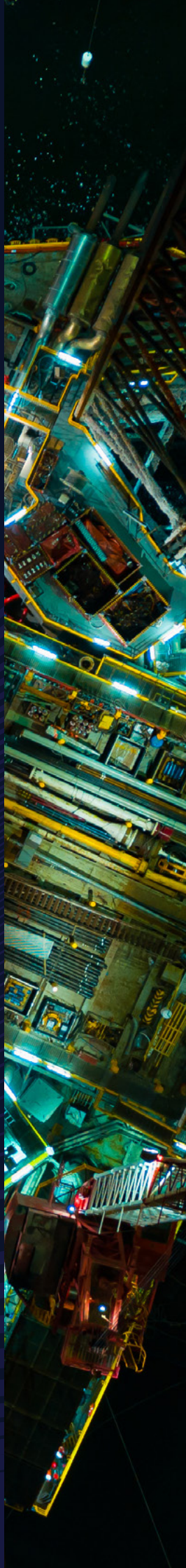
ENERGY COUNCIL

2022 FUTURE OUTLOOK SURVEY REPORT

A changing energy landscape



www.energycouncil.com

Overview

The Energy Council's 2022 Global Industry Survey has arrived, completed by over 517 respondents from across the globe. The survey reflects the diversity of our network, their thoughts, outlook and ambitions as. we consider their approaches to ESG, the shifting oil price and advances in technology among a range of pressing topics.

Uncertainty has become ingrained in the energy markets as the world faces a triumvirate of global concerns; advancing the energy transition, reducing Covid impacts, and supply shocks caused by Russia's invasion of Ukraine. The 'energy transition' has now ascended to become the core focus of most energy businesses, reflecting the effect capital restrictions are having on non-ESG compliant companies.

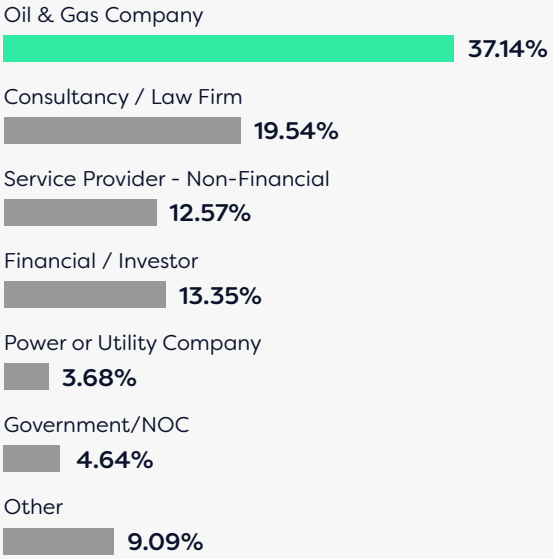
The survey approaches four core business focuses: macro questions, finance and investment, energy transition, digital transformation and exploration. Each section addresses the challenges facing organisations navigating a market fraught with challenges. Yet, it is not all doom-and-gloom, the energy sector's capability to innovate and source new solutions is evident the approaches being taken to stay relevant in a shifting landscape.

Macro Picture

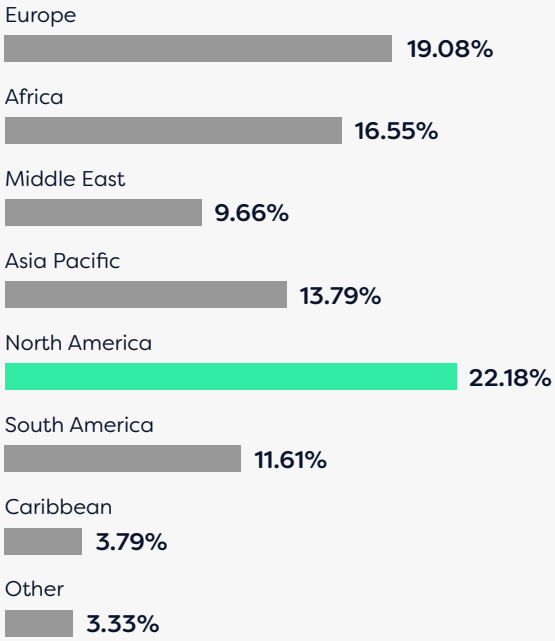
In terms of the **profiles of companies** who responded to our global survey, 37% came from our core audience of oil & gas companies. This provides us a strong basis for understanding the approaches and feelings of O&G producers in the uncertainty times we find ourselves in.

Our global network is reflected in this survey with a relatively even spread across the major regions. Our biggest number of **regional responses** came from Europe and North America, each with just over 19% of respondents. These were followed closely by Africa (16%), APAC (14%) and South America (12%) – once more reflecting the Energy Council's connection to O&G industries in every corner of the planet. Elsewhere we saw 9% from the Middle East and 3% from the Caribbean.

What profile of company do you represent?



In which region are your operations based?

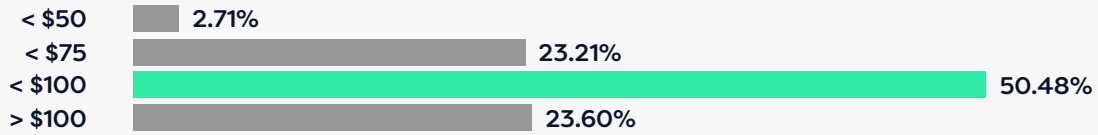


Oil Price predictions looking up

Predicting a year-end oil price is fraught with potential hiccups. When the survey was first released, the oil price was already inflated with a few outlooks considering that it had reached its peak for the year. Yet as tensions in Eastern Europe escalated and Russia invaded Ukraine, the consequences of these actions will see oil prices maintaining above $100 for some time. 50% of respondents believe this too. Just under 50% believe it will maintain between $75-100. The remaining 2.7% have conservatively stated it will remain above $50. Not a single respondent predicts a return to the >$50 days we experienced early on in Covid.

As the Russian invasion of Ukraine continues and with sanctions on Russia set to deepen, the energy supply crunch will keep prices at near-record levels. Despite a promise by some OPEC+ states to increase production, the likelihood is that oil producers will be looking to take advantage of the price environment for as long as possible. Will the oil price slowly return to 'normal' or will we see a new record price emerge?

Where do you think the oil price will be by year end?



A future to behold – The long and short of it

Looking to 2050 and beyond is essential to navigate the energy transition, as such we asked what **long-term opportunities** our network envisions in the sector. 'Energy transition and convergence – shifting business models' was favored here, indicating that most energy companies were willing to engage in wholesale reconsiderations of their operating procedures and core revenue streams. 'Replacing oil with a higher proportion of gas production and reserves' – has been a widespread approach among many in the upstream sector, actively swapping out carbon emissions for methane.

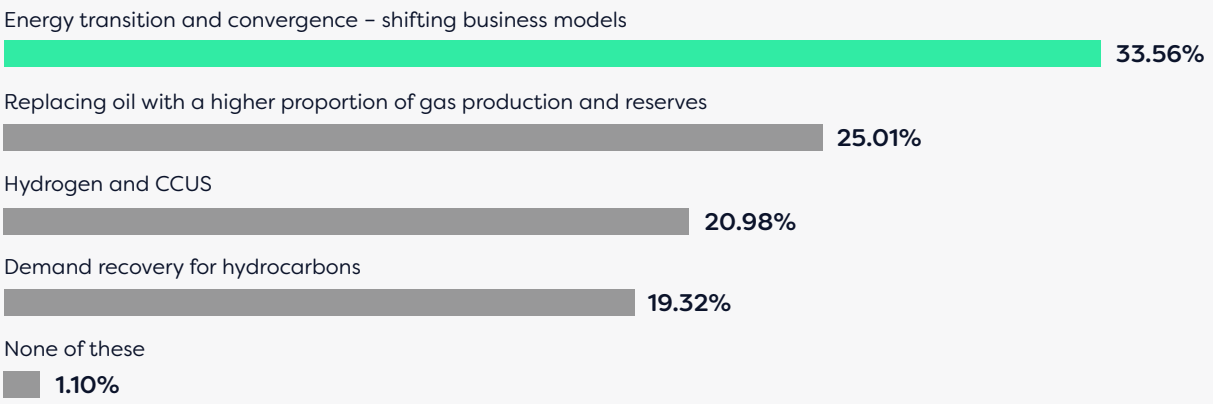
'Hydrogen and CCUS' – is again a common solution and one that works hand-in-hand with a shift to greater use of gas. Additionally, the opportunities for selling hydrogen, carbon credits and carbon storage are all rapidly attracting interest. 'Demand recovery for hydrocarbons' – was the opinion held by 20% of the responses, reflecting a sense among some that oil and gas will remain the core area of energy production over the coming decades. Just 1% felt that "none of these' options suited their ambitions for long-term opportunities.

While energy transition is a long game, over the **next 12 months, short-term strategies** come into focus. 'Energy Transition' (24%) reflects the pressures many are under to shift their core business operations and develop more diverse portfolios, reduce emissions exposures and secure new capital. 'M&A /A&D activity' (14.4%) will most certainly ramp up as upstream companies with high emissions exposures and maturing assets seek to move those on to smaller actors. Market consolidation is also likely with the increased oil price; however, market uncertainty could create differences in asset valuation.

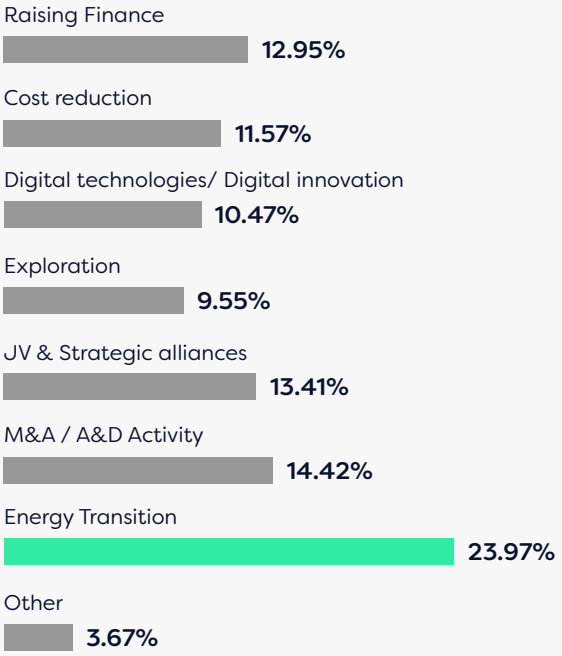
'JVs & strategic alliances' (13.4%) have long been and will continue to be a strong route for many to maximize their business opportunities all while sharing the risk. 'Raising finance' (12.95%) is a less dominant but still important focus for the next year as companies seek to rebuild after two difficult years and growing restrictions on where to access capital. Other areas will see 'cost reduction' (11.6%) and 'digital technologies/ innovation' (10.5%) made priorities over the next 12 months.

The constraints on oil and gas production necessitate **long-term strategies to deal with O&G assets.** A pertinent question in the energy transition revealed the shift to cleaner and more sustainable fuels. Companies with long-term 'oil heavy' strategies account for just 10% of the companies surveyed. The rise of gas as the 'transition fuel' continues, with 23% of our respondents suggesting their long-term future was in gas. The popularity of gas is similarly reflected in the long-term approach of 48% of companies being an "oil and gas 50/50" split. For 19% of companies, they did not see any long-term future for themselves in upstream.

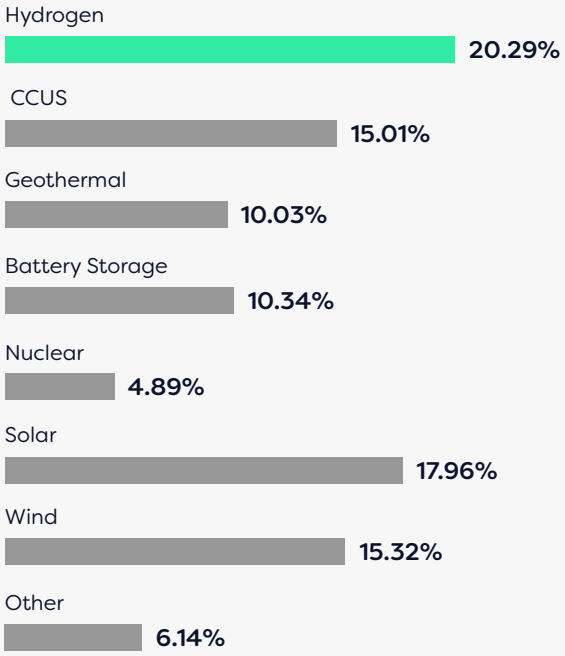
Rate where you see long-term opportunities in the sector



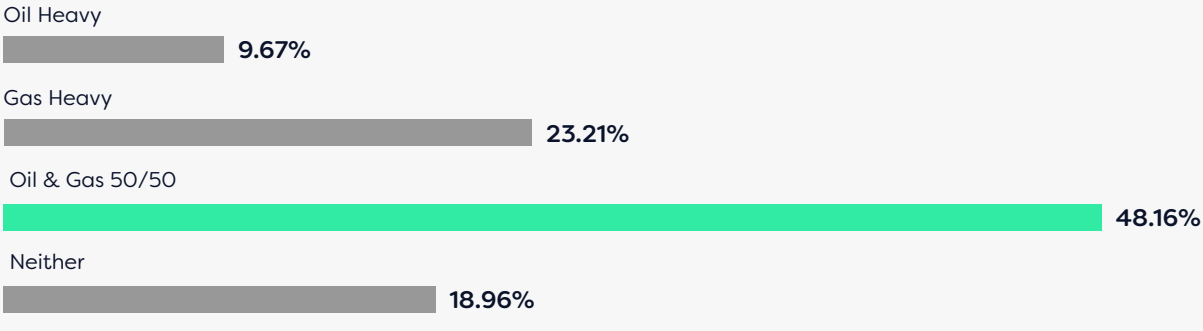
What do you think will be the strategic focus of your work over the next 12 months?



What alternative energies are you are exploring?



Will your long term strategy be built around oil or gas assets?



Finance & Investment

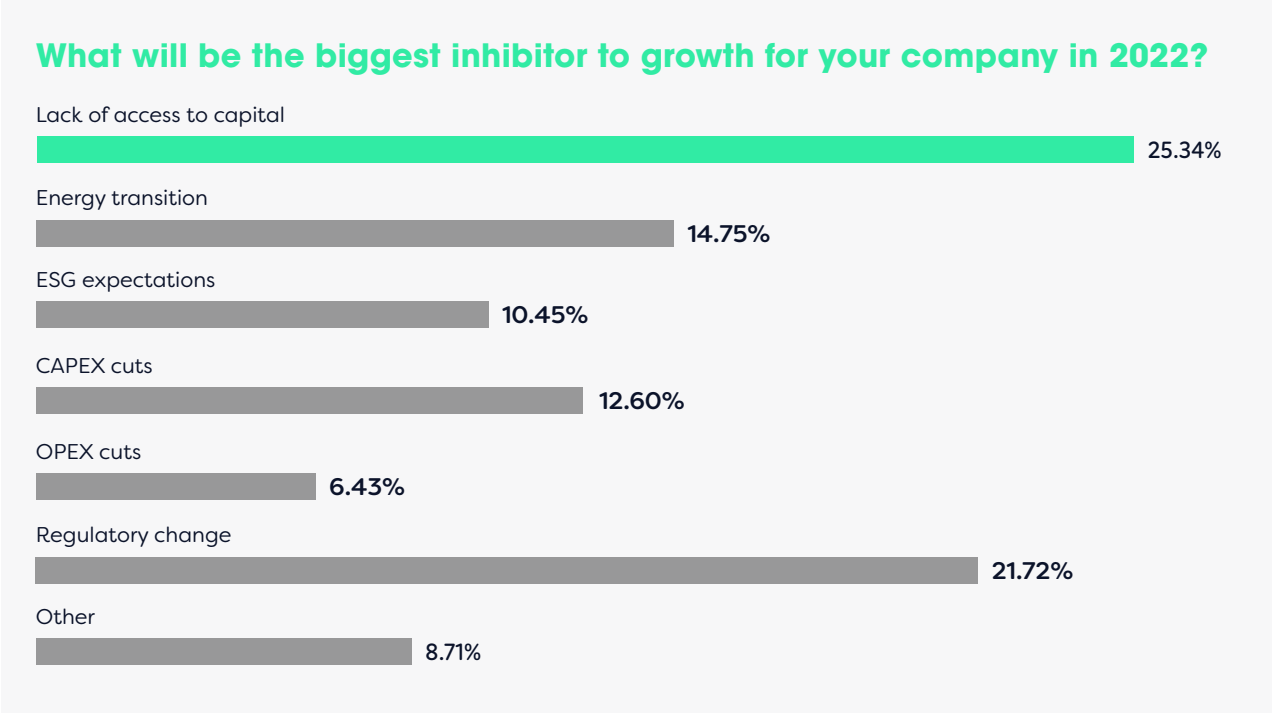
Rising oil prices provide a strong case for investment into the sector, yet many **significant inhibitors to growth** remain. The two biggest inhibitors concerning companies for the coming year were; 'lack of access to capital' (25.3%) & 'regulatory change' (21.7%). 'Lack of access to capital' reveals a sentiment that may be counter to status quo. While the concern is significant, market liquidity is high and those companies who have aligned themselves with genuine ESG and sustainability measures, will find success far easier to come by.

'Regulatory change' is more obscure as these changes can be frequent and often communicated poorly. Businesses' need clarity and sufficient time to strategize regulatory shifts. If you can go above and beyond in ESG, doing so now will make unforeseen changes easier to weather. Other major inhibitors to growth are; energy transition (14.75%), ESG expectations (10.45%), and CAPEX cuts (12.6%).

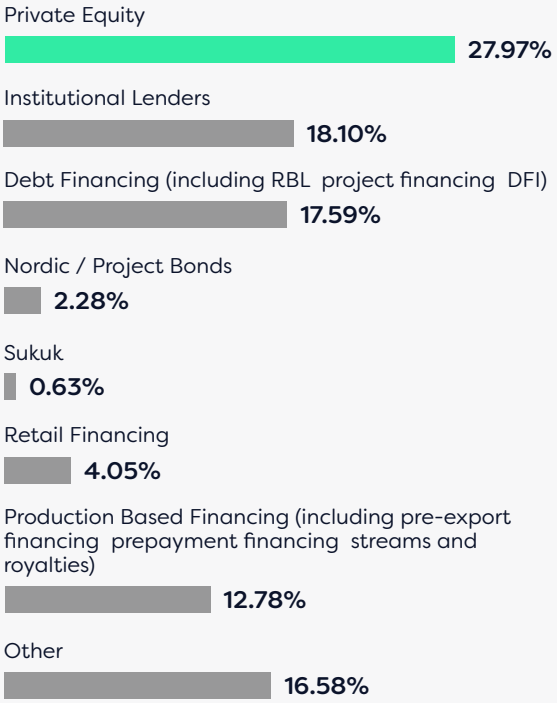
The **different sources from where companies can attract capital from** are a primary concern in 2022. Private equity is the go-to source of capital for most within the upstream sector (28%) – as prices rise the interest will surely still grow further. Institutional lenders (18%) have not quite fled the sector, with many producers still seeking their backing to proceed with projects.

'Debt Financing (including RBL, project financing, DFI)' (17.6%) remains a strong route to capital with an increase into sustainably-linked debt financing growing within the sector. 'Production Based Financing (including pre-export financing, prepayment financing, streams and royalties)' was most likely for (12.8%) of respondents, followed by 'retail financing' (4%), 'Nordic/Project Bonds' (2%) & Sukuk finance just under 1%.

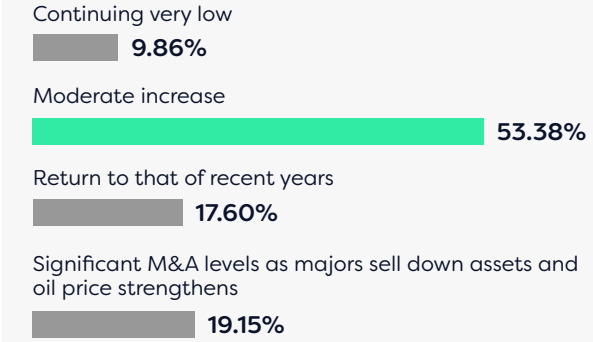
Following the low M&A environment caused by Covid, and with opportunities arising from the transitions – we asked **what expectations people had for M&A in 2022**. The vast majority felt that 2022 was not going to see major shifts in M&A, and a 'moderate increase' is expected by 53.4% of respondents. However, as the geopolitical and energy market landscapes have shifted rapidly in recent weeks, those who predict 'significant M&A levels as majors sell down assets and oil price strengthens' (19%) – could be proven correct. A 'return to that of recent years' followed at (17.6%), while just (10%) felt that M&A would be 'continuing at very low levels'.



Where are you most likely to get your financing from in 2022?



2020 - 2021 has produced exceptionally low levels of M&A. With covid-19 vaccines and an increase in energy demand as well as pressure/opportunities from transition what are your expectations for M&A levels in 2022?



Embracing the Energy Transition

As far as the **alternative energies which were being explored** by respondents, hydrogen continues its rise in popularity (20.3%) – now seen by most as the heir apparent to oil or gas-based fuels. Solar (18%) and wind (15.3%) follow close behind hydrogen, with many in the sector adding these assets to their portfolio either; to power their own facilities or elsewhere, to as a broad energy supplier. A necessary component to renewable accessibility, battery storage, came in at (10.3%).

The intriguing potential of CCUS (10.5%) as route to lowering carbon emissions and potentially profit from carbon removal and trading has kept natural gas producers keenly interested in this alternative. Elsewhere, geothermal, nuclear and biofuels each saw about 5% interest as an alternative to explore.

The **expectation of revenue coming from green initiatives** was in-line with our core audience of oil and gas companies. The upstream focus of this survey springs few surprises in this question - 'No' was returned by (42%). 'Yes, but less than half' by (36%) and 'yes, more than half' (14%) revealed that the energy transition was having material effects on the business strategies of 50% of all respondents. The question was 'not applicable' for 8% of companies.

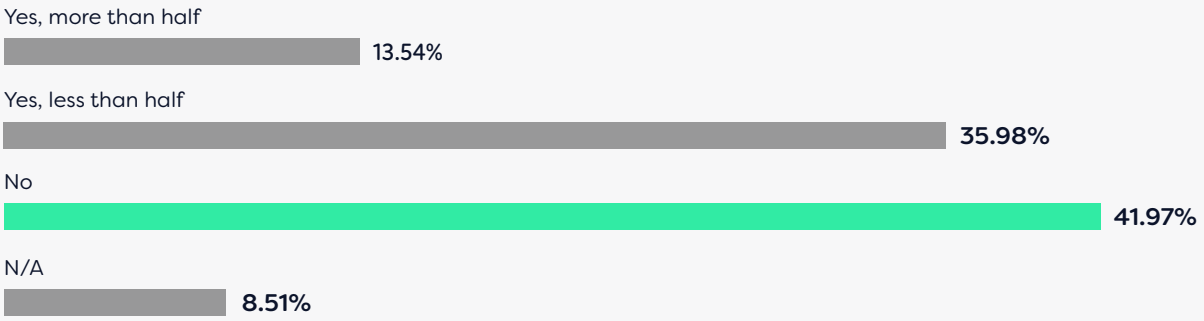
When asked if their company **has a comprehensive ESG programme in place** - 'Yes' (43%) was the most positively answered option here, fortunately. Any company operating within the sector should have a comprehensive ESG programme in place to attract capital and contribute to global climate goals. 'No' (30%) indicated that this was not a priority for many in the present. 'Not applicable' (15%) and 'don't know'

(11%) rounded off the answers. And, while strategies may be in a development phase for these companies still, those who are looking to attract capital would be judicious to action a plan in the near-term.

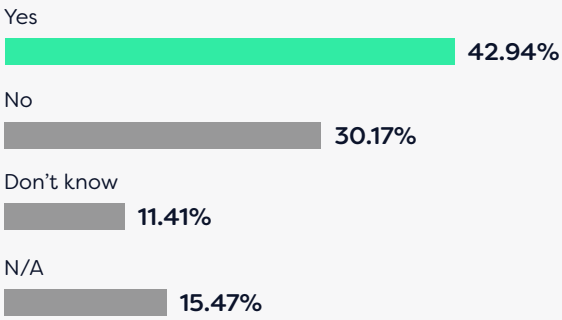
One important aspect was to know **if companies are reporting climate-based disclosures.** 'Yes' (29%) was surprisingly low, considering the push by many within the sector to actively engage with climate-risk. 'No' (71%) was worryingly high, as the need for energy companies to actively understand and measure their impacts has never been greater. Those who do not assess climate-risk will begin to feel the pressures from finance, investment and insurance sectors.

An array of **approaches to reporting climate-related disclosures** is available, most followed the framework set out by the Task Force on Climate Related Financial Disclosures (TFCD) or were aligned to the Paris Agreement. Other popular options looked to industry standards such as; the Sustainability Accounting Standards Board (SASB), various stock exchanges' reporting indexes, Net-Zero Banking Alliance and rating agency frameworks.

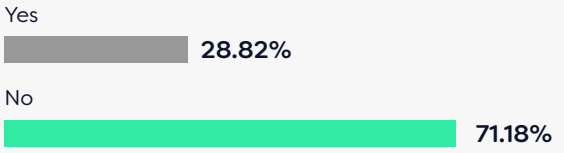
Do you expect any of your revenue to come from green initiatives in 2022/23?



Would you say that you have a comprehensive ESG Programme in place in your organisation?



Are you reporting on climate-based disclosures?



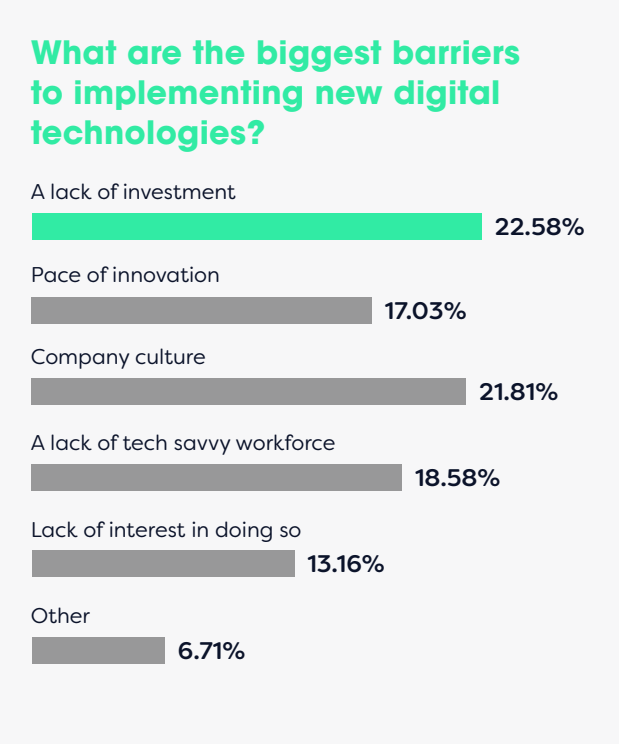
Digital innovation – finding the balance

Many **barriers exist to the integration of digital technologies,** however which is the biggest. A 'lack of investment' (22.5%) was the dominant answer. Digital technologies can rapidly drive greater efficiencies and in turn, drive higher returns. The business case for implementing digital technologies is proven and should exist within any investor pitch. 'Company culture' (22%) follows closely behind. Management teams are used to physical hardware innovations making the difference, shifting these perceptions to include digital technologies may need to happen sooner rather than later.

'Lack of a tech savvy workforce' suggests that management teams are concerned about implementing digital technologies that go unused. 'Pace of innovation' (17%) reveals some reservations about what can be achieved through digitalization. 'Lack of interest in doing so' (13%) reflects many of the answers above, insofar as where there is no money, or there is a belief in what can be achieved, or if there are doubts about it within a company – interest will decline. Digitalization, while pricey, can unlock exceptional value where it did not exist prior.

When questioned about **the existence of a digital roadmap for their business,** 'No' (43%) received the biggest response. With the emergence and improvement of a range of digital technologies in recent years, from; blockchain, digital twins, IoT, data processing etc – all which can improve productivity – these 'noes' would be savvy to shift their digital approaches.

'Yes' (40%) showed that there remained a significant portion of upstream actors looking to find improvements through the use of digital technologies. 'Don't know' (17%) rounded off the results.



Exploration

Despite the demands of the energy transition, the effects on the energy markets created by unforeseen shocks has left many considering the push to reduce oil and gas production.

"As questions over oil and gas supply, there has been a broad reconsideration toward investment into new hydrocarbon exploration". As such, we're pleased to see the strong response of a continued commitment to exploration by so many, and while many are moving on, they too are doing so to solve other energy issues – the energy transition is beginning to find the right balance.

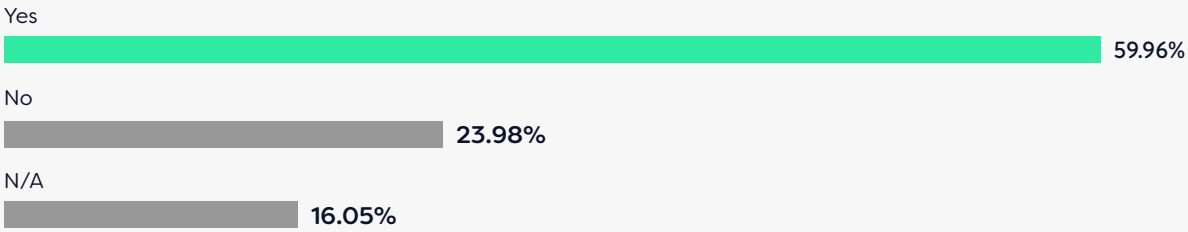
The energy transition has led to many questions around whether **exploration will continue to play a role in O&G businesses.** 'Yes' (60%) is a pleasing result that reflects the appetite to continue exploration still very much exists within the sector. The demand will not cease for many decades but to do so, exploration cannot cease.

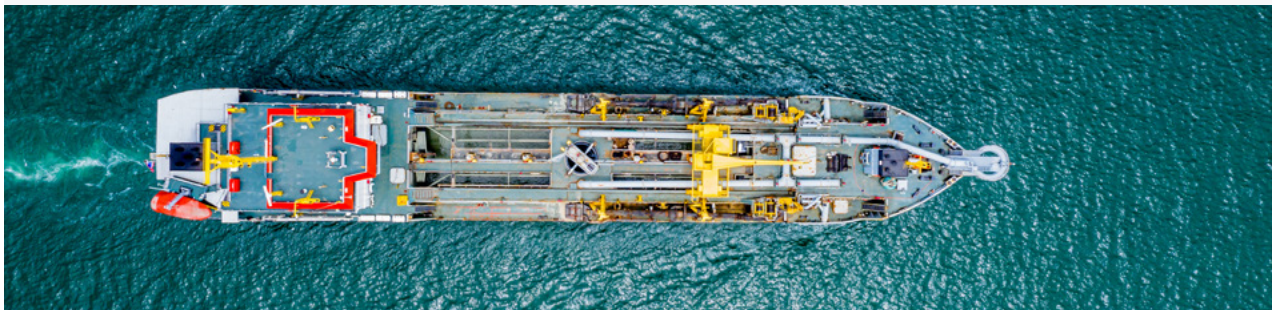
'No' (24%) shows that there are a significant number of companies shifting away from exploration. It is costly business that is becoming increasingly tough to maintain competitiveness, and some may find it preferable to use that capital elsewhere. This was 'not applicable' to (16%) of applicants.

As investment into oil and gas regains momentum, we asked **where the biggest E&P opportunities exist over the next 24 months.** 'West Africa' (20%) was by far the biggest area of interest to our respondents. The regional need to improve access to energy, coupled with a sector that is maturing steadily and improving regulatory barriers – all points to a potentially bountiful era for West African oil and gas. 'East Africa' (7%), North Africa (8.5%), Central Africa (1.5%) and Southern Africa (7.5%) – indicate Africa as a popular destination for E&P companies.

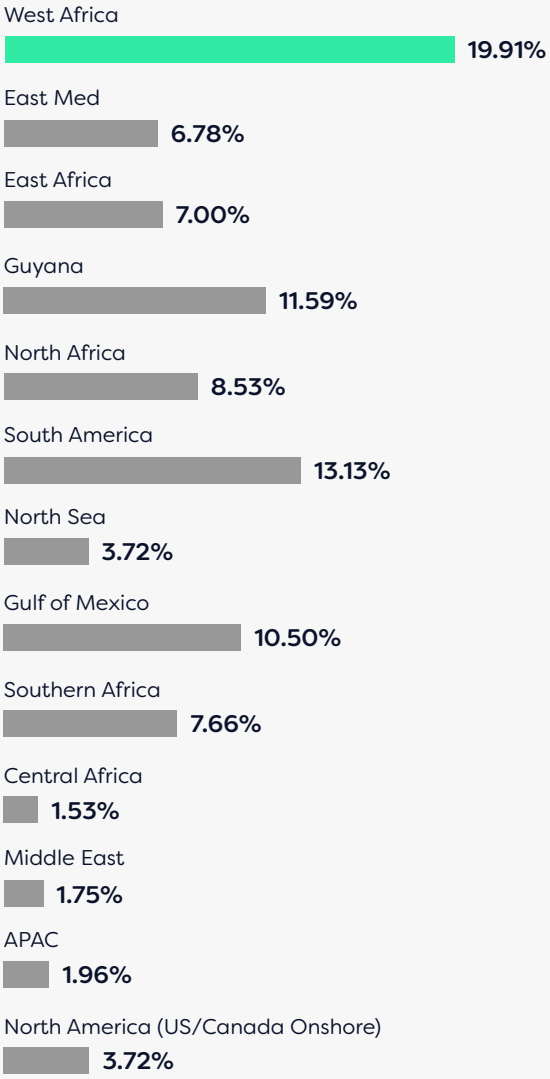
'Guyana' (12%) was the leading individual region, clearly piquing the interest of many E&P companies. The rest of 'South America' (13%) followed as the second most popular region overall, with many nations keen to restore a crucial economic activity. 'Gulf of Mexico' (10.5%) appears to be the favored destination for North American E&P actors, with 'US/Canada onshore' (3.5%) falling slightly behind. Elsewhere, 'North Sea' (3.5%) and the 'East Mediterranean' (6.8%) are the hubs for European activity. The Middle East (2%) understandably has less greenfield exploration potential.

Will exploration still play a role in your business?





Where do you see the biggest E&P opportunities in the next 24 months?



A word about the Energy Council

Identify, influence and engage with the upstream energy, finance and investor communities

If you are reading this and you believe your company, service or product could help our senior upstream energy executives with some of the challenges they face in today's environment, we would love to hear from you.

The Energy Council is a global platform that facilitates commercially aligned connections between senior upstream energy executives and the finance, investment and technology community, in order to accelerate deals, mobilise capital, drive growth and innovation and establish clarity in the age of the energy transition.

Why are we different?

The Energy Council platform removes the ineffectiveness of cold client outreach. By offering vetted introductions to active prospects, our partners are more likely to have their emails responded to, meetings accepted, and services engaged.

We know that building lasting relationships with clients takes time. So, our partnerships last for 12 months and they are entirely bespoke to you.

From live events to podcasts and from VIP networking dinners to tailored marketing campaigns, we can drive your business development in the right direction through dozens of different channels

We craft tailor made roadmaps for each member ensuring you hit your objective of meeting new connections, potential partners, senior industry players and key stakeholders

Our network is made up of over 100,000 senior members; generate new leads through our tailored networking service (both physical and online) which provides you with a pre-scheduled programme of 1-2-1 meetings based on detailed profile information

To find out more, please contact

AMY MILLER

Chief Executive Officer
Tel: +44 20 7384 8063

amy.miller@energycouncil.com