



Grethe K Moen. Photo: Emile Ashley

A YEAR OF UNPREDICTABILITY

The tragic helicopter accident at Turøy left an indelible mark on 2016. Thirteen people lost their lives on their way home from working on Gullfaks B. Such accidents should not happen. After a number of years of positive development, 2016 saw an increase in the number of serious incidents, not only in Petoro’s portfolio, but also on the Norwegian Shelf, and this is disconcerting. Petoro fully supports the operators’ and authorities’ measures aimed at reversing the trend. This is essential in order to maintain confidence in the industry, as well as the necessary reorganisation work that is under way.

The year has been characterised by volatility in prices and the demand for oil and gas, and expectations for future oil price trends have also been downgraded over the course of the year. Extensive price fluctuations yield a demanding market. The development in cost level for existing as well as new fields and infrastructure is of crucial significance for the Norwegian Shelf’s ability to compete in the global energy market.

On the basis of the Paris Agreement, the future of fossil fuels is increasingly uncertain. Climate policy will have an increasing impact on the

market for oil and gas over time, both globally, nationally and regionally. This will take place in parallel with rapid technological development, e.g. within renewable energy and the transport sector. At the same time, there is ample access to fossil fuels at a lower cost than previously assumed. This is particularly challenging for the Norwegian Shelf, which has so far been characterised by a relatively high cost level as well as long lead times for new projects.

Today, oil and gas from the Norwegian Shelf is produced in a very energy-efficient manner, and the industry has set concrete goals regarding

further emission reductions. Cost effective low-emission production will be crucial for the future competitiveness of the Norwegian Shelf. Norwegian gas is also a better option than coal as regards reducing emissions. It is therefore important for Norway to remain a reliable and long-term supplier of gas to Europe.

We just put behind us another demanding year during which many colleagues in the industry lost their jobs. This has vast consequences for those affected. When the longevity of oil and gas production is questioned as well, one of the consequences is that fewer young people choose to study petroleum subjects. This is disconcerting for future recruitment to the industry, because we need a supply of resourceful, skilled employees who are up-to-date on both technology and societal development.

Fortunately, we are seeing signs of the transition work bearing fruit. The investment projections for several of our new projects have been drastically reduced, which provides a much better basis for making decisions concerning development. Operating costs have also been reduced, while at the same time we are experiencing higher regularity on fields in the SDFI portfolio. It is particularly gratifying that we have achieved what many believed to be impossible, namely cutting the costs per well by 50%, which is already having a positive impact on the SDFI's cash flow and production.

Overall, this warrants optimism both as regards ensuring longer lifetimes for mature fields as well as achieving profitability in new projects, although we believe competition for capital will remain as demanding as before.

The improvements are also reflected in Petoro's net income for the year. There has been a substantial reduction in field costs, and as regards producing fields, costs have been reduced by 24 per cent from 2013 to 2016. This reduction means that we can deliver in excess of NOK 2 billion more to the state in 2016 than if the costs were the same as in 2013.

Petoro has been an active proponent of further development of the Snorre field for a number of years. The increased production will correspond to the size of one Goliat field, which is impressive from a field that has been in production for 25 years. We will work to further improve profitability, and we are very confident

that we can make the decision to realise the project over the course of this year.

For many, the Castberg project has become a symbol of what we can achieve on the Norwegian Shelf by thinking outside the box and taking advantage of the ongoing transition work. We are expecting an investment decision here in 2017 as well.

The wells with considerable resource potential to be drilled in the Barents Sea this year feature Petoro as an important partner. We must continue to explore in order to ensure future production. Looking ahead a few years, we see there are few projects after 2021.

The key to continued improvement depends on the industry's ability to seize the opportunities posed by technology, including technology that already exists. Although the transition work has yielded impressive results so far, as we move forward, it will not be enough to simply do more of the same. Further digitisation represents the greatest potential here. New ways to organise work, not least efficient collaboration between operators and suppliers, will also be important. This will require the industry to dare to challenge itself and become more open through the sharing of data, information and experience. In order to get there, we will have to radically change our mindset by having the courage to try and fail, and avoid becoming introverted.

In turn, this can provide insight into new ways to solve problems and create values, because this is about further reducing the cost level in order to succeed in the competition for global capital. If we can do this, oil and gas will remain Norway's most important industry, and will contribute substantial values for generations to come.

"Coming together is a beginning; keeping together is progress; working together is success."

Henry Ford



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