

**077 – NORWEGIAN OIL AND GAS
RECOMMENDED GUIDELINES**

FOR

JOINT USER COSTS FOR

MOBILE RIGS / DRILL SHIPS



Translated version

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1. Purpose

Drilling rigs that meet Norwegian requirements must be accessible in order to maintain the necessary drilling programs on the Norwegian Shelf. This need is met by operating companies either individually or jointly hiring drilling rigs to carry out drilling campaigns. It has been difficult to secure rigs for certain drilling operations during some periods. During these periods, the operating companies have been forced to enter into long-term hire contracts with the rig owners. In connection with the hire periods, the operating company may have to install necessary equipment on the rig. Oftentimes, the equipment on the rigs must be adapted to Norwegian regulations. The costs of joint equipment, rig modifications and other joint costs are compiled by the operating company that is responsible for the contract, and distributed among the users of the rig. The purpose of these guidelines is to indicate how these costs can normally be distributed among the users of the drilling rig. It is recommended that an agreement be entered into regarding distribution of joint costs in each specific instance, concurrent with the agreement for use of the rig between the operating company that has signed the contract with the rig owner and the users of the drilling rig. Such an agreement may deviate from the guidelines based on the specific circumstances in each case.

2. General

Joint costs for rigs hired for a single well / project / license are charged to the relevant license. Joint costs for rigs that are to drill on multiple licenses are compiled by the operating company that has signed the contract with the rig owner, and then distributed among the users of the rig. The recommended guidelines also apply to rigs / drill ships that are hired by several operating companies / licenses under joint venture contracts / joint use agreements. The following main types of joint costs may be relevant:

1. Mobilisation
2. SPS / Classing
3. Modifications / Upgrades
4. Demobilisation

The joint costs shall include the operating company's, or the license's or the joint venture's expenditures for current costs during the period the when the relevant work is performed. This includes own personnel costs and compensation for tied-up capital, and will mainly consist of:

1. Rig rate (according to the contract's provisions for relevant activity, including moving the rig)
2. Costs associated with anchor handling / supply / standby vessels

3. Personnel costs/other costs for the operating company's personnel and consultants
4. Costs associated with service companies/equipment contracts (stand-by terms if relevant)
5. Consumables (bunkers, mud/cement for testing of systems, etc.)
6. Interest compensation for the operating company's/license's expenditures prior to the date for calculating the day rate (ref. next section). Such interest shall be in accordance with "Interest on Liquid Balances" in the Accounting Agreement for the most recent licensing round's production licenses, and shall be calculated monthly based on the disbursement balance and the interest rate for the last working day of the relevant month.

The Joint Operating Agreement's provisions whereby the operating company shall neither profit nor suffer from being the operator also apply to these costs.

3. Use of day rates

The operating company's/the license's expenditures are covered by day rates charged to the user wells/licenses based on an "operational rig day", i.e. that day rates shall not be charged for periods when the rig is idle in connection with upgrades/repairs/inspections, or is laid up. However, "operational rig day" includes repair periods for a specific license for a drilling rig which will be used by several licenses during the contract period.

If a license/joint venture group/other operating company has committed to using the rig/drill ship for an activity and does not fulfil said commitment, day rates shall be charged to the obligated user for the period when the rig/drill ship is idle.

Day rates shall be calculated as a "daily annuity" based on the applicable interest rate for "Interest on Liquid Balances" in the Accounting Agreement for production licenses awarded under the most recent licensing round – and estimated costs/estimated number of rig days for the relevant allocation period. Adjustment of the interest rate / day rate shall take place annually on 31 December, based on the applicable interest rate for the relevant year. Any changes in the day rate as a consequence of changes in interest rates shall only be retroactive for operational rig days in the settlement year. The revised day rate is used as an imputed rate for the next year, and will be similarly settled at year-end, based on this year's interest rate.

Revised day rate calculations shall be made with retroactive adjustments for the licenses / well projects that have been charged at the previous day rate when:

- Final/actual cost figures are available in cases where the preliminary computation has been based on estimated figures
- There are changes in the allocation period

The operating company/company that is responsible for administering the joint costs shall make the final settlement based on actual costs, the interest rate for the relevant years and the actual allocation period within three months after the contract/the total allocation period is concluded, with the exception of demobilisation costs where such final settlement shall be made within nine months.

If one or more of the user licenses have been relinquished when the final settlement is made, any over/undercoverage for this/these licenses shall be allocated on a pro rata basis to the other user licenses pursuant to their share of the operational rig days.

4. Description of the various joint costs

In the event that the option to extend a hire period in an existing contract with the rig owner is exercised, the option period is treated as a new contract.

4.1 Mobilisation

The allocation period is the contract period for the rig. The costs are divided into annual costs that are settled one year at a time based on the applicable interest rate for the year. No further settlements shall be made unless the contract period is cut short. If the contract period is shortened, then the remaining costs shall be distributed among the users of the rig.

The size of the mobilisation costs may vary from case to case. If a rig is taken over from the previous operating company on site, such costs may be limited to contract signing, inspection teams and any transportation of service company equipment (if not taken over from the previous operating company). If the estimated costs of mobilisation do not exceed MNOK 10, the costs shall be charged against the first well / license after mobilisation; in other words, no joint account is established for mobilisation.

However, in the case of new builds or repairs/modifications before the take-over, the operating company/license may have significant expenditures prior to the rig being taken over by the first well/project. The mobilisation costs can include costs for contract signing, inspections, the operating company's follow-up of construction / any modifications, repairs, etc., leasing installed equipment from contractors, anchor handling and supply vessels, bunkers, etc.

The mobilisation period normally ends when the rig leaves the Norwegian yard (harbour) to sail to the first location (from last anchor on bolster, or beginning of voyage for DP rigs / vessels), and all current costs associated with operation of the rig shall be assumed by the first well / license. Common industry practice entails that the "receiving" well is charged for the costs of moving from the previous location.

If the rig comes from a foreign yard / harbour, the costs incurred until the rig crosses the Norwegian Shelf border shall normally be charged as mobilisation, while the first well / license will be charged after such border crossing.

If it should prove that the rig is not technically operative when it arrives at the first location, the costs that accrue until the rig is technically operative may be charged as mobilisation.

4.2 SPS / Classing

These costs are allocated over the remaining portion of the contract period after the repairs/upgrades (while docked at a shipyard or at sea) are completed. If SPS / Classing occurs less than one year before the contract expires, then the allocation period shall be one year; i.e. retroactive for the remainder of the year. If the same operating company / joint venture has entered into a new contract in direct continuation, the costs of the upgrade can be allocated over the contracts the operating company / joint venture has when the classing/upgrades are carried out.

The authorities determine inspection sequences for rigs to check that the rigs meet the technical requirements. In practice, such docking periods in shipyards are a combination of classing and repairs. The rig owner usually pays the inspection costs as well as the costs of any repairs, while the operating company/license pays other current costs in accordance with applicable contracts, as well as the costs of own follow-up of the classing/repair work, ref. mobilisation costs. Costs associated with moving the rig from the last location prior to SPS/Classing to the shipyard will be charged as SPS/Classing, while costs associated with moving from the shipyard will be charged to the next well/license in accordance with guidelines described for mobilisation costs.

If estimated costs associated with a single measure do not exceed MNOK 10, such costs will be charged to the first well/license the rig operates for after the measure is implemented, and no cost pool will be established.

4.3 Upgrades / modifications

Separate joint accounts shall be established each time the operating company/license has expenses in connection with upgrades/modifications to the rig, installation of new equipment, replacement of existing equipment, etc. Measures of a general character, such as to satisfy new technical requirements, to achieve improved safety, better stability, improved efficiency and capacity, etc. that benefit all future user projects/licenses within the contract period, are the only measures for which day rates aimed at covering the operating company's/license's expenditures shall be charged to all future users within the allocation period.

If an upgrade/modification is made as a consequence of the special needs of a single project/license, then said project/license shall cover all expenditures associated with the upgrade/modification, including any joint costs for the upgrade period. If, within the contract period, it proves that other wells/licenses can benefit from these measures, then the license that has assumed the cost can, upon agreement, allocate its expenditures among these licenses according to the principles described in these guidelines for other joint costs. Similarly, it may be relevant to establish a joint account for special upgrade costs/other costs that accrue because the rig is to be used in a specific operations area; such as the Barents Sea. Such a joint account shall be allocated between the wells drilled in the relevant area according to the principles described in these guidelines for other joint costs.

Costs associated with repairing damage shall be covered by the project/license in which the damage occurred.

Upgrades/modifications can be done either at the shipyard or at sea. The operating company's/license's expenditures here fall in the same category as described in Sections 4.1 and 4.2, but can also include expenditures for the actual upgrade/modification work where this is part of the contract with the rig owner.

If the estimated costs associated with a single measure do not exceed MNOK 10, the costs are charged to the first well/license the rig operates for after the measure is implemented; i.e. no cost pool is established in this case.

4.4 Demobilisation

Demobilisation is charged to the users of the rig over the last 12 months.

Demobilisation means that the rig is cleared of material and equipment that does not belong to the rig owner and that any installations made during the contract period are removed.

The size of the demobilisation costs can vary from case to case, depending on the contractual clauses that apply to demobilisation of the specific rig. In some contracts, the rig is considered to be demobilised on the location of the last well when the last anchor is on bolster / or the rig (DP) is ready to sail, while other contracts require that the operating company(ies)/license(s) shall cover the rig rate (and thus also other associated costs) until the rig is demobilised and in harbour (often limited to a maximum number of days). For the former type of contractual clause, demobilisation costs may be limited to additional operating company personnel for planning/implementation of the demobilisation and any transportation of the contractor's equipment back to the contractor's warehouse. For the latter type of contractual clause, the operating company(ies)/license(s) will bear

all costs that accrue in the period from when the last anchor is bolstered at the last drilling location until the rig is returned to the rig owner.

However, for rigs with the latter type of contractual clause, demobilisation costs may nevertheless be low if the rig moves directly from the last location to a new operating company.

If the estimated costs of demobilisation do not exceed MNOK 10, the costs shall be charged to the last well/license in the contract period.

If the estimated costs of demobilisation exceed MNOK 10, a day rate shall be calculated for the beginning period based on estimated demobilisation costs and operational rig days for the last 12 months of the contract period. This day rate shall be used as a basis for allocation in the license accounts/joint account for the wells/licenses that use the rig in the allocation period.

As soon as demobilisation has been carried out, a new estimate of the demobilisation costs with associated day rate shall be prepared for use in allocation to the joint account for the wells/licenses that have used the rig in the allocation period up to when the final settlement has been made. This must be available within nine months after the demobilisation is concluded, and shall include interest compensation for the operating company(ies)/license(s) for expenditures they have financed up to the settlement date.