



Grethe K. Moen. Photo: Anne Lise Norheim

2017 PROVED THE POSSIBILITIES - NOW THE GOOD WORK MUST CONTINUE

We live and work in a cyclical industry. Like all primary industries, oil and gas has always been characterised by significant historical fluctuations, and it has learned to live with them. However, some of the major changes in recent years are of a structural nature, rather than cyclical. Firstly, it has become clear that the world has more than enough oil and gas available to cover the next 50 years of consumption. Secondly, digitalisation is proceeding at a furious pace. Digital technologies entail a significant business potential, while simultaneously requiring extensive change processes. Thirdly, the future demands a low-carbon society, which means that our products will be challenged by alternative energy sources. The overall consequence of this is that only the “best” oil and gas will be produced and sold. Not just

the cheapest, but also the oil with the smallest climate footprint, produced in the safest manner possible. Here I believe that the Norwegian shelf has a competitive advantage that must be utilised in full.

After a number of difficult years, it became clear in 2017 that the substantial transition has yielded concrete results and new opportunities. Operators and suppliers have done an impressive job by both implementing efficiency measures and thinking outside the box. Now we are seeing the gains from this tough process. Ten new development applications were submitted in 2017, and Petoro is a participant in the two largest ones. This shows that it is possible to create profitable projects on the Norwegian shelf. We are competitive. But as the effect of the implemented improvements

is now showing signs of slowing down, we are facing the most difficult job of all; which new instruments can we employ to make sure that we remain competitive in the future?

One of the results of the transition is evident in the radical change that has taken place in how we think about development concepts, a fresh mind-set that yields both additional production and reduced investments. Both Johan Castberg and the Snorre Expansion Project have undergone this process, and both projects have cut costs by more than half without this affecting the future income potential. We are very satisfied with this. Both projects demonstrate the Norwegian shelf's competitiveness and provide a basis for considerable new revenues for the state through Petoro's activities.

The Paris Climate Agreement is still strong, even after the US pulled out. Nevertheless, the implementation in practical policy is challenging for several countries. In the UK, which is a large market for us, we are seeing that gas and renewable energy have contributed to a complete phase-out of coal, which has resulted in considerable emission reductions. Costly measures are needed in order to further reduce the emissions, particularly within transport and heating. Despite these challenges, the goals and ambitions remain firm.

CO₂ emissions from the portfolio are about half the average for the industry on an international basis. Further improvements are still needed, for example through efficiency measures at our facilities.

Petoro, as licensee in the Martin Linge project, experienced the tragic accident at the Samsung shipyard in South Korea on 1 May 2017, where six people lost their lives and 25 were injured. This accident is an important reminder of the major accident risk associated with all parts of our activities. Safety is a cornerstone of the Norwegian oil and gas industry. Following a worrisome development in the autumn of 2016 and a few serious incidents in the spring of 2017, it was gratifying to see a reverse in the trend in the last half of 2017. However, the number of serious incidents is still too high. While we are convinced that digitalisation will help reduce the risk level in our activities, we must simultaneously endeavour to handle digitalisation as a new risk factor in and of itself.

We believe that the use of artificial intelligence, new algorithms and increased use of the

industry's vast amounts of data will change the industry structure, and this could happen rapidly. The oil and gas industry has been conservative; other industries have already been quicker to seize the opportunities offered by digitalisation, and here we have much to learn.

Moving forward, the challenge will be to further reduce the cost level in order for the Norwegian shelf to remain attractive in the global competition for investment funds. This is also reflected in the Konkraft report published in January 2018 which points out specific opportunities for improvement within digitalisation and new forms of cooperation. We will have to follow this up in the industry by specifying and implementing measures.

It is otherwise encouraging to note that exploration activity is again on the rise, which is crucial in order to realise future projects. After the major developments on Sverdrup, Castberg and Snorre, there are few major projects after 2022. We need new developments to ensure stable production and a consistent stream of new orders to the supplier industry. Exploration in the Barents Sea in the summer of 2017 was disappointing, but it is important to remember that we have barely started mapping this exciting exploration acreage.

2018 will therefore be an important year for Petoro. We look forward to completing the planned exploration wells and, not least, seeing new examples of innovation and thinking outside the box that can further reduce cost levels, while also increasing production from existing and new fields. The goal is for new forms of cooperation, innovation and digitalisation to result in a declining cost curve, while simultaneously promoting significant improvement in safety results.

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

Henry Ford



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