



Norwegian oil and gas: Boom or bust?

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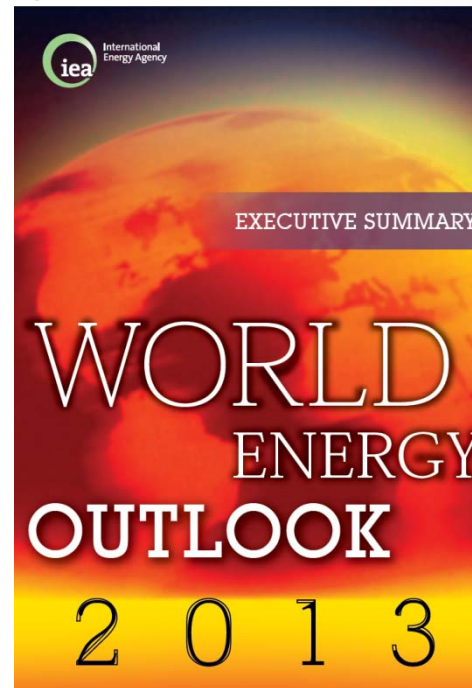


Sandnes Sparebank: Capital Market Day
Sandnes, 23 April 2014

Global energy outlook

Pressures are building, no resolution in sight

- The oil price is record high
- The energy system is changing
- The system is short on sustainability



An industry that makes a difference

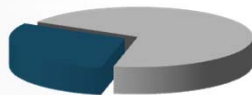
A significant role in the Norwegian economy

Macroeconomic key figures 2012

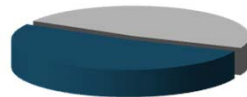
Oil and gas share in...



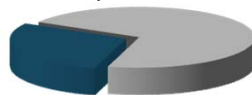
Government revenue
30 per cent



Total export
52 per cent



Total fixed capex
29 per cent



Seven winter olympic games...

... every year



OSLO2022
Applicant City



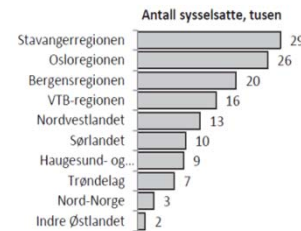
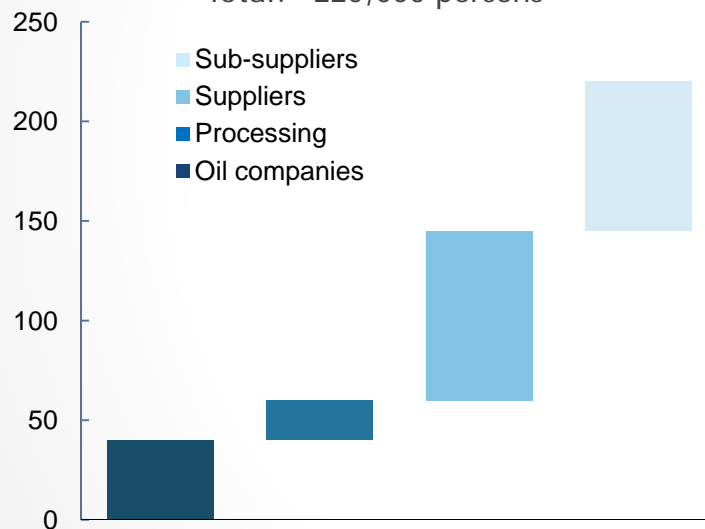
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Vulnerabilities vary across regions

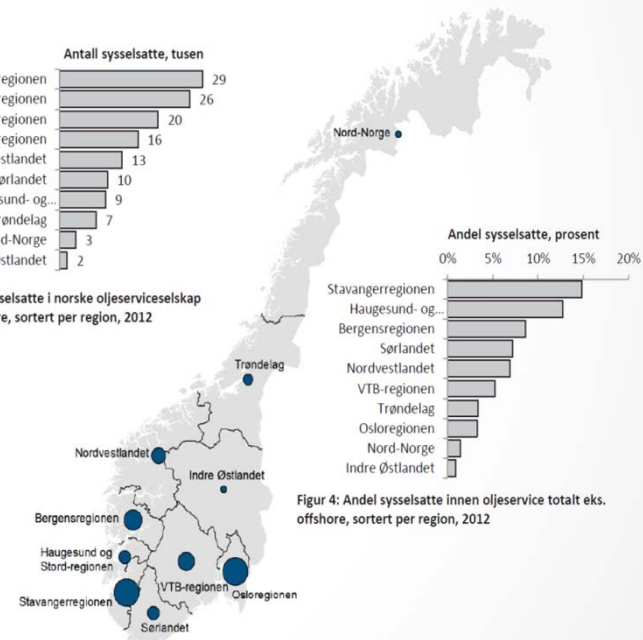
Petroleum exposure is not uniformly distributed

Petroleum-related employment 2012

Total: ~220,000 persons



Figur 5: Antall sysselsatte i norske oljeserviceselskap totalt eks. offshore, sortert per region, 2012



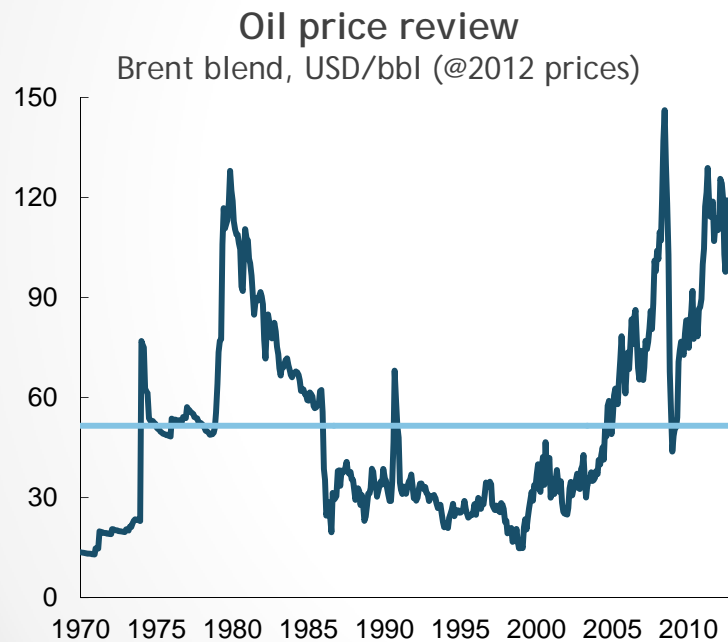
Figur 4: Andel sysselsatte innen oljeservice totalt eks. offshore, sortert per region, 2012



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The oil price matters...

... for demand, supply, and future price dynamics



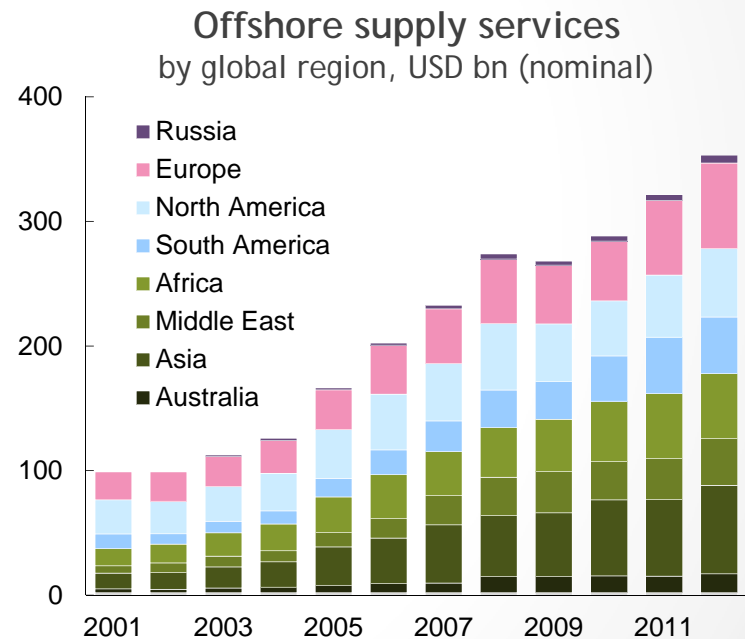
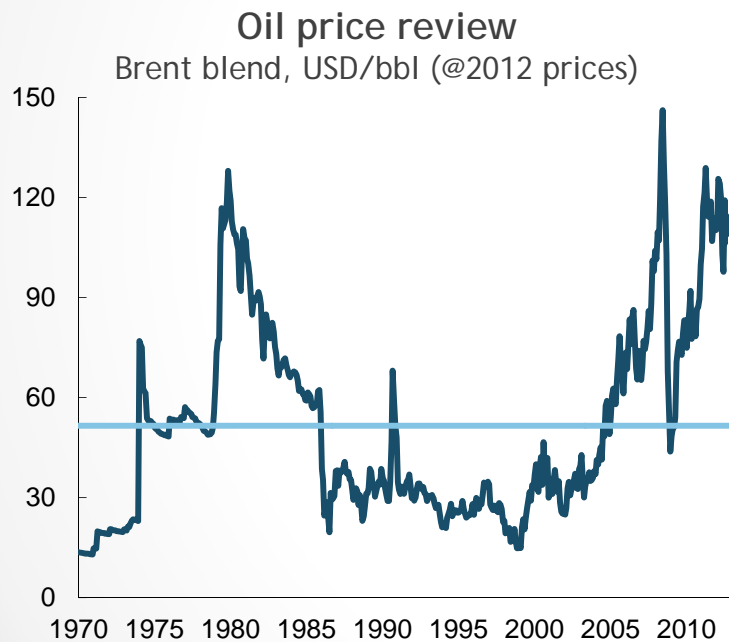
- 3-fold increase since 2000
- Impact on demand
- Impact on supply
- New technologies



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The oil price matters...

... for demand, supply, and future price dynamics



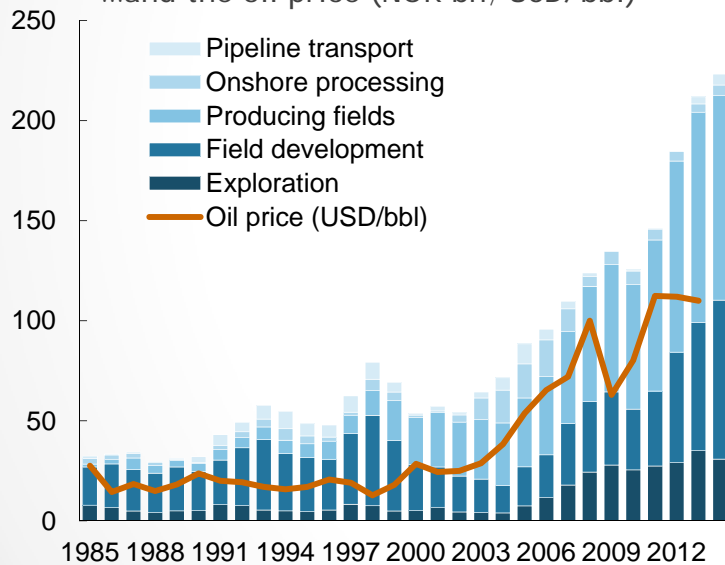
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Source: Norwegian Petroleum Directorate, Norges Bank Investment Management, author's calculations (GPF projections).

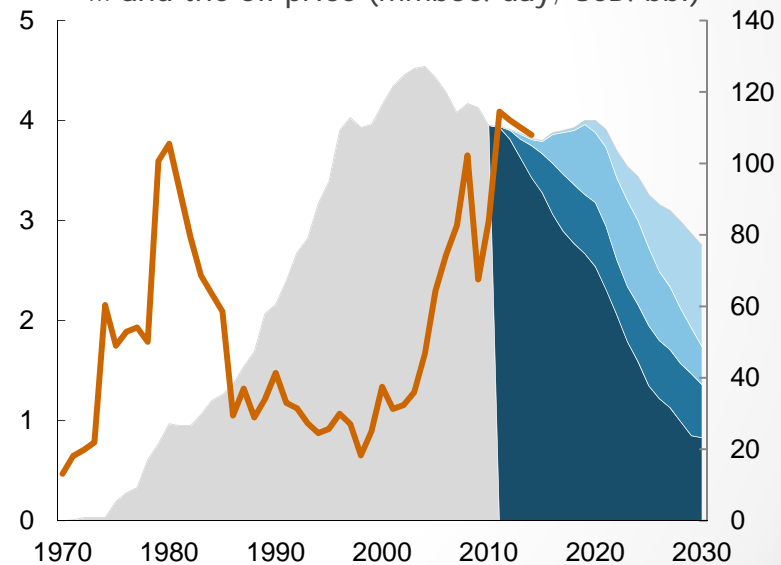
The oil price matters...

... for NCS activity, production, revenues - and costs

NCS oil and gas investments...
...and the oil price (NOK bn; USD/bbl)



NCS oil and gas production...
... and the oil price (mmboe/day; USD/bbl)

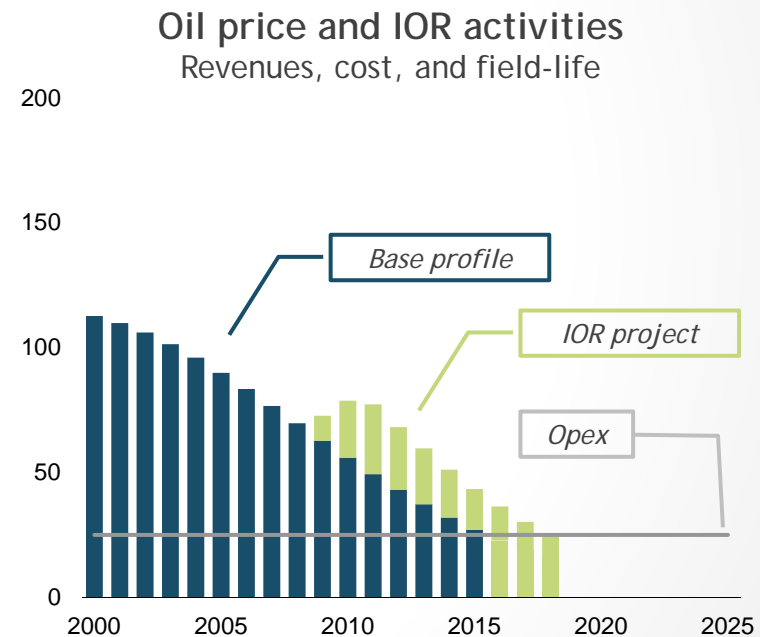
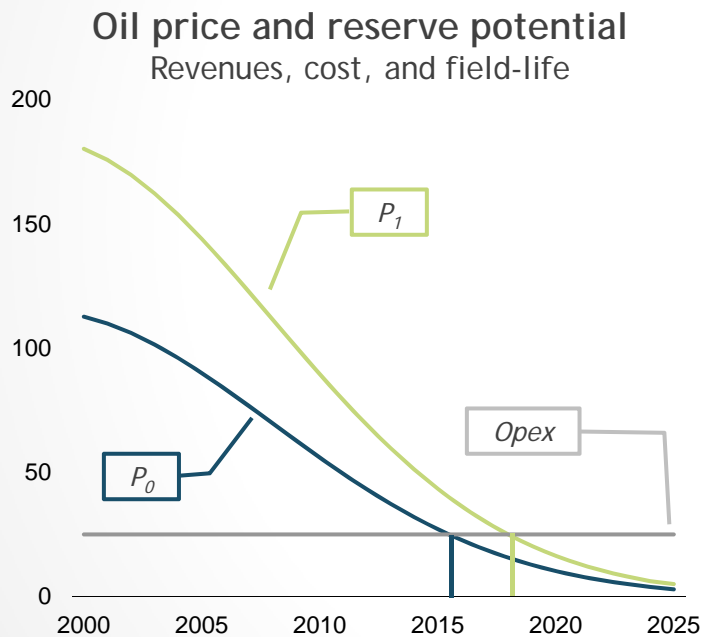


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Source: Statistics Norway, Norwegian Petroleum Directorate, Reuters EcoWin.

The oil price matters...

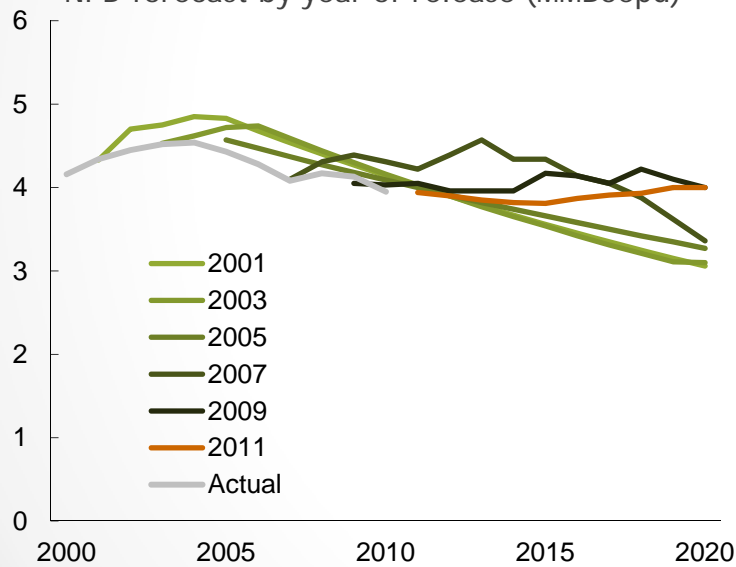
... for activity, production, and recoverable reserves



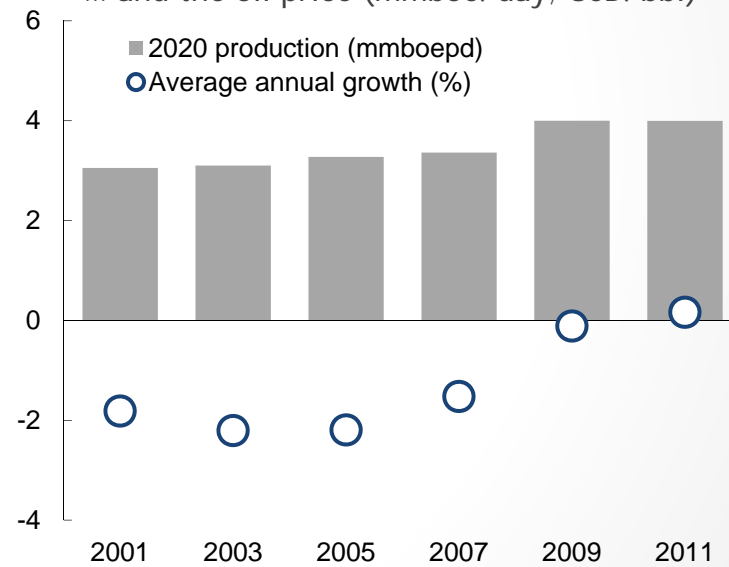
The oil price matters...

... for NPD expectations

Outlook for NCS oil and gas production
NPD forecast by year of release (MMBoepd)

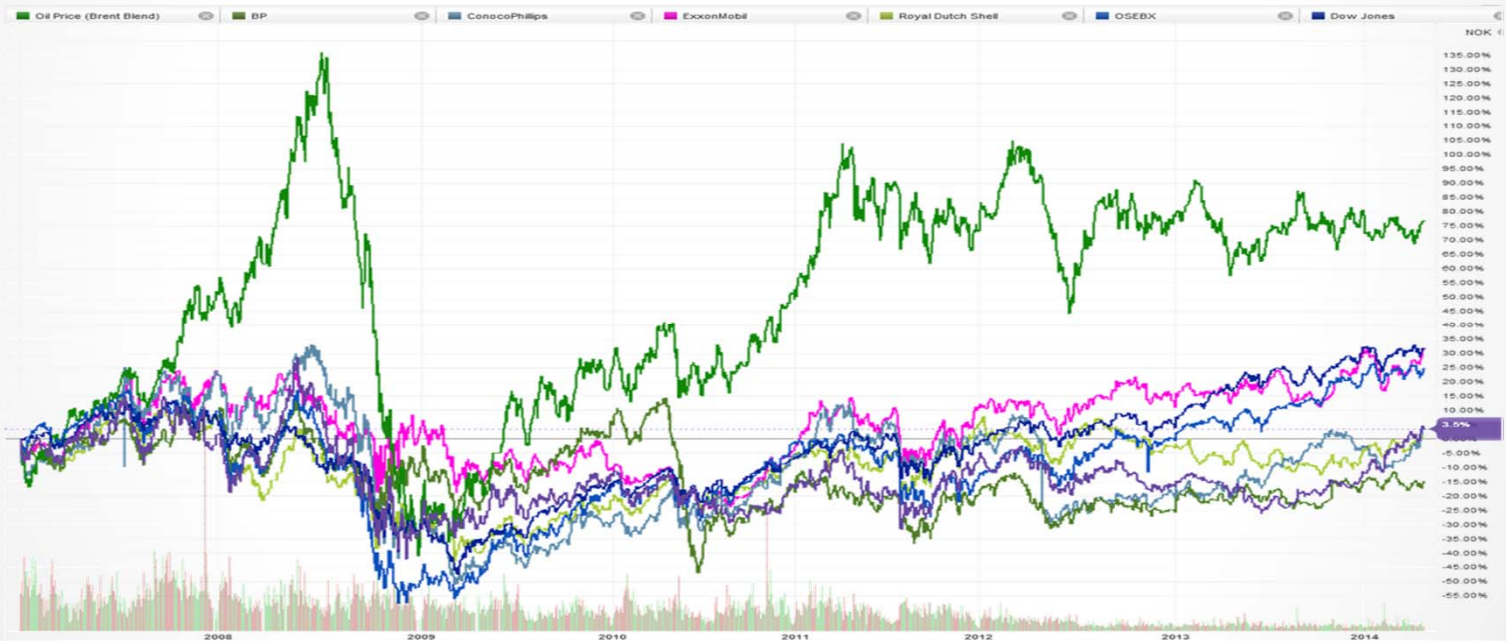


NCS oil and gas production...
... and the oil price (mmboe/day; USD/bbl)



IOC returns fall short of expectations

Unimpressive share price developments

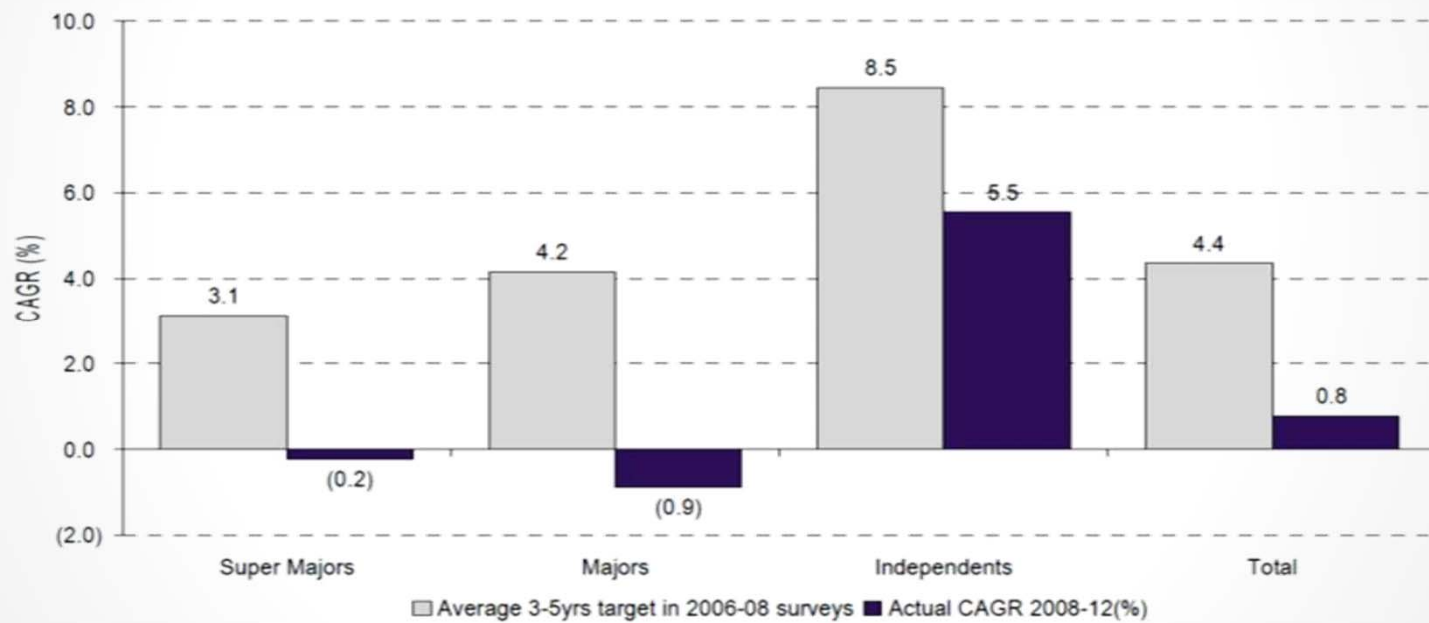


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Source: <http://www.statoil.com/IR>.

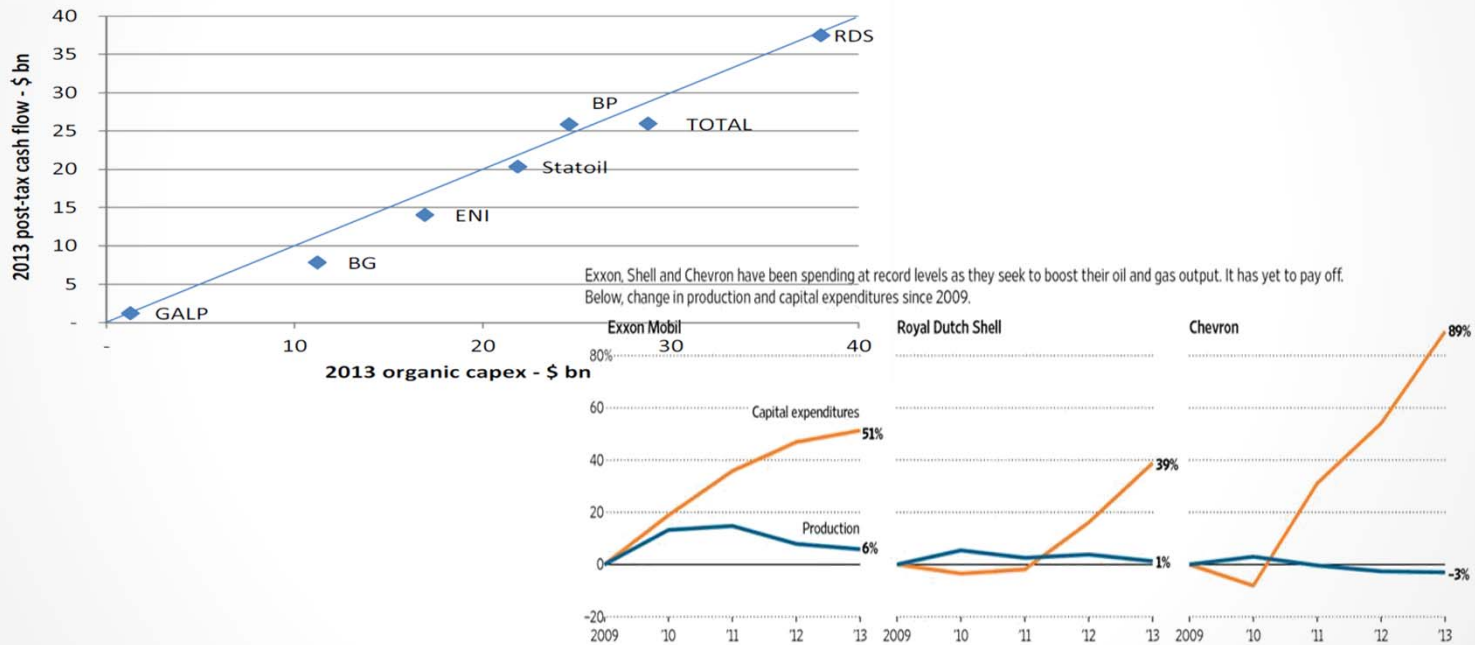
IOC production falls short of promises

Production growth versus targeted growth last four years



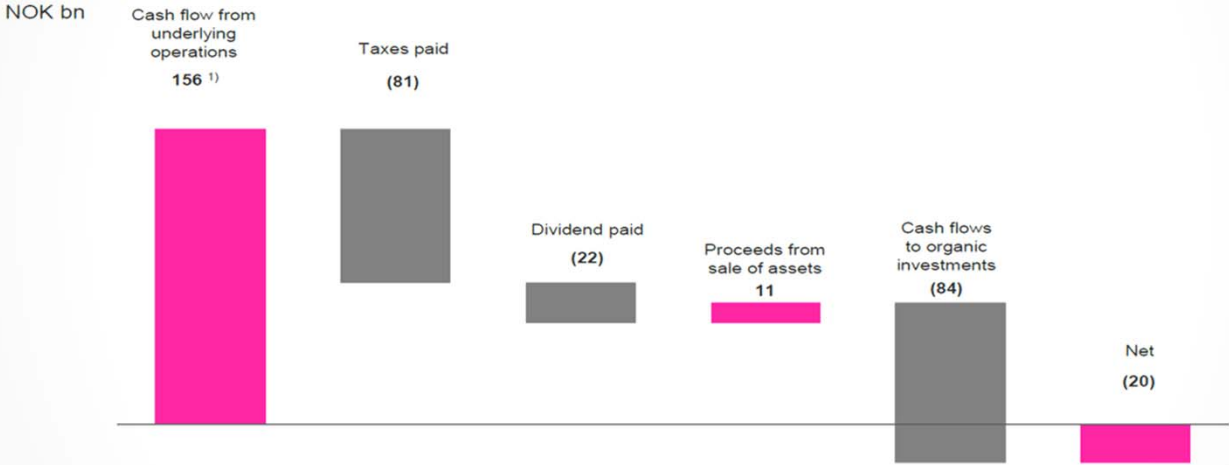
IOC cash-flows fall short of investments

Only BP funded its capex with cash-flow in 2013



Cash-flow shortage ...

Statoil's cash-flow 2013



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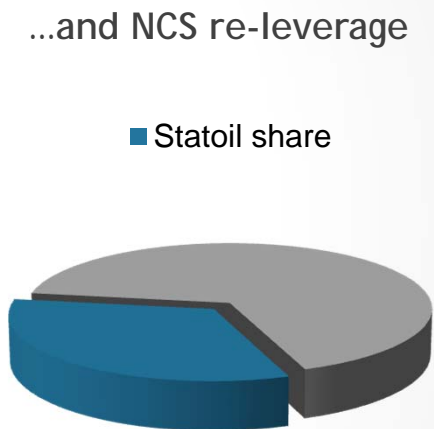
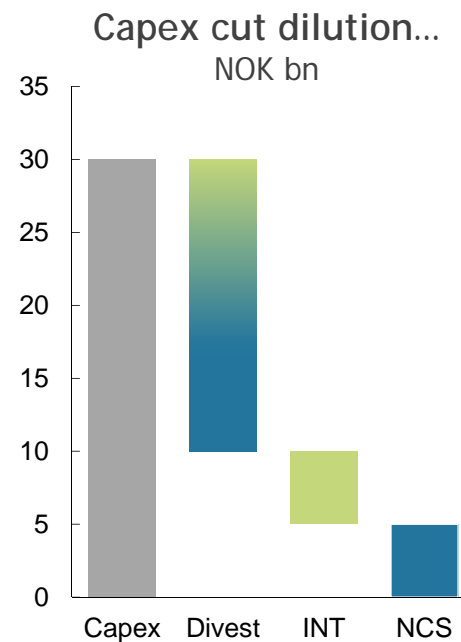
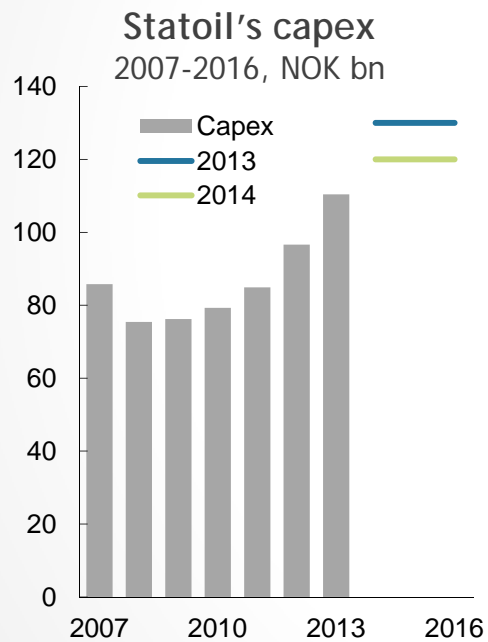
1) Income before tax (99) + Non cash adjustments (57)



Source: <http://www.statoil.com/IR>.

...induce enhanced capital discipline

Tracing the NCS activity impact: A thought experiment

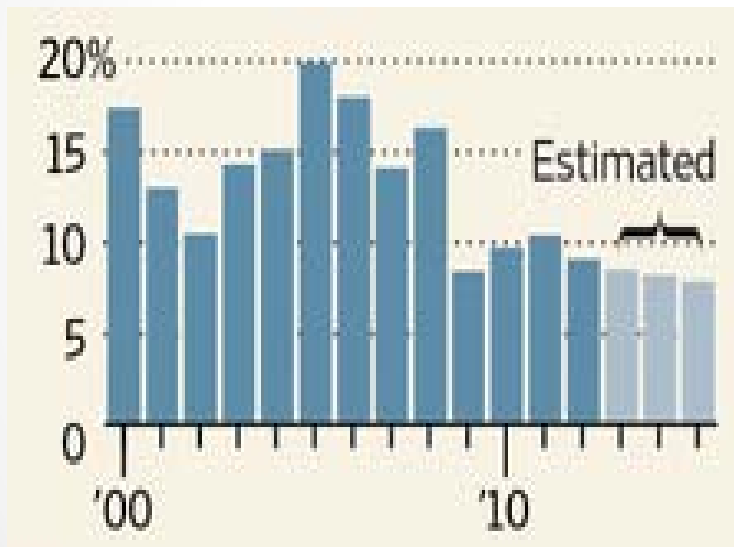


IOC short-term challenge: Profitability

Increasing focus on cash-flow management and capital discipline

“Leaking profits”

Return on capital employed for major oil companies

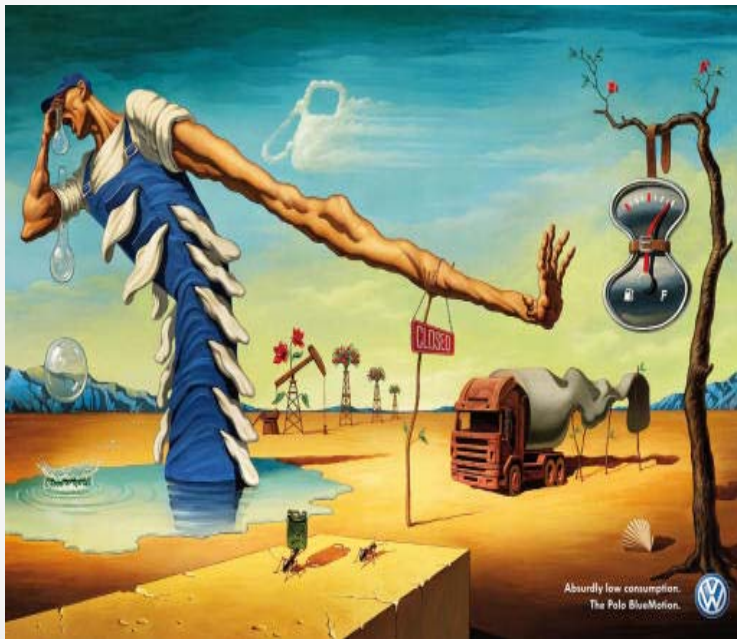


- Shareholder skepticism
- Worries over market outlook
- Pressure on business model
- “Cash is King!”



IOC long-term challenge: Growth

Will the world turn its back on fossil fuels?



- Energy and climate policies
- Role of oil in transport
- Eastward bound energy
- Shale gale globalisation
- Emerging technologies
- Access, returns, and risk
- Changes in OPEC behaviour

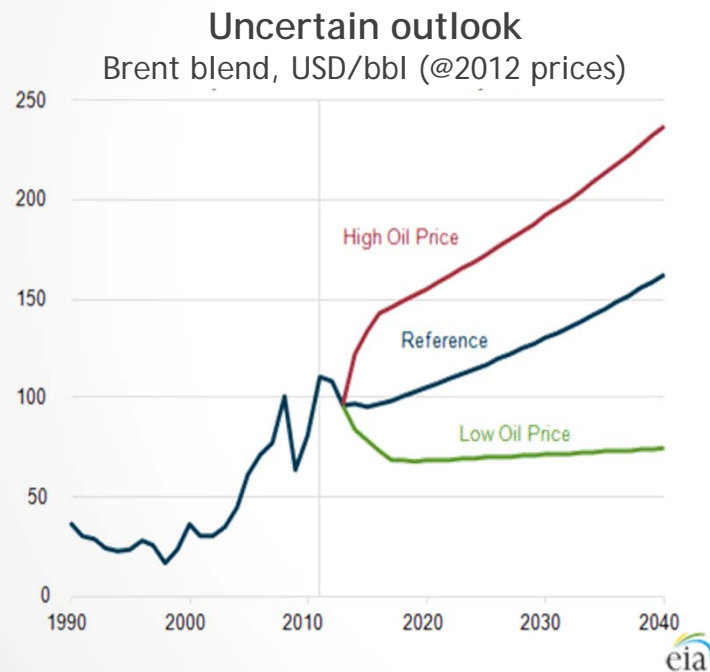


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Source: Mitchell, John, Marcel, Valerie and Beth Mitchell. 2012. «What next for the oil and gas industry?». Chatham House. October 2012.

Concluding remarks

Build resilience, prepare for change



- Energy is getting more expensive
- Oil price outlook is very uncertain
- The oil price matters for activity
- Boom arrested by market concerns
- New shocks and cycles in the cards
- IOC business model under pressure



Thank you for your attention!

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