2019 SIMMONS ENERGY FORUM RECAP

Connecting Our Industry for the Future

SIMMONS ENERGY

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The second Simmons Energy Forum was held at the Fairmont, St Andrews on 22nd and 23rd May 2019.

We would like to thank all of our moderators, panellists and speakers for their excellent contributions as well as our fabulous event host, Kirstin Gove, who directed proceedings on our behalf and ensured we ran to time throughout. From the Opening Conversation at the 19th Hole on Wednesday evening through our four panels the following morning and the interview with Luis Araujo, the quality of discussion and debate was first class and set the tone for some really open and lively discussions over the two days. We appreciated the honesty and openness of the conversations throughout the event from all of our participants and thank all of our 230 attendees for contributing to a successful Forum.

The Forum was conducted under Chatham House Rules. We are grateful to all of our panellists and interviewees for embracing that format and for being willing to express viewpoints and opinions rather than repeating corporate mantra. We are very respectful of that but the discussions were so informative and thought provoking that we felt we should try to capture some of the broader themes and issues covered to give a perspective on some of the challenges (and opportunities) facing our industry and in particular, the differences between the UK and Norwegian markets. We were pleased to have secured greater representation from Norway than in 2018 and while many of the themes and challenges are the same the discussions highlighted several interesting differences between the UK and Norwegian markets.

Our key takeaways were as follows:

The Oil and Gas Industry Has An Image Problem

The industry has been slow to take notice of its image problem highlighted in recent months by climate change protests across the globe. Oil and gas is having its "tobacco industry" moment and needs to react quickly. There was a general acceptance of the serious issues that the protestors are highlighting and the need to reduce carbon footprint and improve perception relative to other power sources but careful and considered action is required to create sustainable change.

There was a real sense that rhetoric is skewing public perception. The North Sea is regarded in the industry as a reference point for technology and best operational practice yet the industry's reputation is far worse in Europe than it is elsewhere.

Life without fossil fuels is not feasible and without them, millions of people worldwide would starve. Energy transition could take decades and the industry should not be embarrassed about bridging that gap but we need to do so responsibly and communicate the right message as well as a path towards cleaner and responsible oil and gas development. There was a consensus that what our industry needs urgently are respected champions willing to counter some of the anti-hydrocarbon rhetoric so that public debates and perceptions can be more balanced.

Of course, the image problem is not restricted to climate change. Our industry has real issues around diversity (gender, age and culture); technology adoption and short-termism which has resulted in many people leaving the industry during the current downturn and who many never return.

It was not all gloom and doom though! These issues were not raised out of self-flagellation but rather because recognising and addressing them will be key to the industry's future. Failure to do so could create a skills shortage as environment conscious millennials who view oil and gas as a volatile and hazardous market with limited lifespan look elsewhere for work instead of bringing fresh thinking to the industry.

The oil and gas industry has seen huge breakthroughs in technology, engineering, safety and environmental initiatives (the way in which we manage waste products was highlighted as best in class) but we must champion our progress and achievements to survive in the new world.

The impact of these reputational issues is not just direct in terms of protests but they are now also impacting investors in the sector seeking to raise and invest capital. As an example, a big source of capital for private equity firms is US endowments and foundations. Many of these institutions are facing pressure from their own students seeking to drive a "green" agenda and this confluence of factors creates a difficult backdrop for our industry. It seems clear that the recent fall in public company share prices across the sector is related to weakening investor sentiment towards oil and gas as an industry, not just a reaction to more muted expectations of financial performance of the companies themselves.

Digitalisation or Digitisation – Spelling Isn't Our Only Challenge

There is a lot of discussion in the industry about "digitalisation" (or is it "digitisation"?) and widespread enthusiasm for anything which can drive long term performance improvements. It is clear that we have some way to go and as with adoption of new technology generally, the industry has been slow to embrace change and lags behind other industries - the German motor industry now has twice as many software engineers as mechanical engineers but still produces world class cars....

The introduction of 4G offshore and reduction in sensor costs was heralded as driving the development and adoption of digital technologies and processes offshore and it was noted that there are many areas where digital technology can assist better and faster decision making and reduce risks from monotonous tasks. Digital development can also help with attracting the younger generation and new ideas to the industry.

On the flip side, operators and service companies now have access to more data than they can handle and are frustrated at the lack of returns from some of their investment to date. Data interpretation and storage are key issues for asset owners seeking to understand their assets and how to maximise performance in more detail. There is an abundance of data being collected and the industry needs to get better at sharing it across operators and even competitors and in gathering intelligence from wells that have failed to perform or where drilling activities have gone wrong if we want to make the next leap forward and optimise the supply chain and raise standards.

There is a need to focus on objectives and outcomes rather than just the buzzword – the critical dilemma for the industry is the commercialisation and monetisation of digital technologies not implementation for the sake of it. The value proposition from new digital technologies needs to be articulated clearly whether it is economic, operational or safety driven and only then will customers pay a premium. Otherwise, it seems there is still a role for the Filofax!

The North Sea Basin Is Changing (And The Treasury Is Watching)

The Wood Review, which was published in February 2014, has been a huge catalyst for change in the UK North Sea. As a result of the actions taken in response to it, an additional 2.8billion barrels are expected to be recovered by 2050 which will generate c£30bn of tax revenues for HMRC. Production efficiency has been improving year on year and the mantra of "the right assets in the right hands" should ensure recovery from the North Sea is maximised in years to come.

Most recently the trend towards private equity backed independent operators acquiring assets from larger international operators has been an example of putting assets in the right hands and private equity operators now comprise c15% of UKCS production.

The consensus from all our sessions was that this is good for the region and key to sustainability. Private equity owners are bringing focus, investment and changing the way assets are managed and are perceived as bringing a fresh impetus to those assets. There is still a role for the majors however, particularly in larger developments and technology led initiatives, and the North Sea is benefitting from a diverse operator network. The question was posed as to whether the supply chain is right for this new mix and some new challenges have arisen from the smaller operator/large service company dynamic which would seem to afford opportunities for different business models and a real breadth of service providers.

The need to keep costs down is key to production efficiency and the UK Treasury wants to see continued returns from the North Sea sector. Their assessment seems to be evidence based but is underpinned by a desire to grow the tax take and while the hand is "not hovering over the raise taxes button" it seems government is paying close attention to the sector.

This creates some real tensions in the current market where there is a high level desire to address change, continue investment, keep delivering returns and remain relevant in a global context, all whilst improving efficiency. The service sector though continues to be under pressure and there was a broad recognition that it needs higher margins to be sustainable and to continue investing in people and technology.

In our view it is impossible to maintain this tension indefinitely - it seems inevitable that as the market recovers service costs will go up and the longer that is suppressed the more likely it is that we could hit a cost spike on the back of short term demand which cannot be serviced. In that context the very existence of the "raise tax button" is a worry for the UK industry as stability in the tax regime will encourage longer term investment decisions which afford opportunities for partnering models with the supply chain which could help control that potential cost inflation by providing longer term certainty of commitment.

We heard that the Norwegian regulatory and operating environment is structured differently from the UK and that the stability offered by that market historically created opportunities for exploration and development which simply did not exist in the UK at that time. The stability of the current UK regulatory regime is now far more attractive for exploration and development activities than it was previously and should not be changed lightly.

Time To Put Away the Baseball Bat

Throughout the downturn we have heard countless tales of bad customer behaviours with practices driven by procurement departments who know the price of everything (and want a 30% reduction) and understand the value of nothing.

There was broad consensus that this has to change and the new entrants with smaller workforces and need to extract value from their assets seem to have found a number of different business models to engage with and trust the supply chain to deliver results. While "collaboration" now feels like an overused and meaningless word, it was generally recognised that trust and relationships have been at the heart of many industry successes.

It was noted that there seems to be an inverse relationship between supply chain departments and what they know about supply chain! The worst behaviours of price driven procurement have led to mistrust and missed opportunities on all sides. It is now time to put away the baseball bat before it is the other side's turn.

Pay The Man!

The "60 Day Club" that was proposed for standard industry payment terms was a key takeaway from the inaugural Forum and sadly the issue has not gone away. While the baseball bat approach to procurement has been one of the worst aspects of this downturn, the failure to pay suppliers on time has been nothing short of disgraceful.

Much of the historical focus in this regard (and with the procurement curse) has been on operator behaviours but the Forum brought to everyone's attention that many of the Tier 1 service and contracting companies have been even worse than operators in this area as they look to take advantage of their privileged contractual position in the supply chain and protect their own cash flows.

It is simply unacceptable. Multi-national public companies conserving cash to shore up financial results to the detriment of smaller suppliers will force people out of business and create lost opportunities for smarter solutions and investment in technology by entrepreneurs.

There are notable exceptions in the customer base who are paying on time all of the time and they should be commended. More worryingly however is an emerging pattern in mid-tier service companies to follow suit and hand out the same treatment of which they are complaining. It's time to look in the mirror. We know that margins have been squeezed and in many cases, too hard, but manipulating cash is not a substitute for negotiating proper pricing. If you can't get that don't take the work.

A "Golden Hour" For M&A?

The M&A market has been as difficult as the operating market in the downturn and at present we have a market operating at two speeds. In E&P, there has been a flurry of high profile M&A transactions and with no real access to public markets, private equity has a big role to play in reshaping the market especially in offshore Europe. By contrast, in the service sector, companies have been focused on return on investment and capital conservation limiting their appetite for M&A while there has been a shortage of private equity and debt capital willing to transact as other sectors have attracted risk capital away from the oil and gas industry.

The recent wave of North Sea E&P transactions saw operators use new business models to package less attractive short life assets with longer term assets and licenses with exploration potential in order to create self-funding packages which allow private equity to support acquisitions. This coupled with a more flexible approach to decommissioning risk has enabled a faster transition towards "right assets in the right hands".

Some of the industry's reputational headwinds described earlier are impacting investor appetite for the sector. In the last 5 or 6 years, energy has been an underperforming sector, having been a market leader in terms of investment returns for 20 years before then. This has led to an increased scrutiny of deals with higher hurdles around valuations, investment returns and deal terms with many investors choosing to deploy capital in other markets with higher returns.

Energy was less than 5% of global M&A last year and while there was consensus around the positive outlook for the sector as a whole it was felt that these factors may lead to a continuing smaller number of M&A transactions in the short term. Nevertheless, there was a clear consensus that those transactions completed in this market may well prove to be a great vintage when we look back to 2019 from the rear view mirror.

Final Thoughts

When we planned our second Forum we did not expect climate change and the industry's image to dominate so much of the discussion. The global impact of Greta Thunberg, the more local interruption of the Scottish Oil Club Dinner and a barrage of press coverage have changed that. The industry has been caught on the back foot and we need to move off that – quickly. The campaign against is high profile and populist and we are already losing the PR war.

The other issue which dominated the discussion was payment terms. After the discussion at last year's Forum, the biggest disappointment for us was that this issue reared its head again and if anything, seems to have become worse.

As we reflect on these topics it is clear that both are a challenge of leadership. In that context, perhaps Scotland Rugby Coach Gregor Townsend was a better and more relevant choice to close out our Forum than we had imagined in advance.

As well as fuelling our optimism for Scotland's World Cup campaign in Japan this year, Gregor gave a fascinating insight into coaching, motivation and leadership of elite athletes. The breadth of his ideas and inspirations drawn from such diverse sources as Pep Guardiola and Pixar Studios were a lesson to all of us seeking to maximise performance of our teams in a business setting (even if the group hug is unlikely to feature in the Simmons boardroom any time soon!).

Leadership was at the heart of his message and it is at the heart of ours.

With regard to the two main issues described above we are delighted to report that on the issue of payment terms we have seen real examples of leadership in the immediate aftermath. As a direct result of the Forum, the OGA and Oil and Gas UK are seeking to prioritise this issue amongst their constituents and challenging miscreants on their failure to honour payment terms. We now need the industry to follow suit and deliver. CEOs and CFOs must step up.

The industry's image problem is a far greater challenge of leadership as it isn't clear who is responsible: there's not much difference between "all of us" and "none of us" when it comes to taking responsibility. Post Wood Review we got rid of the alphabet soup of industry bodies but perhaps it is time for a new one from across the industry to champion our cause and more importantly our future or perhaps one of our current bodies takes up the reins?

Our overriding objective in deciding to hold the Forum was to connect people from across our industry and start addressing some of the challenges which arise from the siloed approach which generally exists in the industry. By connecting senior decision makers from the Regulator, government and industry bodies, the E&P and infrastructure operator community, the entire service industry and supply chain and the investor, financing, non-executive and M&A communities along with some seasoned veterans who have seen it all before, we hope we have achieved something different. Perhaps those connections can now work together to ensure the industry's message is heard.

And So To Next Year

We hope that you enjoyed our Forum and that we have captured successfully the key themes and issues which were discussed. The discussions at the Forum and subsequent feedback suggest that we have created an event that people genuinely benefit from and also enjoy. For that we must again thank our panellists, speakers and especially Kirstin and our moderators for the time spent shaping the discussion.

We are pleased to confirm that plans are in progress for next year's Forum, dates for which will be released shortly. We hope to see you there.


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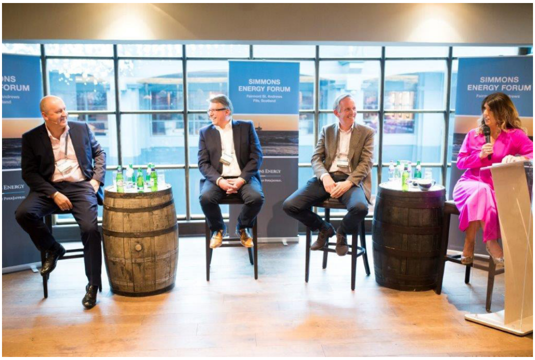
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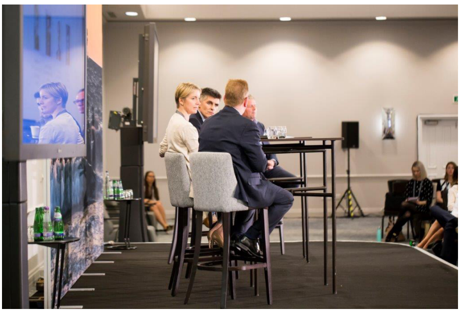

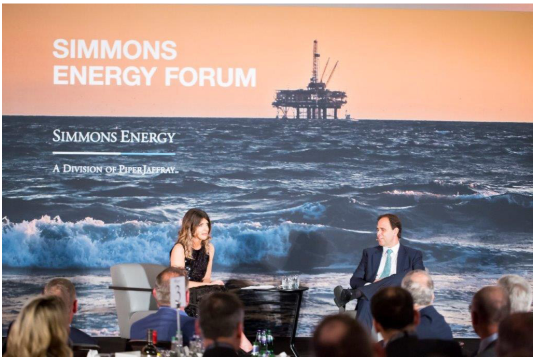


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Special Thanks to All Our Forum Speakers, Moderators and Panellists

Opening the Conversation at the "19th Hole"
Alan Curran, Chief Executive Officer, Verus Petroleum
Doug Duguid, Chief Executive Officer, Enermech Group
Jim Halliday, Chief Executive Officer, Ancala Midstream Acquisitions Limited

Taking Stock on the Wood Review – 5 Years On
Neil McCulloch, EVP Technical & Operated Production, Spirit Energy
Colette Cohen, Chief Executive Officer, The Oil & Gas Technology Centre
Andy Samuel, Chief Executive Officer, Oil and Gas Authority

E&P Panel
Deirdie Michie, Chief Executive, OGUK
Glenn Corr, Operations Director, EnQuest
Chris Elliot, CEO/Exploration Director, Wellesley Petroleum
Les Thomas, Chief Executive Officer, Ithaca Energy
Ning Zhang, Chief Executive Officer, Ping Petroleum

Oil Services Panel
Walter Thain, Chief Executive Officer, THREE60 Energy
Zvonimir Djerfi, President Global Sales, Baker Hughes, a GE Company (BHGE)
Thormod Langballe, Chief Executive Officer, Interwell
Shaun Poll, Managing Director, Worley
Steve Wisely, Senior Vice President, i-Tech 7

M&A Panel
Jim Pearce, Partner, A. T. Kearney
Clare Munro, Partner, Head of Energy & Infastructure, Brodies
Graeme Strommen, Global Head of Middle Market Financial Sponsors, HSBC
Eric Swanson, Vice President, Corporate Development, Halliburton
Graeme Sword, Partner, Blue Water Energy

Thursday Closing Dinner
Luis Araujo, Chief Executive Officer, Aker Solutions
Gregor Townsend, Scotland National Rugby Coach

And our Forum Host
Kirstin Gove, Media Consultant, Kirstin Gove Media Consultancy

Agenda

Wednesday 22 May

17.30 onwards	Welcome Reception LaCucina, on reception level, 1st floor
18.30	Opening the Conversation at the “19th Hole”: Alan Curran, Doug Duguid and Jim Halliday with Kirstin Gove
19.45	Buffet

Thursday 23 May

07.00 onwards	Coffee, tea and breakfast rolls served in the conference centre (breakfast can also be taken in the Squire restaurant)
08.00	Opening remarks
8.10 – 8.50	**Taking Stock On The Wood Review – 5 Years On** Moderator: Neil McCulloch, Spirit Energy
9.00 – 10.00	**E&P Panel** Moderator: Deirdre Michie, OGUK
10.00 – 10.30	Comfort Break
10.30 – 11.30	**Oil Services Panel** Moderator: Walter Thain, THREE60 Energy
11.40 – 12.40	**M&A Panel** Moderator: Jim Pearce, A. T. Kearney
13.00 – 13.45	Lunch Squire Restaurant (golfers to make their way to the Clubhouse for lunch)
14.00 onwards	Various activities
19.00	Pre-dinner drinks Atrium
19.30	Formal closing dinner The Ballroom
19.45	An Interview with Luis Araujo, CEO, Aker Solutions
22.00	A Conversation with Gregor Townsend, Scotland National Rugby Coach

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