



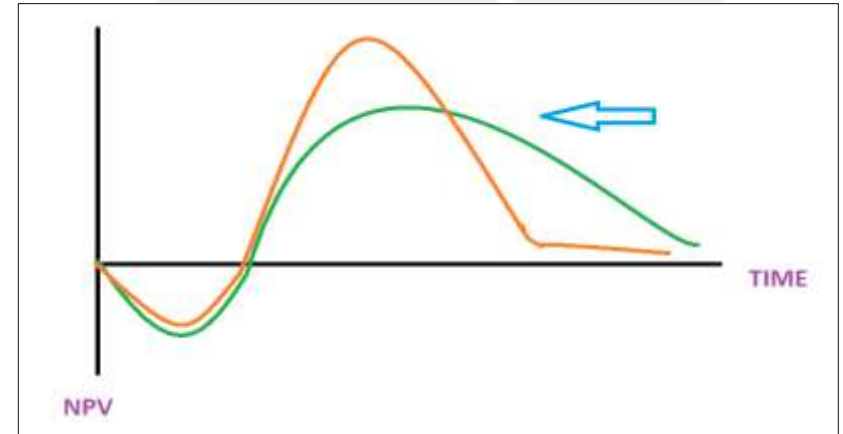
The Role of Mid-Tier Asset Management Contractors in Securing the Energy Future of Australia

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Presentation to Australasian Oil & Gas Conference 2014
Operations & Maintenance stream

Introduction

- Opportunity vs Challenge
- Role of the Mid Tier Contractor
- Importance of Strategic Alignment
- Examples of Successful Delivery
- Qualitative Assessment- ROACE Impact
- Conclusion



Opportunity vs Challenge

The Opportunity:

- Value of Capital O&G Projects in Australia between 2009 to 2017 is approx. \$210bn
- Life expectancy of assets approx. 30 years
- Annual maintenance cost is proportional to investment cost & age of plant (@4%) = approx. \$8.5bn+/year

Opportunity vs Challenge

Challenges:

- An estimate by Australian Industry Group indicated that in manufacturing alone, the hourly compensation costs are approx. 24% higher than in the US
- Growing difference in productivity rates which had widened from 1.7% to 3.3% in the decade from 2000-2010

As projects become fully operational, productivity improves....

Orontide Overview



- Leading WA owned Engineered Maintenance and Preservation services business for over 35 years
- Focused on life cycle plant maintenance
- Over \$80 million turnover in FY13
- Combined total of over 21,000 square metres of workshop space in WA and NSW
- Sites located in Henderson, Port Hedland, Bunbury and Sydney
- Quadruple accreditation by Bureau Veritas

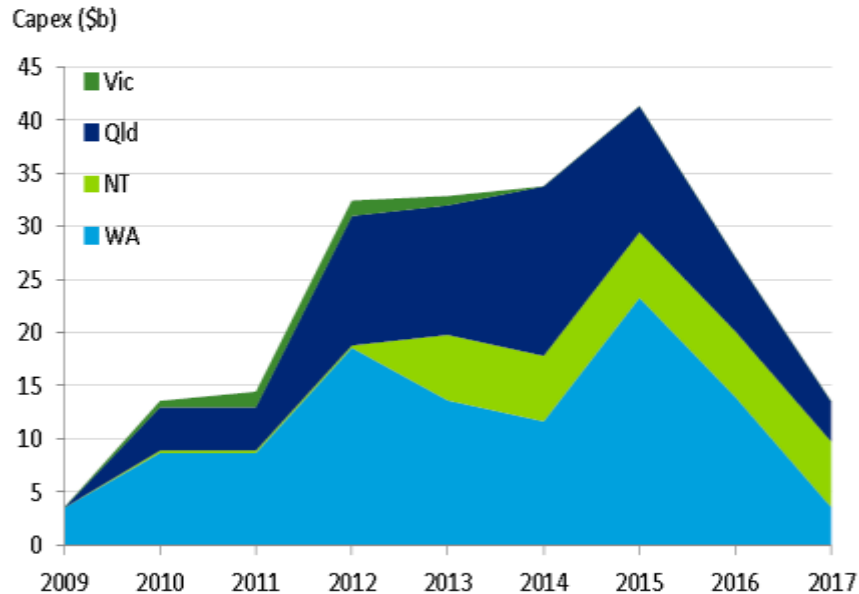
Role of the Mid Tier Contractor

Rising to the challenge

- The largest value addition will need to come from Australian providers of engineered maintenance
- Large green field contractors move onto other large global projects leaving the field to providers of specialist maintenance services

Capital Expenditure Profile

Chart 3.2: Oil and gas industry capex profile



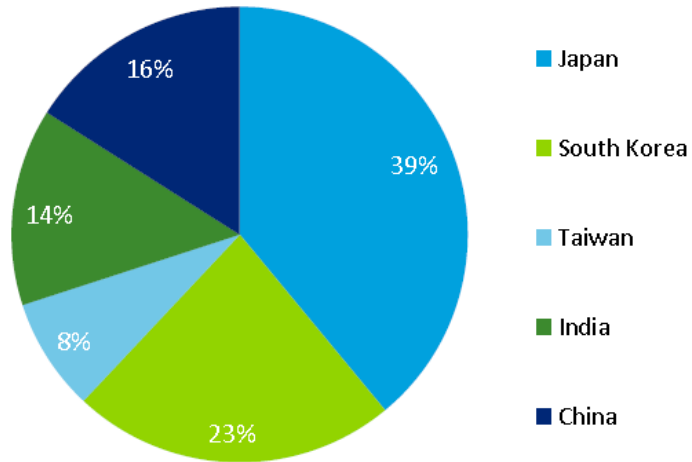
Source: Deloitte Access Economics

The **real** opportunity for next 30 years based on current pipeline:

- Estimates of local content in Greenfield phase is approx. 60%
- This phase will be on the decline from 2015 onwards
- As facilities move into operations phase, specialist contractors have the opportunity to support maintenance regimes.

Super Regional View

Chart 2.7: Asia-Pacific LNG demand (mtpa), 2030



Source: IEEJ 2011

Example of LNG Production:

- Total Output = 188mtpa by 2030
- Australia will be the second largest LNG exporter in the world

Convergent-Divergent Axiom*

Strategy alignment within a business

VS.

Strategy alignment throughout the supply chain

* This is a postulate only and yet to be proven with cases.

Success in Alignment

- Success comes from strategic alignment of the goals of the asset owner and the service provider
- “Our clients’ interests always come first. Our experience shows that if we serve our clients well, our own success will follow.” - Goldman Sachs’ Business Principles

Examples of Successful Alignment

- The following slides demonstrate successful project delivery for assets for different client types
- Another example of successful delivery in a different product & service category
- Fundamentals remain the same regardless of style and scope of requirement

Asset Owner/ Operator



Apache- STAG/VARANUS ISLAND/OCEAN LEGEND

Preservation Works

- Decks & helidecks
- Crane boom
- Tanks
- Structural steel
- Conductors and conductor piles
- Accommodation modules

As well as-

- ROV underwater decontamination
- Passive Fire Protection
- UHP Water Jetting/Flushing pipe work

Specialist FPS Contractor



MODEC-PYRENEES VENTURE/STYBARROW MV 16

Preservation Works

- Decks & helidecks
- Structural steel
- Oil separator internals
- Pipe work
- Hydrocarbon vessels
- Accommodation modules

As well as-

- Epoxy wrap to pipes
- UHP Water Jetting/Flushing pipe work
- Coating Inspection surveys

Asset Support Service Joint Venture



CLOUGH AMEC-BAYU UDAN

Preservation Works

- Decks
- Internal areas
- Vessels
- Helideck
- Crane boom
- Pipe work
- Structural steel

As well as-

- TSA removal on Jacket Legs
- Coating Inspection surveys



Manufacturing Services- Case Study



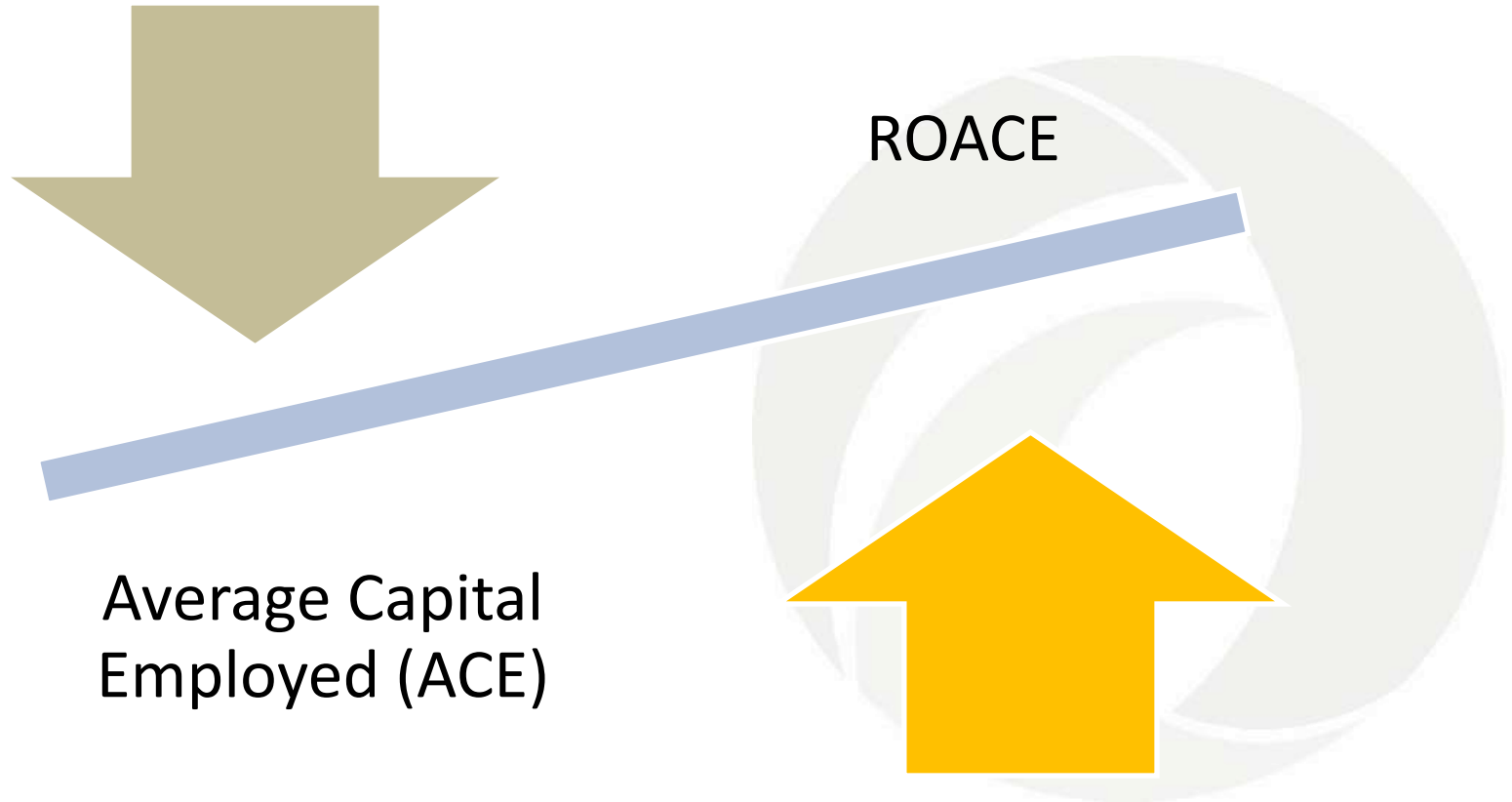
- Assisted design house with material selection and delivery
- Procurement and fabrication complete with structural welding to AWS D1.1 standard
- Turnaround including surface preparation and coating in 2 weeks to meet client requirements
- Factory Acceptance Testing (client/end user representatives) in Henderson followed by readiness for transport to Malaysia

The ROACE View

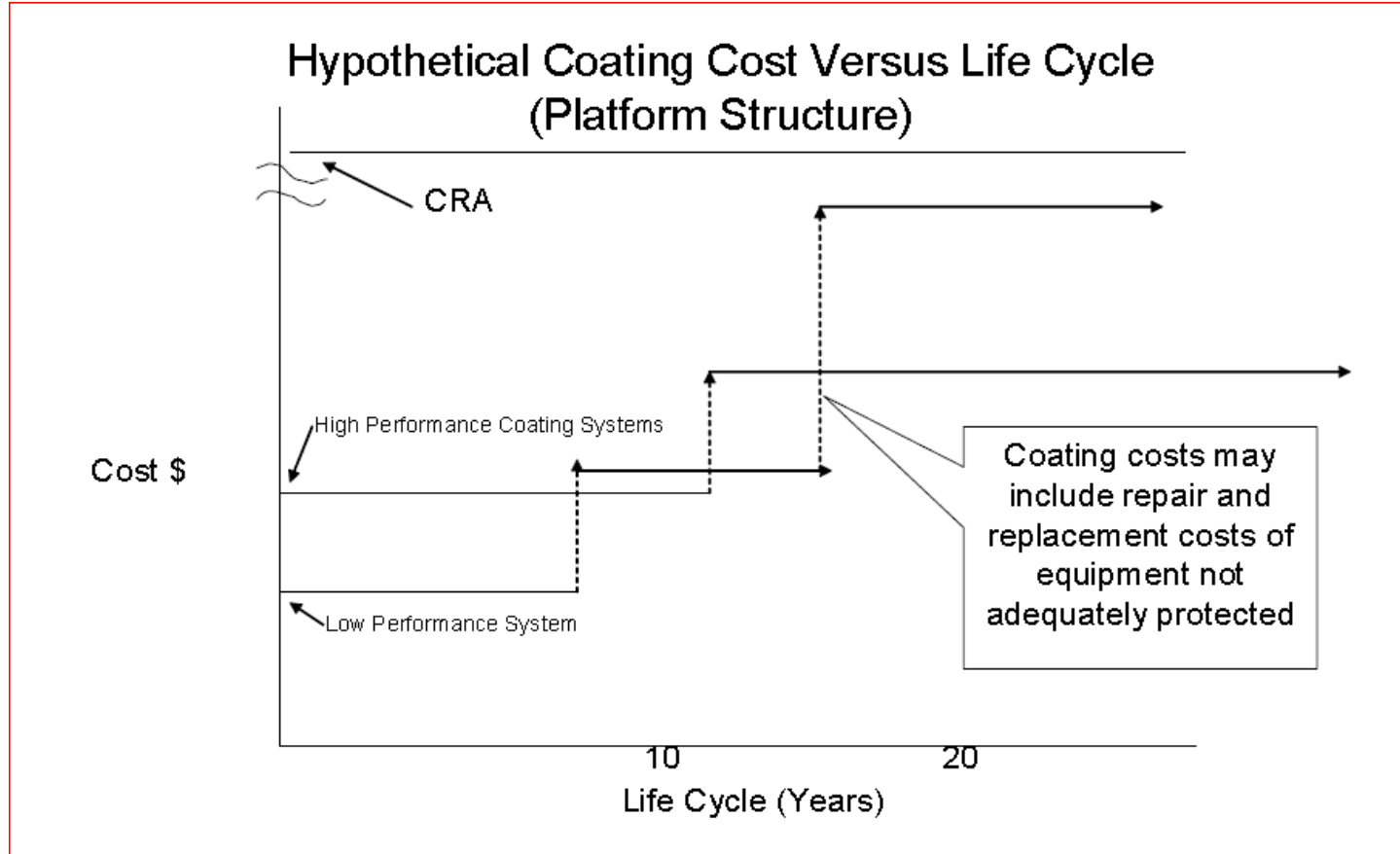
$$ROACE = \frac{EBIT}{Average\ Capital\ Employed}$$

$$\begin{aligned} & \textit{Capital Employed} \\ & = \textit{Average Total Assets} - \textit{Average Current Liability} \end{aligned}$$

The Impact of 'ACE'



Asset Life Cycle Perspective



Drivers of O&M Strategy



- Thinking in terms of lifecycle asset cost can become the determinant of capital requirement
- In turn this helps development of a maintenance strategy

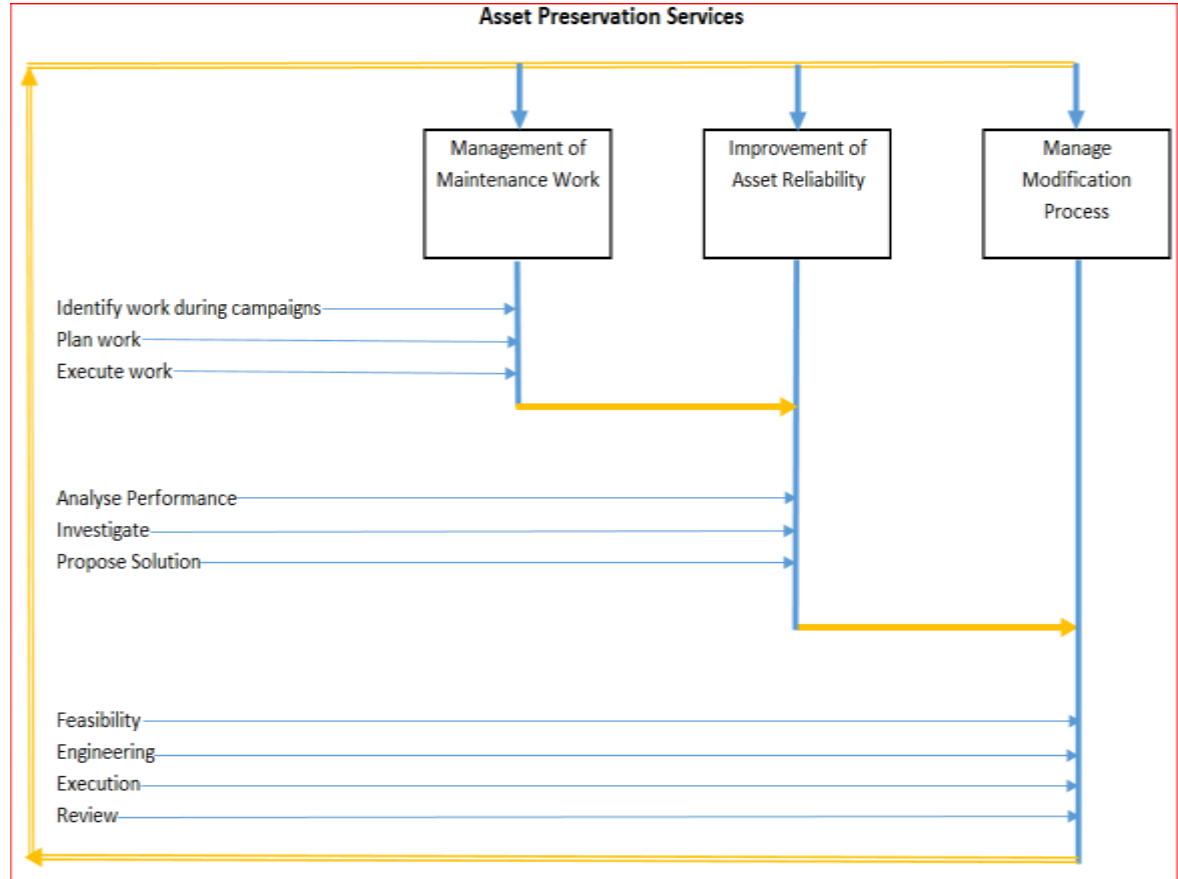
Factors to Consider

- Most capital assets are depreciated over time
- If the same amount of profit is made from an asset each period, the asset depreciating will make ROACE increase because it is less valuable
- Note: Astute investors will be able to determine if the company is making good use of capital, though it is really not making any additional investments.
- Assuming this is the same for all asset operators, the focus then becomes minimisation of new capital requirements unless it is for growth purposes.

Service Delivery Model- Core Areas

Key Focus Areas:

- Management of maintenance work
- Improvement of Asset reliability
- Management of modification process



Conclusion

- The alignment of asset management strategy to financial stakeholder expectations is critical
- There exists in the local marketplace engineered maintenance contractors capable of delivering requisite services
- Asset owners and operators need to engage with mid tier contractors to ensure the end results are mutually beneficial in the long run;
- By demonstrating technical leadership in the provision of services, contractors can significantly improve medium to long term attractiveness of Australia for investments; thereby securing their sustainability and growth.

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Engineering + Maintenance + Preservation

- Engineering & Design Solutions
- Machining and Fitting
- Fabrication (SMP)
- Surface Treatment & Preservation
- Installation & Commissioning



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