# Directors' report 2023

**Petoro manages the State's Direct Financial Interest (SDFI), which represents about one-third of Norway's overall oil and gas reserves. The company's objective is to create the greatest possible value and achieve the greatest possible revenue for the State from SDFI.**

The SDFI scheme was established in 1985. Under this arrangement, the state participates as a direct investor in petroleum activities on the Norwegian continental shelf (NCS), so that the state receives revenues and incurs expenses associated with SDFI's ownership interests. Petoro acts as licensee, on equal footing with other partners, for the state's ownership interests in production licences, fields, pipelines and onshore facilities.

As SDFI manager, Petoro contributed a cash flow of NOK 277 billion in 2023, which represents an estimated 30 per cent of the state's total revenues from the petroleum activities in 2023.

## External trends

In recent years, the markets have been characterised by wars and the aftermath of the pandemic. During these years, many countries have introduced major stimulus packages to contribute toward energy and climate transition in their own territory. Examples of this include the Inflation Reduction Act in the US and the Green Deal Industrial Act in the EU. Extensive state policy instruments have been introduced to reduce greenhouse gas emissions, stimulate industrial development and jobs, as well as to secure the energy supply. These stimulus packages have led to debates on protectionism, green trade wars and a lack of faith in international treaties and cooperation.

The past year has seen the presentation of a number of analyses, both international and national, with largely the same message; it's going to be challenging to reach the established climate targets. The analyses consistently point out the need for action and that a lot needs to happen quickly in order to reach the targets. An agreement was reached at the Dubai climate summit in late December where the countries recognised the UN Climate Panel's conclusions to the effect that global greenhouse gas emissions need to peak before 2025 in order for it to be possible to limit global warming to 1.5 degrees. Despite record-high investments in renewable energy and a new record in the addition of renewable capacity, primarily solar energy, global emissions have also increased in 2023.

To its credit, Europe has undergone a serious energy crisis and has adapted to the elimination of Russian gas in a short period of time. Today, Norway is clearly the largest supplier of gas to the Continent, and a number of initiatives have been implemented on the Norwegian shelf which have bolstered our ability to deliver over the short and longer term. The Norwegian shelf is mature and will eventually be characterised by declining production of both oil and gas. At the same time, the Norwegian Offshore Directorate's analyses show that only half of the projected total recoverable resources have been produced so far. There is broad political agreement to the effect that oil and gas activity in Norway must be developed, not dismantled.

The oil price in 2023 varied between USD 70-90 per barrel, which is about on par with the level prior to Russia's invasion of Ukraine. During the first half of the year, the oil market was affected by financial unrest triggered by the banking sectors in Switzerland and the US. The fear of falling demand led to OPEC+ following up with cuts. The oil market tightened in the 4th quarter as it became clear that global demand was not declining. Oil prices increased further as a result of the war between Hamas and Israel, driven by the fear of a broader conflict.

A significant share of the previous Russian pipeline gas imports has now been replaced by LNG, largely at the expense of deliveries to the Asian market. LNG imports increased in 2023, mainly as a result of Europe still receiving gas from Russia via Nord Stream during the first half of 2022. However, Norwegian pipeline gas exports have declined in 2023 due to extensive planned maintenance and unplanned shutdowns.

The gas price in 2023 was significantly lower than in 2022, but remained at a historically high level. The reason for the lower gas prices is complex, but this was mainly caused by historically high LNG imports and filling up inventories in Europe, combined with lower demand.

In order to secure and increase the value of remaining reserves and resources on the Norwegian shelf, it is important that competitiveness is maintained through cost and climate-efficient solutions. Many fields on the Norwegian shelf are operated using power from shore, and decisions have been made in recent years to electrify several key fields and onshore plants, such as Troll B/C, Oseberg and Snøhvit/Melkøya. According to the Norwegian Offshore Directorate, within a few years, nearly half of Norwegian oil and gas production will come from fields connected to the onshore power grid. The floating offshore wind farm Hywind Tampen became fully operational in 2023, and contributes self-generated renewable power and $CO_2$ emission cuts for the Gullfaks and Snorre fields.

The number of serious safety incidents on the Norwegian shelf has been stable over the last 10 years. Falling objects continue to dominate the range of incidents. The maintenance backlog from 2020 has largely been eliminated, and the Norwegian Ocean Industry Authority's annual mapping of the risk level on the Norwegian shelf shows a positive development. It is important that the industry continues its improvement efforts in order to further reduce the number of serious incidents.

The threat scenario has changed significantly in recent years, and emergency preparedness on the Norwegian shelf was further tightened following the explosion that destroyed the Nord Stream gas pipelines in the Baltic Sea. Equinor and Gassco have been subject to the (Norwegian) Security Act since 2022, and the industry cooperates closely with the authorities on emergency preparedness and security measures.

Major players with a focus on oil and gas activities on the Norwegian shelf have been cultivated in recent years, such as Vår Energi and Aker BP. This is happening alongside many of the previous traditional oil and gas companies changing their strategy to become energy companies. Equinor remains the dominant operator in Petoro's portfolio. The state players have also tweaked their roles and received new responsibilities and names in recent years. As of 1 January 2024, the Ministry of Petroleum and Energy changed its name to the Ministry of Energy, the Petroleum Safety Authority to the Norwegian Ocean Industry Authority and the Norwegian Petroleum Directorate to the Norwegian Offshore Directorate.

2023 was yet another year of high activity levels and considerable investments in oil and gas activities on the Norwegian shelf. Projects under development consist of discoveries, further development and electrification projects that will contribute production, revenues and emission reductions over the upcoming years. They also provide jobs and activity for the supplier industry. Activity associated with exploration close to fields has been high in 2023. This will lay a good foundation for continued substantial deliveries of oil and gas from the Norwegian shelf and from the SDFI portfolio. A high activity level and a general increase in costs entail a risk for cost overruns and delays, so there is a need to closely follow up projects in the implementation phase.

On 28 April 2023, the MPE sent a letter to relevant licensees indicating that the State aims to exercise its right of reversion at the end of the licence period, with a view toward full state ownership of the key parts of the Norwegian gas transport system. The plan is to continue the current model, where Petoro manages the state's ownership through SDFI, moving towards increased or full state ownership.

## Summary of SDFI results

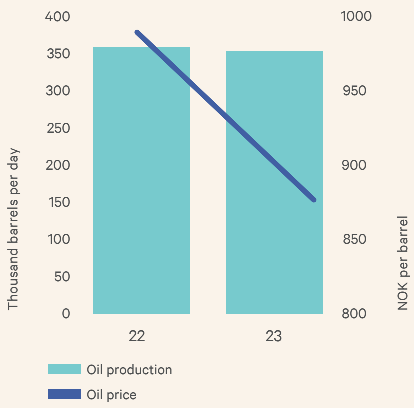
Net cash flow to the state from the SDFI at year-end amounted to NOK 277 billion, 251 billion lower than the previous year. The cash flow was mainly affected by a decline in oil and gas prices from the extraordinary levels of the year before, as well as lower gas sales. The decline was partly offset by increased cash flow as a result of lower costs associated with third-party gas purchases and a reduction in working capital. In spite of the significant reduction compared with 2022, the cash flow for the year is still the second-highest in Petoro's history.

Total production reached 994 thousand barrels of oil equivalent per day (kboed), a reduction of 50 kboed compared with the previous year.

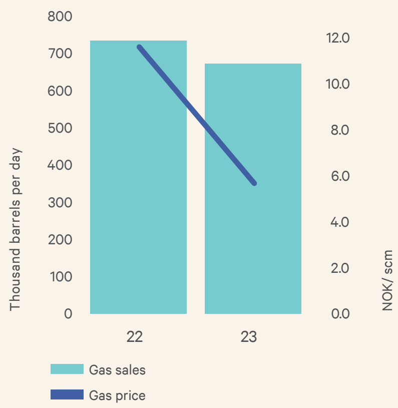
Gas production amounted to 102 million standard cubic metres (mill. scm) per day, which is a reduction of seven per cent compared with the previous year. The decline was primarily caused by a turnaround on Troll, as well as the temporary shutdown of fields tied back to the process plant at Nyhamna. The reduction was partly offset by production from Snøhvit, which was shut down during the first half of 2022, and Dvalin, which came on stream in 2023. The average realised gas price was NOK 5.76, compared with NOK 11.95 per scm the previous year. The reason for the lower gas prices is complex, but this was mainly caused by historically high LNG imports and filling up inventories in Europe, combined with lower demand.

Liquids production amounted to 354 kboed, a reduction of 5 kboed compared with the previous year. The decline in liquids production was primarily caused by natural production decline on several mature fields and a turnaround on Troll C, partly offset by increased production from Johan Sverdrup phase 2. The average realised oil price was USD 83, compared with USD 104 per barrel the previous year. However, the reduction measured in Norwegian kroner was somewhat offset by a weakened NOK exchange rate, leading to an achieved oil price of NOK 876, compared with NOK 988 per barrel the year before. The oil

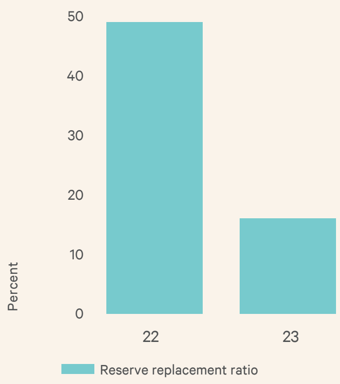
Oil production / - price




Gas sale / -price




Reserve replacement ratio




price reduction was caused by lower demand growth than expected due to rising interest rates, lower economic growth and a fear of recession in several parts of the world. This effect was offset by increased geopolitical unrest and persistent cuts from OPEC+.

Investments came to NOK 30 billion, NOK 1.6 billion higher than the previous year. The increase in investments was caused by high activity on several fields with projects in the implementation phase, partly offset by lower production drilling on Troll.

Total operating expenses amounted to NOK 86 billion, NOK 17 billion lower than the year before. The reduction was caused by lower costs for purchasing third-party gas, which was partly offset by impairment on operating fields.

Costs for purchasing third-party gas amounted to NOK 15 billion, NOK 21 billion lower than the previous year. This decline was caused by significantly lower gas prices in combination with lower volumes.

Production costs amounted to NOK 23 billion, which is on par with the previous year. $CO_2$ costs and operating and maintenance expenses have increased in 2023, however, but the effect was offset by reduced electricity costs.

Transport costs came to just under NOK 12 billion, which is NOK 0.7 billion lower than the year before.

Fixed assets were impaired by a total of NOK 5.2 billion in 2023. Martin Linge, Valemon and Nøkken have been impaired by NOK 4.5, 0.5 and 0.2 billion, respectively. The primary drivers for the impairments are updates to production profiles and cost estimates.

Overall exploration costs during the period amounted to NOK 1.7 billion, while expensing of dry wells drilled during the year accounted for NOK 0.4 billion of this, and previously capitalised exploration expenses prior to 2023 amounted to NOK 0.7 billion.

Net income after financial items came to NOK 266 billion, NOK 273 billion lower than the previous year. This reduction was mainly caused by lower income as a result of substantially lower prices, as well as a lower volume of gas sales.

The book value of assets at 31 December 2023 was NOK 295 billion. The assets mainly consist of fixed assets related to field installations, pipelines and onshore plants, as well as current debtors. Equity at year-end came to NOK 187 billion, which is a reduction of NOK 11 billion compared with the year before. This reduction was caused by the transfer to the state being NOK 11 billion higher than the annual result for accounting purposes. Overall debt amounted to NOK 107 billion, while NOK 75 billion of this was related to estimated future removal obligations. Removal obligations increased by NOK 6 billion compared with 2022, primarily as a result of updated removal estimates.

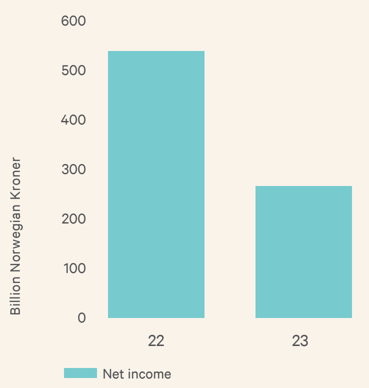
## Health, safety and the environment (HSE)

There were a total of 18 serious incidents in the SDFI portfolio in 2023, and this yields a serious incident frequency of 0.56, which represents a slight weakening from 0.54 in 2022. Falling objects continue to dominate the range of incidents. The personal injury frequency was 4.11, which is about the same level as in 2022. Petoro always puts safety first, and this approach is clearly communicated through the company's expectations for HSE management and HSE culture in the licences. In a major accident perspective, Petoro focuses on learning across the portfolio, as well as ensuring quality in risk assessments. Over the course of the year, Petoro has carried out multiple management visits at selected fields and onshore facilities with a focus on HSE.

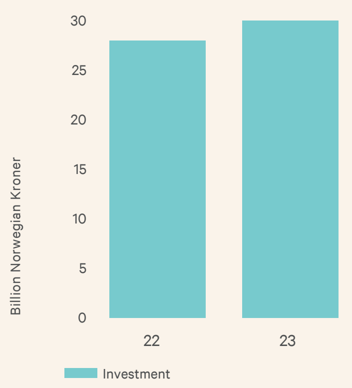
## Principal activities in 2023

At year-end, the SDFI portfolio consisted

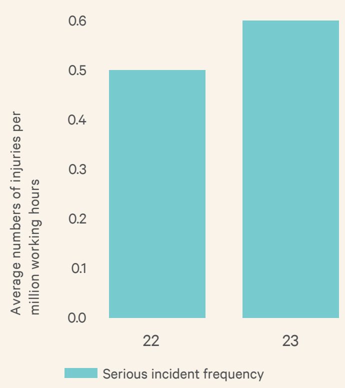
Net income




Investment




Serious incident frequency




of 175 ownership interests in production licences; three fewer than at the beginning of the year. In January 2024, the Ministry of Petroleum and Energy completed its awards in pre-defined areas, where an additional 20 production licenses were awarded with SDFI participation. As the largest partner on the Norwegian shelf, which provides a unique overview, Petoro is well-positioned to identify opportunities and contribute to lessons learned across the portfolio. The company therefore works actively to use its position to create value for its owner.

The portfolio consists of 43 producing fields. The Johan Castberg, Kristin Sør phase 1, Ormen Lange phase 3 and Troll Vest electrification projects, as well as Oseberg increased gas capacity and partial electrification are under development.

Production from mature oil fields continues to dominate liquids production from the SDFI portfolio, despite the fact that Johan Sverdrup accounted for 34 per cent of production in 2023. The Troll, Snorre, Oseberg, Åsgard, Heidrun, Gullfaks and Grane fields accounted for 43 per cent of total liquids production in 2023. In 2023, gas accounted for about two-thirds of overall production. Approximately 70 per cent of the gas production came from Troll, Ormen Lange and Oseberg.

Petoro's strategy describes the company's goal-oriented efforts to generate the greatest possible values from the SDFI portfolio. The strategy has three priorities: (1) Mature fields, where the goal is to create more investment opportunities, (2) Area development, where the goal is to find solutions across the portfolio, (3) People and nature, where the goal is to take care of our surroundings.

Petoro works to reinforce value creation opportunities with emphasis on long-term business development through focused follow-up, supported by in-depth professional commitment.

Petoro was a participant in 11 exploration wells in 2023, which resulted in 7 discoveries, but 5 of these discoveries are characterised as technical/non-commercial. Obelix Upflank (PL1128) in the area around Aasta Hansteen and Røver Sør (PL923) in the area around Troll are both considered to be commercial discoveries.

The portfolio's estimated remaining reserves totalled 4,475 million boe at the end of the year, down by 304 million boe compared with the end of 2022. Reserve growth came to 59 million boe, and this mainly comes from the Snorre and Visund fields as a result of somewhat extended economic tail-end production. With a production of 363 million boe, this yielded a reserve replacement rate of 16 per cent, compared with 49 per cent in 2022 and 80 per cent in 2021.

Additional information about the company's activities in 2023 can be found in Chapter 3, Activities and results from the year.

## Research and development

Petoro contributes to research and development (R&D) through the SDFI meeting its share of the operator's costs for general research and development pursuant to the Accounting Agreement. The funds are managed by the respective operators. This amounted to NOK 703 million for the SDFI in 2023. This is in addition to projects aimed at field-specific qualification of new solutions or pilot use of technology in licences, where the costs are charged to the joint ventures. Petoro only initiates its own technology development projects to a limited extent.

## Marketing and sale of the products

All oil and natural gas liquids (NGL) from the SDFI portfolio are sold to Equinor. Equinor is responsible for marketing all the SDFI's natural gas along with its own natural gas, at the state's expense and risk. Petoro's task is to follow up that Equinor's marketing and sale of the state's petroleum together with its own production complies with the Marketing and Sale Instructions issued to Equinor. The objective of the Marketing and Sale Instructions is to achieve the highest possible collective value for Equinor's and the SDFI's petroleum, and ensure just distribution of the value creation. 2023 has seen Petoro particularly focus on the market situation, potential divergent interests, as well as issues of significant importance as regards value.

In 2023, Petoro has prioritised issues within the marketing and sale of both oil and gas. The company has particularly highlighted measures to increase gas production in order to deliver as much gas as possible to the European market moving forward. In addition, the company has paid particular attention to the extent to which the marketing and sale models satisfy the objectives in the Marketing and Sale Instruction regarding Maximum Value Creation and Equitable Distribution between Equinor and SDFI.

Petoro is concerned with ensuring that the products are marketed and sold in a manner which ensures that the highest possible price is achieved, in addition to ensuring that the portfolio's flexibility is used to achieve the highest possible value creation. In this context, optimal further development, regularity, utilisation of capacity and flexibility in production facilities and infrastructure are of significant importance.

Selected verifications have been conducted to ensure that the SDFI receives its rightful share of sales-related revenues and costs. Multiple clarifications of principle have been undertaken related to the marketing and sale, and Petoro has been in dialogue with the Ministry of Trade, Industry and Fisheries regarding topics in the Instructions throughout the year. The company has also had an extensive dialogue with Equinor, including follow-up of shared goals for costs and value creation.

## Working environment and expertise

The company's human resources policy shall ensure that Petoro is an attractive workplace for existing and future employees.

Petoro's personnel have extensive experience from the petroleum industry and a high level of expertise. The individual employee is crucial to the company's deliveries and success, and the Board places emphasis on ensuring that Petoro offers competitive terms and a stimulating working environment that attracts people with the right expertise. Opportunities for professional and personal development help to attract, retain and develop skilled personnel.

An annual plan is prepared as regards diversity, equality and inclusion with concrete steps that cover these areas. This ensures that the company works in an active, targeted manner according to this plan. More detailed information about this area is provided in the company's sustainability report, which will be published later this year.

The company had 73 employees at the end of the year; three more than compared with the previous year. Seven new appointments were made in 2023, in addition to one employee signing a contract with start-up in 2024.

The average age in the company is 52; 53 for men and 50 for women. The ratio of women in Petoro has remained above 30 per cent since 2009, and was 37 per cent in 2023, which is an increase of 3 per cent compared with 2022. The company has had at least 40 per cent women on its Board since its inception. The rules for electing employee representatives to the Board require one representative for each gender. The company's Board consists of 57 per cent women. The current ratio of women in company management is 50 per cent, which is the same as in 2022. Four of six representatives on the Working Environment Committee and Works Council are women, and this is the same as in 2022.

Petoro's salary system consists of different groups of employees, including management, senior advisers and advisers. Eight per cent of the company's employees belong to the management category, while 84 per cent and eight per cent belong to the senior adviser and adviser groups, respectively. In management, women's overall compensation packages are entirely equal to men's. The equivalent percentages for senior advisers and advisers are 97 and 109 per cent.

The company has a number of employees from diverse ethnic backgrounds. Nine nationalities in addition to Norwegian are represented among the company's employees.

There were two instance of voluntary part-time work in Petoro in 2023 and no temporary employees. Five people were on parental leave during the year.

Absence due to illness was 2.5 per cent, compared with 3.1 per cent the previous year. The company considers this to be low. In an effort to promote good health and prevent burnout, the company emphasises close follow-up and dialogue as described in the Inclusive Workplace Agreement. No occupational accidents were recorded among the company's personnel in 2023. The company conducts annual employee surveys as part of its efforts to safeguard a good working environment, and these surveys are followed up with measures.

The company has worked actively during the year to ensure a good working environment, and employee feedback indicates satisfaction with the company's working environment. We've had good experiences with the use of home offices, which is why Petoro has practised flexibility as regards where the employees conduct their work, as well as access to equipment for home offices.

Collaboration in the company's Working Environment Committee and Works Council lays an important foundation for a good working environment. Cooperation in these bodies is considered to be good.

## Corporate governance

Corporate governance was moved from the Ministry of Energy to the Ministry of Trade, Industry and Fisheries in 2021. The Minister of Trade and Industry represents the state as sole owner and constitutes the company's general meeting and highest authority.

The Board emphasises good corporate governance to ensure that SDFI is managed in a manner that maximises financial value creation. Requirements for governance in the public sector are specified in "Regulations on Financial Management in Central Government" and in standards for good corporate governance. The Board observes the Norwegian state's principles for sound corporate governance as expressed in Storting Report No. 6 (2022-2023) "A greener and more active state ownership - The Norwegian state's direct ownership in companies" and those sections of the "Norwegian Code of Practice for Corporate Governance" regarded as relevant to the company's activities and the frameworks established by its form of organisation and ownership.

The company's values base and ethics are embedded in its values and guidelines on business ethics.

The management system is tailored to Petoro's distinctive nature, and enterprise management is based on balanced management by objectives, under which objectives are established that support the company strategy.

## Corporate social responsibility

Petoro discharges its corporate social responsibility (CSR) in line with the company's guidelines.

Measures which ensure that the company discharges its CSR include business ethics guidelines, the HSE declaration, the company's strategy, as well as an HR policy that ensures diversity, inclusion and equal opportunity. Petoro has no activity outside Norway, but participates indirectly in certain foreign activities as licensee and through the Marketing and Sale Instructions.
Petoro endorses the (Norwegian) Transparency Act's objective of promoting respect for fundamental human rights and decent working conditions throughout the value chain, as well as ensuring general public access to information. The Transparency Act obligates businesses to be transparent through an annual statement of their due diligence efforts. Petoro publishes this on the company's website (www.petoro.no) and in the annual report's chapter on Corporate social responsibility.
The Board provides a more detailed presentation of the exercise of CSR in a separate section of the annual report, and more extensively in the company's sustainability report.

## Risk management and internal control

Risk management in the form of avoiding threats and securing opportunities is an integrated part of Petoro's governance and closely linked to the company's strategy and business processes. The company's general risk assessment with associated risk factors is continuously evaluated and identified measures are followed up. Sustainability and climate are reflected in the company's strategy, goals and risk matrix. In 2023, the Board has devoted particular attention to the security situation on the Norwegian shelf and gas export from the portfolio, reductions in greenhouse gas emissions, as well as the risk of cost overruns and delays. The Board and management started an effort in 2023 to update the company's risk management process to adapt the framework to future commercial needs.

In addition to the annual review of the company's governance, two internal audit projects were carried out in 2023 aimed at the areas of internal control in connection with assurance and follow-up of cash flows for the SDFI, and following up information security at the SDFI's accountancy provider. The results were summarised in a report to the Board describing the audit actions undertaken, findings, as well as proposed and implemented measures for the internal audit projects. The result is satisfactory, and the internal controls fulfil generally acceptable standards. The internal audit projects were conducted by PwC, which has also been responsible for the internal financial audit of the SDFI for the 2023 accounting year.

## Work of the Board

The Board has overall responsibility for administration of the company. The Board ensures that appropriate management and control systems are in place and supervises daily management and the company's activities. The "Instructions for the Board of Directors" describe the Board's responsibilities and administrative procedures. Balanced scorecards are a key instrument used by the Board in following up the company's results.

The Board has chosen to organise its work related to remuneration through a sub-committee comprising two of the shareholder-elected directors, one of whom is the deputy chair.

In 2023, the Board established a sub-committee linked to audit and risk management. This committee consists of three shareholder-elected members, one of which is the chair of the Board.

A declaration has been drawn up by the Board regarding remuneration of the chief executive and senior personnel.

As an appendix to the Board Instructions, the Board has adopted supplementary provisions for matters which it will consider. The Board also conducts annual reviews of the company guidelines on business ethics and CSR, as well as the Board Instructions. Directors must routinely report their ownership of shares or similar interest in other companies which could constitute, or which could be perceived as constituting, a conflict of interest with their position. They are furthermore required to report other relationships with licensees involved in petroleum activities on the NCS or with companies that supply licensees.

Each director and the Board as a collective body seek to strengthen their expertise in various ways. These include participation in courses and conferences and generally following developments within the business area.

The Board of Directors of Petoro AS consists of Gunn Wærsted as chair, deputy chair Brian Bjordal, Trude J. H. Fjeldstad, Arne Sigve Nylund and Kristin Skofteland as shareholder-elected directors. Board members May Linda Glesnes and Jonas Olsson were elected to represent the employees.

Directors and officers liability insurance has been taken out on commercial terms. The insurance covers policy holders' legal liability for economic loss incurred by virtue of their positions, with the restrictions and endorsements that follow from the terms.

Reference is otherwise made to Chapter 4, "Management and control" under "Corporate governance".

## PETORO AS

### Share capital and shareholder

Petoro AS was established as part of the restructuring of the state's oil and gas activities in 2001, when Equinor (previously Statoil) was partially privatised and management of the SDFI was assigned to Petoro AS. The company's operations are governed by Chapter 11 of the Petroleum Act. The company's general meeting is the Ministry of Trade, Industry and Fisheries.

Petoro's share capital at 31 December 2023 was NOK 10 million, distributed among 10,000 shares owned by the Ministry of Trade, Industry and Fisheries on behalf of the Norwegian state. Petoro's business office is in Stavanger.

### Net income and allocations

Petoro AS maintains separate accounts for all transactions relating to participating interests in the joint ventures. Revenue and expenses from the SDFI portfolio are kept separate from day-to-day operation of the company. Cash flow from the portfolio is transferred to the central government's own accounts with Norges Bank. Accounts for the portfolio are presented both on the cash basis used by the government and in accordance with the Norwegian Accounting Act and Norwegian generally-accepted accounting principles (NGAAP).

Funds for operating Petoro AS are provided by the state, which is directly responsible for the contractual obligations incurred by the company. NOK 380 million was appropriated for ordinary operation of the company in 2023, compared with NOK 362 million in 2022.

Total expenses in 2023 were within the framework of the Board's approved budget, the company's appropriation and allocation letter. The financial result for Petoro AS totalled NOK 6.8 million. The Board proposes that this profit be transferred to other equity. Including net income for the year, other equity amounted to NOK 25.2 million as of 31 December 2023.

Pursuant to Section 3-2a of the Norwegian Accounting Act, the board affirms that the annual accounts for the portfolio and the company provide a true and fair picture of the company's assets and obligations, financial position and results of the business, and that the annual accounts have been prepared under the assumption that the company is a going concern. The company has satisfactory equity and low financial risk.

### Prospects

There are still substantial remaining resources on the Norwegian shelf. Production is expected to reach a peak in 2025, followed by rapid decline. According to the Norwegian Offshore Directorate's projection, overall oil and gas production in 2040 will be about one-third of the current level if no new volumes are added. The Directorate particularly sees opportunities for gas in the Barents Sea, and a number of licences in the Barents Sea were awarded in the most recent awards of exploration acreage (APA 2023). Petoro received a total of 20 licences for administration, 8 of which in the Barents Sea, and will be well-positioned as one of the most important players on the Norwegian shelf. Petoro shall be a driving force for realising the values on the shelf and producing them in the most sustainable way possible. Today, gas constitutes 64 per cent of total SDFI production and about 70 per cent of future production.

Petoro is working to map the resource base, drill new wells and implement other improved recovery measures on operating fields. A number of new drilling targets have been identified on the fields, but the fixed drilling installations have a low drilling pace, which means that not enough wells are being drilled.

Furthermore, Petoro contributes in developing new fields and further development projects towards investment decisions. These projects include both resource extraction, improved recovery measures, and measures to reduce greenhouse gas emissions. Several of these projects are complex, where bottlenecks in the value chain and alternatives for utilising existing infrastructure will affect the chosen solutions. Different ownership structures in different geographical areas often make it challenging to find good solutions across fields, discoveries and infrastructure.

The last few years have seen decisions made to electrify several crucial fields and onshore plants on the Norwegian shelf with power from shore. With the already adopted climate measures, emissions from the SDFI portfolio will be reduced by close to 30 per cent by 2030, compared with 2005. Additional emission-reducing electrification measures will need to be adopted and implemented over the next few years in order for Petoro to reach its target of a 55 per cent cut by 2030. The licences' plans include multiple potential emission reduction measures. Measure costs in these plans are currently high, and there is a need to optimise and improve these projects, alongside identifying and developing new measures. This will require substantial efforts from the joint ventures and Petoro. The preconditions for achieving this include access to power from shore, that the joint ventures can agree on solutions, and approval from the authorities. Beyond the electrification projects, energy efficiency measures and planned shutdowns and scale-downs will contribute to emission reductions.

The COP28 climate summit in December made it clear to the entire world that an extensive energy transition is needed in order to reach the targets in the Paris Agreement. Considerable amounts of renewable clean energy must be developed, and over the long term, this needs to replace fossil energy. For the first time, the International Energy Agency (IEA) expects that global demand for both oil and gas will peak before 2030. The fossil fuels with the lowest cost and lowest emissions from production, transport and consumption are expected to be the ones that succeed.

There are great ambitions for new commercial activity on the Norwegian shelf, including offshore wind, carbon capture and storage and seabed mineral extraction. With resources and expertise in areas such as offshore activities, major development projects and technology development, in addition to a well-tailored framework, the shelf is well-poised to succeed in the transition. The new industries will largely depend on the same expertise as oil and gas activities and the onshore renewables industry. This means that there will be a significant need for recruitment over the next few years, both as a result of activity growth and retirement.

In sum, Norwegian oil and gas has been able to remain competitive on costs and emissions in recent years, and Norway has bolstered its position as a reliable and safe supplier of energy. Future competitiveness will be contingent on cost and climate-efficient solutions in order to ensure that the shelf can contribute to continued energy security and energy transition. It will be important to maintain these competitive parameters in the years to come, and Petoro will contribute to this as a key player on the Norwegian shelf.

Stavanger, 8 March 2024

**Gunn Wærsted**
Chair

**Brian Bjordal**
Deputy chair

**Trude J. H. Fjeldstad**
Director

**Kristin Skofteland**
Director

**Arne Sigve Nylund**
Director

**Jonas Olsson**
Director,
elected by the employees

**May Linda Glesnes**
Director,
elected by the employees

**Kristin Fejerskov Kragseth**
President and CEO