We addressed the cost challenges in last year’s CMD

Fundamental cost and efficiency challenges in the O&G industry
Example from the Norwegian Continental Shelf

Subsea tie-back costs
Development wells per rig year

Analytiker: - Lav oljepris kan koste tusenvis jobben
Significant changes in the oil price due to new production from North America shale oil

Estimated 2020 NAM Shale Oil Production

Oil price (Brent)

March 2014  May 2014  July 2014  Sep 2014

9 mbbl/d  10 mbbl/d  11 mbbl/d  12 mbbl/d  13 mbbl/d

$90/bbl  $95/bbl  $100/bbl  $105/bbl  $110/bbl  $115/bbl

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Market impact on Kongsberg Oil & Gas

1. Immediate impact
   - Project cancellation
   - Project delays
   - Instant Oil Company procurement cuts
   - Financial setback for Kongsberg Oil & Gas

2. Adjust and align
   - Capacity adjustments
   - Opex reduction programme

3. Focused value proposition and strategy
   - Focus on opex market and subsea field modifications
   - Align strategy with operators' short and long term needs to reduce cost
Key focus areas

Production optimisation for improved facility performance:

Solutions for reduced drilling and well cost:

Solutions for mature field extensions and modifications:

Kongsberg Oil & Gas

• Creating optimal solution performance by integrating state-of-the-art hardware with real-time process and decision-making support software, alongside engineering and service capabilities.

• 18 offices in 8 countries
• 656 employees
• LTM Revenues MNOK 1,094

Hardware, software and engineering - integrated as one
Challenging markets threatens revenue growth

Key revenue and EBITDA drivers

- YTD revenues influence by several subsea projects being postponed and some cancelled.

- In addition, sale of software licenses have developed more slowly than expected. Indications of preference towards lease arrangements.

- Oil&Gas was built for growth entering the year. The flat activity development has forced capacity adjustments

- YTD EBITDA is influenced by restructuring costs of 20 MNOK

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Kongsberg Oil & Gas

Engineering and operational support

Main offerings
- Engineering of cost effective solutions
- Technology based operational support services

Systems typically used for
- Early phase engineering
- Support during operational phase

Software and related services

Main offerings
- Software
- Software related services

Systems typically used for
- Improved drilling efficiency
- Improved production efficiency

Subsea products and solutions

Main offerings
- Components for risers and flow lines
- New Subsea Storage Systems

Systems typically used for
- New field development
- Field extensions and modifications
Johan Castberg Project
- a confirmation of Kongsberg Oil & Gas as an engineering partner

- Pre-FEED on Johan Castberg riser and flow line systems awarded June 2014
- Preparation of field layout design for Drivis
- Optimization of the FPSO position in order to minimize the flow line route lengths
- Optimization of flow line trawl protection design and seabed intervention work scope
- The work proceeds in close cooperation with the Statoil team
- Options for follow-on during execution
Optimising production using state-of-the-art software tools

Design: Process design, control system requirements

Delivery: Validation including pre-commissioning

Operation: Metering, production assurance, optimisation
Optimising production using state-of-the-art software tools

Demonstrated case from Snorre B (Statoil)

Availability May: 85%
Design oil prod.: 110 000 b/d

Dynamic system analysis Optimisation

Availability October: 96%
Increase 11%
Subsea Storage Unit
- developing unique and environmentally step-changing oil storage solutions

Subsea Storage Unit: New technology for storage of hydrocarbons

Real case comparing Floating Storage Unit (FSU) with Subsea Storage:

CAPEX

- 20%

OPEX

- 80%

CO2/NOx

- 90%
The market is challenging, but KONGSBERG is well positioned within niches

**Falling oil price, reduced overall market growth, high focus on cost**

- Mixed views on E&P spend and oil price, but long term indicators remain positive
  - Shale oil impacts oil prices
  - Geopolitical situation

- Price pressure on high cost basins
  - Growth in MENA, US and Mexico, but NOCS (and Brazil) losing steam

- Continued demand for technologies reducing cost
  - Focus on “Brown Field” solutions
  - Focus on optimising production and reducing drilling cost

**Our strategic position remains attractive within established niches**

- Strengthened position within engineering
  - Johan Castberg
  - Engineering for future subsea factory
  - Implementation studies for new technologies

- New offerings to the market
  - Subsea Storage Unit
  - SiteCom Well Advisor

- New strategic alliances
  - KBC

- Driving competitive strength
  - Deltaone

**Reduced overall market growth**

**High focus on cost**

**KONGSBERG remain attractive within niches**
The oil & gas market is going through a downturn.

2014 has been a challenging year for Kongsberg Oil & Gas with alignment to the new market projections.

Kongsberg Oil & Gas is well positioned within niches which will be in demand during times of cost reduction and focus on operational performance.

Concluding remarks