Managing Business Risk: Asia Pacific – A Regional Perspective

Presenter: Scott Cummins, Senior VP and GM, McDermott Asia Pacific

McDermott Asia Pacific

December, 2011
Today’s presentation – Introduction and overview

Presenter:
Scott Cummins
Senior VP and GM, McDermott Asia Pacific

• Joined McDermott in 1986
• Held various positions in marine, fabrication, project operations and executive management
• 18 years Asia Pacific industry experience

- Introduction and overview to McDermott Asia Pacific
  - Who we are
  - What we do
  - Where we operate
  - Our customers
  - Variety and coverage of recent projects
- Evolution of our business lines
- Market Growth
- McDermott Asia Pacific Key Business Challenges:
  - Large-scale and mega projects
  - Emergence of deepwater developments
  - Shifting country demand patterns
  - Local country geopolitical landscapes
  - Establishing a local presence
- Summary
- Questions
McDermott Asia Pacific a subsidiary of McDermott International Inc operating across the Asia Pacific region since 1970

- Established in 1970
- Operating across Asia Pacific, from as far north as Sakhalin Russia, to as far south as Tasmania, Australia
- Headquartered in Singapore with an “on-the-ground” business presence in Australia, Indonesia, Malaysia, Vietnam and China
- Significant regional presence with circa 5,800 FTE
- Fabrication yards in Batam Indonesia and Qingdao China (via JV with Wuchuan)
- Marine base in Batam
- Full EPCI capability within region

We are a key pillar in McDermott Inc’s drive for growth and enhanced profitability

- Serving the energy industry since 1923
- Diversified fleet of marine vessels, fabrication facilities and engineering offices operating across more than 20 countries
- 14,000 employees globally
- Annual revenues of USD $3B
We deliver large-scale, complex, cross-boundary end-to-end EPCI projects for the oil and gas industry.

Managing complexity and risk are key elements of what we do everyday.
McDermott Asia Pacific operates across an incredibly large and diverse region, with significant differences in language, cultures, business conditions and weather environments.

- Cover from New Zealand to East Coast Russia; from Myanmar to the Philippines
- Employees represent 34 countries and territories
- On the ground presence in 6 countries:
  - Singapore (APAC HQ, Engineering office)
  - Australia (2 business offices)
  - China (1 JV)
  - Indonesia (1 business office, fabrication yard, and marine base)
  - Malaysia (1 business office)
  - Vietnam (1 business office)
- Deal with 10 official languages & many local dialects
- Work in open and closed markets (via partnerships) alongside communist, socialist and democratic governments
- Operate across vastly different weather conditions, with temperatures varying from zero to 40°C, and exposure to weather extremes

**Distance from Singapore**

<table>
<thead>
<tr>
<th>Location</th>
<th>Distance (km)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sakhalin</td>
<td>7,000</td>
</tr>
<tr>
<td>Melbourne</td>
<td>6,000</td>
</tr>
<tr>
<td>Perth</td>
<td>4,000</td>
</tr>
<tr>
<td>Qingdao</td>
<td>4,500</td>
</tr>
<tr>
<td>Bangkok</td>
<td>1,400</td>
</tr>
<tr>
<td>Ho Chi Minh</td>
<td>1,000</td>
</tr>
<tr>
<td>Jakarta</td>
<td>800</td>
</tr>
<tr>
<td>Kuala Lumpur</td>
<td>400</td>
</tr>
</tbody>
</table>
McDermott Asia Pacific - Our customers

We provide solutions to many companies, from large multinational exploration and production companies to JVs and smaller domestic operators - each with differing needs and expectations

<table>
<thead>
<tr>
<th>Segment</th>
<th>Key Customers</th>
<th>Challenges and Needs</th>
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</table>
| International Oil Companies  | ConocoPhillips, ExxonMobil, Royal Dutch Shell, bp, Shell, Total, Eni | • Moving from traditional role as full equity developers to partial equity sharing and fee-for-services arrangements; often acting as a prime contractor  
• Seeking certainty via technology leadership and expertise in design & delivery  
• Seeking effective risk management via partnerships with experienced service providers |
| Independent Oil Companies    | ConocoPhillips, ExxonMobil, Royal Dutch Shell, bp, Shell, Total, Eni | • Higher risk disposition  
• Lower cost producers  
• Seeking technical leadership and lowest cost, time-efficient delivery  
• Apply differing approaches to managing and/or transferring risk |
| National Oil Companies (NOCs)| Malaysia, Thailand, Vietnam, China | • Transforming from domestic, sovereign companies into global players via equity positions, alliances & JVs beyond national boarders  
• Interests often aligned with host government social objectives  
• Looking to access and transfer knowledge and technology  
• Seeking lowest cost solution with maximum local and in-country content,  
• Expect contractors to independently manage greater elements of project risk |
| Joint Operating Companies    | Carigali-HESS, Lam Son JOC, Carigali-PTTEPI, CH Mutiara, Thang Long JOC, KPOC | • JVs combined of nationals, Internationals and/or Independents  
• Require one-off customized and specialist solutions for specific projects  
• Seeking access to expertise, experience and technology at a competitive price  
• Expect contractors to independently manage greater elements of project risk |

Since “One size does not fit all”, McDermott needs a highly flexible organization & operating model

Source: MDR analysis and information from Arthur D Little Prism Qtr 1, 2010
Over the past few years, McDermott Asia Pacific have undertaken a vast array of geographically diverse and technically complex projects, each with their own unique features and challenges.

Some Examples of our work across Asia Pacific:

- TGT Vietnam
- Platong Gas II Thailand
- North Belut Indonesia
- North Rankin B Australia
- Peregrino Brazil
- Sakhalin Russia
- Kikeh Malaysia
- Qingdao China
- ExxonMobil Australia
- KTT Australia
McDermott Asia Pacific has adapted and evolved to embrace significant change over the years as the market moved from conventional builds to more complex floating and SURF solutions for deep water, large-scale projects.

**Key Adaptation Challenges:**
- New business models
- Physically larger facilities
- Complex and integrated supply chains
- New technologies and expertise
- Specialist resources and skills
- Investment in new /altered assets
- Partnering to share risk and enhance capability

**Today: Four business lines**

- Conventional
- Floating Production
- SURF
- Onshore Modules
The market in which we operate continues to grow—almost oblivious to the wider western world’s economic woes—and provides both substantial opportunity and challenges.

**Comments and Observations**

- Upward growth and investment driven by Asian demand for energy
- Growing value reflects new deep water developments, which require new technologies and skills
- Over 70% of the deepwater fields expected to come online are gas-related
- Seeing an increase in the number of large & mega projects
- Attracting greater presence from traditional competitors and new players
- Continued large-scale spend in Australia and re-emergence of Indonesia contributing to uplift

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**Indicative Global CAPEX by Region**

Source: Infield Q3, 2010

We’re excited by the growth prospect, but with it comes significant business challenge (but that’s a nice “problem” to have)
The growth in the Asia Pacific market—whilst exciting—brings with it new business challenges and risks

### Key business challenges

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large-scale and mega projects</td>
<td>New projects are more complex and larger in size, which is challenging and changing the way we, our partners and our clients have traditionally operated</td>
</tr>
<tr>
<td>Emergence of deepwater developments</td>
<td>Our business focus has had to adapt and evolve to meet increasing demand in SURF &amp; floater-related opportunities for deepwater developments</td>
</tr>
<tr>
<td>Shifting country demand patterns</td>
<td>We foresee a significant change in demand patterns between countries, particularly with the revival of major growth prospects in Indonesia</td>
</tr>
<tr>
<td>Local country geopolitical landscapes</td>
<td>We operate within an ever evolving and wide ranging spectrum of local business environments, each with unique challenges</td>
</tr>
<tr>
<td>Establishing a local presence</td>
<td>Establishing a local presence and operating locally isn’t particularly easy and requires significant tenacity, effort and patience</td>
</tr>
</tbody>
</table>
New projects coming on-line are becoming much more complex and larger in size, which is challenging and changing the way we, our partners and our clients have traditionally operated.

- Larger projects (e.g. think market cap of a medium-sized entity) means new risk & exposures
- At the same time, they provide considerable opportunities, and each can be a market maker / game changer
- Traditional approaches are proving inadequate – new ways of operating are required

- Attractiveness of project values are bringing increased and new competition into the region
- Size and economic benefit of project values are driving countries to be more restrictive and favor local operators and local content
- McDermott can’t always go it alone due to local restrictions or capability/capacity limitations, so there's a real need for partnering and risk sharing
Our business focus has had to adapt and evolve to meet overall increasing demand, especially for SURF & floater-related opportunities for deepwater developments.

**Comments and Observations**
- Four-fold uplift in overall value of work
- Large-scale move from conventional to Floating solutions (ten-fold uplift in SURF-related opportunities and 30% in Floating)

**Challenges and Risks**
- Competing with deepwater and floater specialists
- Availability and cost of specialist deepwater and SURF personnel
- Accuracy of cost estimates, capacity planning and forecasting
- Workloads of Proposal & Estimator resources
- Technology requirements for new solutions
- Asset availability (e.g. DP Crane vessel) and other asset constraints
- Higher cost bids due to complexity

This new business line growth will continue to challenge our resourcing, assets, skills and technical know-how.
Asia Pacific – Shifting country demand patterns

We foresee a significant change in demand patterns between countries—for example, the revival of major growth prospects in Indonesia—which will require adopting new business models.

**Indicative Forecasted Demand Changes by Country (by % Value)**

<table>
<thead>
<tr>
<th>Country</th>
<th>2010-2011</th>
<th>2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Others</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Vietnam</td>
<td>100%</td>
<td>25%</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0%</td>
<td>50%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0%</td>
<td>75%</td>
</tr>
<tr>
<td>Australia</td>
<td>0%</td>
<td>25%</td>
</tr>
</tbody>
</table>

**Challenges and Risks**
- Business continuity and agility
- Re-positioning to address changing regulatory rules and closed markets
- Local ownership and content requirements are a challenge
- Competing against price advantages for local companies
- Re-balancing and strengthening our in-country presence, resources and assets (including fabrication and vessels)
- Adopting new business models (including partnerships), organizational structures and resources to become more flexible and “local”

**Comments and Observations of Forecasted Bidding Activity**
- Significant shift in country focus
- Australia still important, but less so
- Explosive growth in Indonesia

*Source: Infield, forecasts, various news releases and McDermott AP analysis, 2011*

We are adopting new business models to reposition and optimize our assets and people to meet these changing requirements.
Broadly speaking, we see a number of key risk themes emerging across the specific geographic areas in which we operate, but alongside these there are significant market opportunities.

**Australia**
- Market has moved into deeper water and is dictated by LNG market demand

**Challenges**
- Deepwater mega projects and physically large facilities
- Floating solutions required
- Relatively open market but high regulatory requirements
- Increased pressure on operators to achieve local content
- Constrained and unionized labor supply

**Market Opportunity Examples**
- Chevron Gorgon ($43B)
- Inpex Ichthys ($25B)
- Chevron Wheatstone ($25B)
- Shell Prelude ($15B)
- Woodside Browse ($32B)
- ExxonMobil Scarborough ($20B)

**Indonesia**
- Significant and large deep water floating projects are in the pipeline

**Challenges**
- Local content price preferences
- Domestic marine capability required and vessel age limits
- Tendering restrictions on segregation of early engineering and EPCI service
- Intensified competition from local contractors
- Predictability or certainty of timing

**Market Opportunity Examples**
- Chevron Gendalo Gehem ($8B)
- Inpex Abadi ($20B)
- ENI Jangkrik ($4B)

*Note: * Approximate field development investment or expenditure

*Source: MDR analysis using Infield & various news releases, 2011*
Broadly speaking, we see a number of key risk themes emerging across the specific geographic areas in which we operate, but alongside these there are significant market opportunities (continued)

<table>
<thead>
<tr>
<th>Malaysia</th>
<th>Challenges</th>
<th>Market Opportunity Examples*</th>
</tr>
</thead>
</table>
| • No substantial finds in shallow water | • Strict local licensing regime  
• Growing SURF & floater markets  
• Marginal field development underway | • Murphy Kikeh ($6B)  
• Kebabanggan ($6B)  
• Shell Gumusut ($8B)  
• Shell Malikai ($10B)  
• Murphy Block H ($8B) |

<table>
<thead>
<tr>
<th>Vietnam</th>
<th>Challenges</th>
<th>Market Opportunity Examples*</th>
</tr>
</thead>
</table>
| • Shallow water development is still the focus. | • Directives issued to further support local participation and content in oil and gas infrastructure projects  
• Increased competition from local and international contractors | • Chevron Block B ($4B) |

Note: * Approximate field development investment or expenditure  
Source: MDR analysis using Infield & various news releases, 2011
Establishing a local presence and operating locally isn’t particularly easy and requires significant tenacity, effort and patience, but the long-term rewards are substantial.

**Challenges**
- A single facility servicing multiple markets
- Training a fluctuating work force
- Working within local customs and practices
- Managing through economic peaks & troughs
- Language and cultural differences

**Benefits**
- Local presence in Indonesia
- Meet local content requirements
- Low cost fabrication for international projects
- Centrally located to service Asia Pacific region
- Flexible, low cost labor supply

**Batam – Indonesia**
- Established in 1971

**Challenges**
- Four years to establish a 50 year joint venture with Wuchuan
- Approval processes complex – nothing is “straight forward”
- Achieving organic growth
- Language and cultural differences, as well as partner expectations

**Benefits**
- Low cost fabrication facility
- Access to new capabilities to support floating solutions
- Risk sharing
- Establishes platform for working more closely with China-based industries
- Complements our Batam facility and regional supply chain strategy

**Qingdao – China**
- Qingdao McDermott Wuchuan JV
- Established in 2008

Source: MDR analysis using Infield & various news releases, 2011
In summary, we’ve learned a lot from operating in Asia Pacific over the past 40+ years, and our future success will continue to be predicated on local knowledge and a balanced approach... requires a balanced approach...

A challenging environment...

- Large-scale and mega projects
- Emergence of deep water developments
- Shifting country demand patterns
- Local country geopolitical landscapes
- Establishing a local presence

...to optimize key success criteria

- A focused strategy predicated on selectivity; countries, clients, partners, projects, contract approaches.
- Adaptability to foresee future market trends, meet new technical requirements, provide value to diverse needs, assess and manage risk.
- Use of proven control and feedback mechanisms. Strategic initiatives, Business acquisition, Project execution. Rigorous and continuous evaluation involving all levels of the organization
“Opportunity is missed by most people because it is dressed in overalls, and looks like work”
- Thomas A. Edison

“Nobody can really guarantee the future. The best we can do is size up the chances, calculate the risks involved, estimate our ability to deal with them and make our plans with confidence”
- Henry Ford II