

EXECUTIVE INTERVIEW

April 2016



Chris Walcot

CEO
Progressive

Having first met Duncan back in 2013, Progressive have been working with Svenska for the last 2 years, helping them to in their drive for efficiencies with our financial & asset management solutions. In this interview, we look at how the current low oil price has changed ways of working from both the customer and supplier perspectives, and how oil companies and suppliers can work together to support each other in the current climate.

What do the current and ongoing low oil prices mean for your business?

Chris:

E&P companies are basically under pressure to reduce costs. With \$40 oil, they need to drive down costs without impacting exploration or production. Demonstrating cost control and visibility of all aspects of finance and asset management has been key.

There has perhaps been less activity around acquisitions and mergers than we might have expected. I think this has largely been down to the new cost consciousness - even those with good revenue streams are determined to ensure they can do more with less. For Progressive so far, we have had a number of clients approach us when looking at more efficient ways of working. Asset management solutions have been a particular growth area for Progressive, despite the industry downturn, because they can immediately have a positive impact on an E&P company's bottom line, through reducing procurement costs, improving inventory management and decreasing unplanned downtime.

Duncan:

There are number of themes that can come through in a low oil price cycle. These are also compounded by volatility that demand more a consistent, performance related approach to capital allocation. Svenska's main, immediate focus has been on cost cutting, and this is likely to continue into the medium term. We have found that improved visibility of financial activity is absolutely vital. Stakeholders are a lot more demanding in terms of the delivery and level of detail of the information they want. Whilst cost efficiencies are key within the business,

we must also demonstrate control to our external stakeholders. Having robust systems and solutions has enabled us to facilitate this. We have been able to turn around analysis rapidly and manage the extra reporting needs of all our stakeholders.

What changes have you made within Svenska to improve cost efficiencies in response to the oil price?

Duncan:

At Svenska, we spent the early part of last year conducting a broad reaching review of our general & administrative expense (G&A) with a view to identifying cost efficiencies. From an operational perspective, we focused our financial resources on the assets that provided the best and most immediate returns.

In terms of the business as a whole, we have been working hard to embed cost consciousness into the company culture. This is a continuing activity and not something we created overnight! We have been keeping the G&A under close scrutiny, examining costs small and large. As I am sure many companies in the industry have found, travel has been a quick win - our investment in video conferencing equipment has greatly reduced the travel between London and Sweden.

We experienced lower activity levels in some business areas in Svenska last year. We took advantage of this, using the opportunity to carry out some 'housekeeping'. This was a great opportunity for us to update our systems and improve our ways of working. When the oil price starts to climb, we are confident that it will rebound strongly - there just won't be the time to spend on these activities. Now is the right time, and focusing on tried and tested solutions and delivery of demonstrable benefits has helped us to ensure we are investing in the right opportunities and improvements.

What changes have you seen clients make?

Chris:

As Duncan has mentioned, clients are much more focused on deploying tried



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and tested solutions. Also, there is a shift to delivering demonstrable benefits – proving that the investments made are really delivering the time and cost benefits planned in the early stages of a project.

I think one of the reasons Progressive have managed to sustain business in the current environment is down to our oil & gas pedigree. The fact that we have worked in more than 40 E&P companies worldwide implementing our solutions substantially derisks any investment made. Added to this are our oil & gas frameworks, which mean less 'build' needed for a client solution – clearly this has benefits in terms of time, costs and overall solution success. That said, Progressive can deliver solutions and make processes more efficient, but it is ultimately down to the client to change their ways of working and their overall behaviours to deliver these efficiencies.

There has been much talk about making efficiencies and sharing services – what does this look like for Svenska?

Duncan:

For us, the efficiency drive through shared services has been largely on the operational side. Shared exploration, for example, helps costs and reduces risk. We found during the period of sustained high oil price, some IOCs were surprisingly willing to conduct activities such as frontier exploration drilling at very high levels of equity participation.

In terms of the more back office functions, take up of sharing services has been slower. Comparatively, the costs savings are nowhere near as great as for the operational activities. Added to this, most E&P companies see finance, payroll, etc. as proprietary activity and prefer to keep full ownership. Admittedly, in the last downturn in the late 90's, some services in many mid-sized IOCs such as travel agencies and graphics departments were outsourced. However, I think it is unlikely that sharing services will extend beyond those activities to any great extent.

And how can oil & gas service providers and suppliers help with the efficiency drive?

Chris:

I think suppliers have a responsibility to develop innovative approaches that deliver savings through more efficient implementations, and deliver benefits that can be realised through, for example, automation of manual activities. Tried and tested solutions from suppliers are key - there is no need to reinvent the wheel each time. In addition, our delivered solutions provide the opportunity to create efficiencies. Our focus is always on automating as much as possible –

completing activities at the touch of a button instead of investing time in doing everything by hand. Yes, there is the need to invest money upfront, but these costs can be recovered within a short period of time, for example:

- Asset management systems enable cost effective focus on maintenance to reduce downtime
- Inventory solutions encourages better stock management and usage and improves purchasing behaviours
- Reporting packs reduce or eliminate manual intervention, increase visibility allowing teams to take control enabling the driving out of cost savings.

Duncan:

Progressive's oil & gas framework is, for us, a great example of how suppliers and service providers can help to deliver cost efficient, high quality services to companies such as Svenska. There is real appeal to benefitting from standardisation and best practice – most E&P companies have common workflows – which are then tweaked to deliver the specific needs for each individual company. And of course, it does have a major impact on cost effectiveness of the solutions delivered.

Svenska have already implemented Progressive's invoice framework, as we were very keen to get a solution that worked for our needs with minimal changes. Right now, the option to spend time and money on a fully bespoke solution is really not an option.

From a supplier perspective, what are the bare minimum requirements you would expect an E&P company to be able to demonstrate in the current climate?

I think from our perspective it is about doing more with less. Companies need to find a way of fulfilling the information requirements of their stakeholders without spending huge amounts of time and money. In addition, there needs to be just one set of data – a single source of the truth – even in geographically diverse organisations.

As in the example of Svenska, now, more so than ever, organisations need to demonstrate they are in control of their expenditure and revenue to senior management, investors and JV partners. They need to record their money, time, barrels of oil, etc., and be able to report on this information as and when required. Good systems enable better financial control, more effective planning better decision making, and the ability to adjust to market changes quicker – currently a critical requirement!

Shifting the focus onto Africa, how can we continue to be successful?

Duncan:

From a broad perspective, there are challenges in doing business in Africa in the current climate. As we have discussed, the focus within Svenska, and I'm sure many other companies, has been on cost efficiencies. However, we also need receptive governments in place to cooperate, and understand what is needed to meet these endeavours.

In some areas, we are still seeing the mindset associated with a high oil price environment. For example, some of the fiscal regimes can render potential projects economically challenged. We have to work together to be more progressive in our approaches, looking at how governments can promote and incentivise new companies, new projects and continuing investment within Africa to maintain activity levels.

Chris:

Africa is a big, diverse continent. In delivering our solutions, some of the challenges we see clients face are in relation to unfamiliar fiscal regimes and some locations with poor infrastructure and data connectivity issues.

Over the years, Progressive have had a substantial footprint in Africa – we have worked with 14 E&P companies with Africa interests, spanning more than 20 countries in the region. From a financial perspective, we have already developed our framework to include some of the more complex tax processing. Nigeria, for example, has a complex tax regime that can prove challenging to first time operators – our frameworks manage VAT, Withholding Tax (WHT), Local Content Tax (LCT) and Cabotage, as well as mixed currencies, prepayments and partial payments.

For companies embarking on exploration in remote locations, the Progressive offering includes a solution in a box. This aims to provide all of the key finance and asset management solutions needed to run the financial, operational and production aspects in country, wherever you are. It can be quickly scaled up or down, and can sync back to HQ to ensure there is only one set of data and one source of the truth.

We expect Africa to continue to be an important region for us as a company, and of course oil & gas in general, hence we are investing in creating innovative solutions that deliver to the specific needs of operating in the region.