Procurement and supplier relations

Jon Arnt Jacobsen, SVP
Supplier performance key to our success
Strong relationships with high-quality suppliers drives sustainable competitiveness

The majority of Statoil’s yearly expenditures arises from suppliers

Statoil procurement 2014 in NOK Bn
Safety and security – achieved together

**Serious incident frequency**
Number of serious incidents per million work-hours, last 12 months
Building blocks for future competitiveness

1. **Further standardisation**

Selected potentials
- Standardised equipment and modules
- 8-10% facility capital cost
- USD 100-300 million in savings

“Subsea plug and play”

2. **Targeted technology development**

3. **Operational excellence**

4. **Capitalising on market opportunities**

“Subsea plug and play”
Responses and actions
Capitalising on the current market

**Internal improvements**
- STEP
- Contract management
- Follow up of suppliers
- Performance culture

**Joint improvement programmes**
- Engineering
- Maintenance and Modification
- Subsea
- Drilling and Well

**New contract models and incentives**
- Increased use of integrated deliveries
- Alignment of risk / reward
- Broaden and deepen key performance indicator sets

**Renegotiations and retendering**
- Focused approach: potential and risk
- Significant difference between categories
- Positive reception but difficult negotiations
Significant improvement within drilling and well

Long term competitiveness

- An industry leader on cost and efficiency
  - Standardised solutions
  - Perfect well approach
  - Supplier cooperation and performance

Average days per well
- ↓ 30%

Average meter per day
- ↑ 50%

Average days per completion
- ↓ 45%

Non productive time
- ↓ 2.5%

Improvements measured against baseline 2013
Expectations go both ways

COMPETITIVE COST LEVEL..

..with joint responsibility for total value chain cost and improvements..

..and with the right governing mechanisms in place

Structured follow-up  Incentives and KPI’s
Fact-based evaluation and reward
Thank you
Forward-looking statements

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Re-establishing a high performance and competitive MMO Industry

Terese Kvinge, SVP, PRO Brownfield
Increased Oil Recovery on NCS – utilizing existing infrastructure
Low pressure production > 1,2 billion boe

Troll: 522 mboe
Åsgard: 280 mboe
Kvitebjørn: 220 mboe

Kristin: 160 mboe
Gullfaks: 22 mboe
Heidrun: 7,5 mboe
2000 – 2013 MMO Industry
From good to poor performance.....

- 100% more engineering hours used....
- 80% more installation hours used....
- Significantly growth in sub deliveries during execution
Top 10 key elements in creating a high performance culture

Our Challenge: Create a high performance culture within the Norwegian MMO Industry

# 1 – Clearly define what winning looks like
#2 – Spell out your “preferred culture”
#3 – Set stretch targets
#4 – Connect to the big picture
#5 – Develop an ownership mentality
#6 – Improving performance through transparency
#7 – Increase performance through employee engagement
#8 – Storytelling
#9 – Internal communication
#10 – Taking the time to celebrate
MMO Common Improvement Agenda
A Joint MMO Industry initiative to Improve our competitiveness and predictability

- Front End Loading & Engineering Efficiency
- Life cycle information
- Sub Suppliers
- Offshore readiness & efficiency
Improving with suppliers
Front End Loading – Common MMO FEL toolbox

• Maximize reuse of existing infrastructure / equipment
• Chase «good enough» technical solutions
• Increased use of industry standard instead of customized solutions
• Involvement of critical sub suppliers in early phase
• Increased management focus wrt quality in early phase studies
Enable our suppliers to deliver:

- Cost efficient projects based on industry standard
- Minimum solutions from the start – right the first time
- Simplified documentation, tagging and follow-up

You are accountable.
Make sure suppliers spend our money wisely.
Improving with MMO suppliers
Transparancy wrt performance

**Competitiveness benchmark**
Contractor avg. cost performance vs. early 2000 level
Projects sanctioned in 2011-2015 included

- Contractor 1
- Contractor 2
- Contractor 3
- Contractor 4
- Contractor 5
- Contractor 6
- 2011-2015 avg

**Engineering efficiency benchmark**
Engineering efficiency vs. early 2000 level
Projects sanctioned in 2011-2015 included

- Project 1
- Project 2
- Project 3
- Project 4
- Project 5
- Project 6
- Project 7
- Project 8
- Project 9
- Project 10
- Project 11
- Project 12
- Project 13
- Project 14
- Project 15
- Project 16
- Project 17
- Project 18
- Project 19
- Project 20
- Project 21

**Ambition:** Beat early 2000-level (=0%)
Improving with MMO suppliers

Measuring improvements - Efficiency in execution (by sanction year)

Total contract cost efficiency compared to early 2000 level (0%)

-20 %  0 %  20 %  40 %  60 %  80 %  100 %
2011  2012  2013  2014  2015

Engineering hour efficiency compared to early 2000 level (0%)

-10 %  0 %  10 %  20 %  30 %  40 %  50 %  60 %  70 %  80 %  90 %
2011  2012  2013  2014  2015

Installation hour efficiency compared to early 2000 level (0%)

2011  2012  2013  2014  2015

2014-15 projects not finished. Results based on latest forecast.

*) In average 2-3 years duration from sanction to finished project.
Way forward - Standardisation opportunities

LPP production – from tailor made to standardised

Degree of standardisation

Tailor made LPP production

Standardised equipment / building blocks

Standardised LPP module
Thank you
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Efficiency in exploration drilling
The story of a world class performance
Dagfinn Alm, Advisor Exploration
A world class performance
155 days less spent – 1 billion NOK saved

Budget: 32.2 days
Target: 27.8 days
Actual: 14.8 days*

Budget: 41.7 days
Target: 31.2 days
Actual: 22.8 days

Budget: 40.0 days
Target: 30.7 days
Actual: 28.9 days

*Incl. 1.8 days transit
The components of a world class performance

- Mindset
- Execution
- Understand risk
- Treat it as your own money
- Continuity and experience
Efficiency in exploration drilling
The story of a world class performance

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