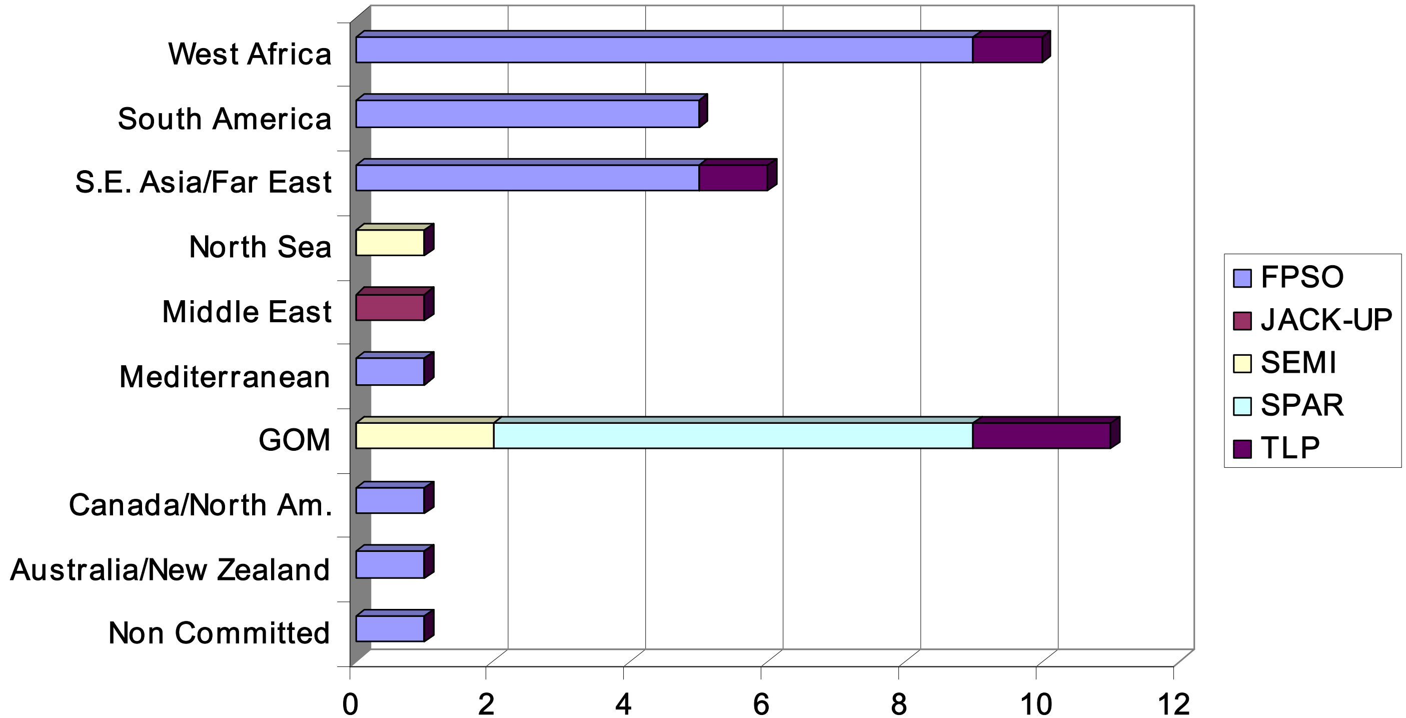


Mobile Production Units under construction
Purpose built vs conversion

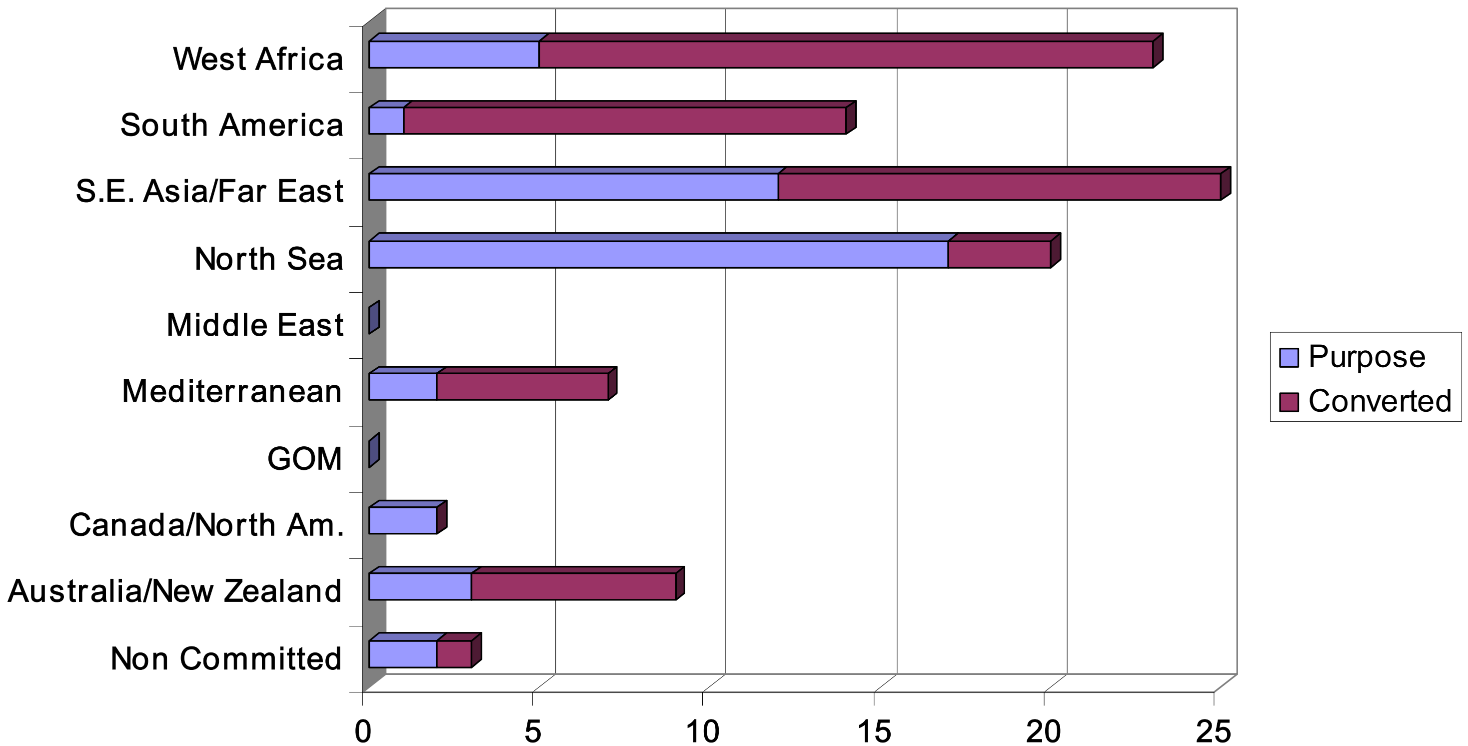


Mobile Production Units under construction

Geographical Distribution



FPSOs Worldwide
Purpose built vs Conversion



Own or Lease?
Existing or Newbuild?

It almost always boils down to being a question about

MONEY

Own:

Operator or license owns and operates the FPSO (this also includes financial lease arrangements)

Lease:

Operator leases FPSO from a contractor on a bareboat or timecharter contract that may or may not contain risk/reward provisions

Some of the questions that the operator should ask:

What are my technical requirements?

Process plant – capacities/capabilities
Storage Capacity
Export system
Mooring System
Single/Double Skin
Climate/Environment
Regulatory

What do I know about the field?

Reservoir data – how good is it?
Anticipated field life
Other, nearby possibilities
Feasibility of alternative concepts

How much risk am I willing to take?

Production volume/duration
Production regularity
Residual Value of FPSO
Newbuilding risk
Conversion risk
Political risk

What is my company's strategy?

Preference to own/operate
Tax considerations
Contract strategy/options
Amortization of an FPSO/financing options
Political considerations
Partners

What are my options?

Availability of suitable existing tonnage
Anticipated interest from contractors
Anticipated interest from newbuilding/conversion yards
Shipyard situation (price/availability)
Conversion candidates
Other projects that may interfere

Some of the questions the FPSO contractor should ask:

Will the unit fit my strategic intentions?
Do I already have a suitable unit?
Residual value?
Risks?
What are the market forecasts?
Any chance of additional work on this location?

What is it going to cost?

An operator will normally amortize the unit over the anticipated life of the field.

Oil company IRR: region 15-20%

An FPSO contractor will typically amortize the unit as follows:

Hull:

18-20 years

Topside and mooring system:

Anticipated life of field, but a more ”generic” design will be amortized over a longer period.

IRR:

Slightly lower than oil company – typically 12-18%

Are there available vessels out there?

Existing FPSO's?	YES
Conversion candidates?	YES
Yard capacity for new construction?	YES
Interested FPSO contractors?	YES

Fearnley Offshore LLC
1 Riverway, Suite 1810
Houston, TX 77056
USA
Ph.: + 1(713)629-7072
Fax +1 (713)629-7073
e-mail: fohouston@fearnleys.no

Fearnley Offshore A/S
Grev Wedels Plass 9
P O Box 1158 Sentrum
N-0107 Oslo
NORWAY
Ph.: +47 22 93 60 00
Fax +47 22 93 63 05
e-mail: rig.offshore@fearnleys.no

Website: www.fearnleyoffshore.com