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Record-high value creation and reliable energy deliveries

It is challenging to write an introduction to our annual report as we are currently experiencing war in Europe. Russia's invasion of Ukraine tells the story of a major setback in international cooperation and stable politics. This conflict could lead to lower economic growth and even higher energy prices. This will have vast consequences for the energy markets and energy policy. High energy prices mean high revenues for Norway, which of course is a good thing, but this is overshadowed by the considerable suffering in the wake of war and invasion. Our thoughts particularly go to the civilian population afflicted by this war.

We had hoped that, after nearly two years in the grip of the pandemic, a sense of normality would slowly but surely settle in. But just as the world was headed back into normal life, someone has a different idea. At the same time, we have a year to summarise, and I think Petoro deserves a little extra credit as

we put 2021 behind us. It was not only Petoro's 20th anniversary, but we also delivered a record-high cash flow of 186 billion to the broader community. This should make us proud of what our industry is contributing in the form of value creation. All this built on a foundation of enormous efforts and cooperation over several decades.

At the same time, this also shows the potential magnitude of fluctuations in our industry. Cash flow from the SDFI reached a record low just one year ago. This is food for thought, and emphasises the importance of taking a long-term perspective on our activity, which is, and will continue to be, a hallmark of Petoro.

The record-high cash flow in 2021 also comes at a price. Gas prices have been exceptionally high, particularly in the last half of 2021. The oil price has also rallied considerably after a period of historic lows, including a brief period of time in 2020 where it was negative.

This is good for Norway as a country financially, but is not good for everyone who depends on our products. This kind of price level is not sustainable.

The extreme energy prices are caused by a number of factors. There has been geopolitical unrest for quite some time in several places around the world, and the invasion of Ukraine is very serious for Europe. This causes an imbalance and uncertainty in the markets, with substantial price effects. In this connection, it is important for Norway to be seen as a safe and reliable energy supplier for Europe, particularly for gas.

This winter's energy crisis in Europe was hard to predict and was caused by a confluence of unfortunate factors at the same time. Higher gas prices as a result of increased demand and lower supply from Russia is one of the causes. Energy prices are also affected by higher CO₂ prices, which is an intentional development to speed up the energy

transition. This is all occurring alongside the shutdown of coal and nuclear power plants. Not much wind in Europe, and very low levels in Norwegian reservoirs, also added to the pressure on electricity prices.

Norway has historically been blessed with low and very stable electricity prices, while this winter brought our first experience of the opposite. This gives rise to questions of how we should use our clean hydropower. What should be prioritised when society is going to be electrified from top to bottom? Over the last six months, the debate surrounding electrification of the Norwegian shelf has cast a critical eye on using power from the mainland to cut emissions offshore.

On the other hand, electrifying the shelf using power from shore is crucial in order for Norway to reach its national climate targets. A unified oil and gas industry has set itself a goal to reduce emissions by 40 per cent by 2030 and to near-zero by 2050. In connection with passing the tax package in the Storting in the summer of 2020, the Storting asked the Government to increase the emission cuts target for 2030 to 50 per cent. The industry has identified a number of measures needed to achieve these targets. The conclusion is clear: Electrification of existing and new fields is the most important means to this end. The industry presumes that close to 90 per cent of emission reductions will need to take place through electrification.

Over the longer term, carbon capture and storage, offshore wind, as well as potential use of hydrogen and ammonia for power generation, will contribute to significant emission reductions. The inherent challenge in the measures beyond electrification is that they will have a limited impact and will not be fully developed for use on a large scale until 2030. In order to reach the climate targets, we will need vast changes in the energy systems, and investments in low-carbon technology will need to be

bolstered. Our industry is well-situated here, both from a financial, expertise and technology perspective. We can be an engine for the transformation that must come. The transition must happen now. It will demand a lot from us all. Bold and clear decisions, as well as continued good cooperation, are entirely essential.

In late 2021, the European Commission proposed that natural gas be counted as sustainable under the provisions of the taxonomy, which is the Commission's proposed regulation for sustainable investments. Of course, strict requirements are set for the gas to be classified as "sustainable", but this nevertheless shows that natural gas is slated to play an important role in the transition period. This applies both as regards securing the energy supply, but also to smooth out fluctuations from more unstable energy sources, particularly from solar and wind. Norwegian gas covers just over one quarter of Europe's gas consumption, and is a perfect match alongside renewables; easy to transport, far lower emissions than coal and can be quickly switched on or off. Over time, gas could also be used to produce emission-free blue hydrogen and ammonia, which will be important to decarbonise the parts of the energy market that are difficult to electrify, such as ship transport and industry.

Petoro's portfolio is producing an increasingly larger share of gas. The largest of all gas producers on the Norwegian shelf is Troll, where Petoro's ownership interest is 56%. The Troll field is considered to be one of the world's largest gas fields, and is also the home of 60% of the gas reserves on the Norwegian shelf. Troll can produce until 2070 and Petoro's share of the production currently yields NOK 24 million per hour for the broader Norwegian society.

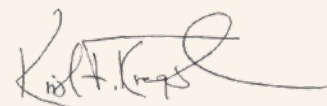
The world's energy needs will have to be covered by both oil and gas for many years to come, so this energy needs to be produced with the lowest

possible emissions. With the momentous challenges the world is facing, it is crucial to use the available energy carriers with the lowest possible emissions and at the lowest price. Norwegian oil and gas is in a unique competitive position here, one we will continue to strengthen.

The activity level on the Norwegian shelf is now record-high. The shipyard and supplier industry are full-up on orders. This creates value for all the people going to work there every day. This also gives us as an industry a long-term perspective. By investing around and in connection with existing platforms and pipelines, we can continue to build on previous investments and achieve high returns faster. We fulfil our mission by maximising value creation, thereby contributing to all of Norwegian society. This expertise and experience are now also used in the transition to a low-carbon society through deliveries to various types of projects within renewable energy generation.

Norway wants to remain an industrial giant in energy. At Petoro, we want to help make this happen. We will be a driving force on the Norwegian shelf. A driving force that works for reliable and competitive production of oil and gas for a long time to come, with near-zero emissions in 2050. We are convinced that our industry is well-positioned for the important and entirely necessary transition. We've set ourselves challenging goals before and succeeded, and we will do it again. Because the world still needs energy while simultaneously needing a transition. We will achieve both. Together.

Kind regards from Kristin



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CEO, Petoro AS