STANDARDISED SUPPLY CHAIN BEHAVIOUR

Annual report 2024

OFFSHORE NORGE

Norsk Industri

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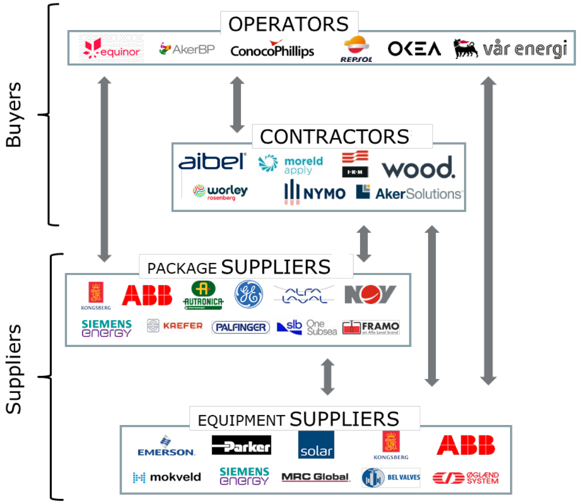
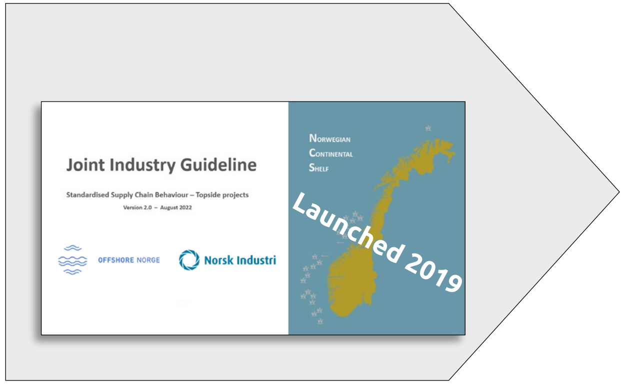
The guideline for standardised supply chain behaviour is managed by the industry through the joint industry improvement arena*

Situation pre-2019

Ineffective collaboration



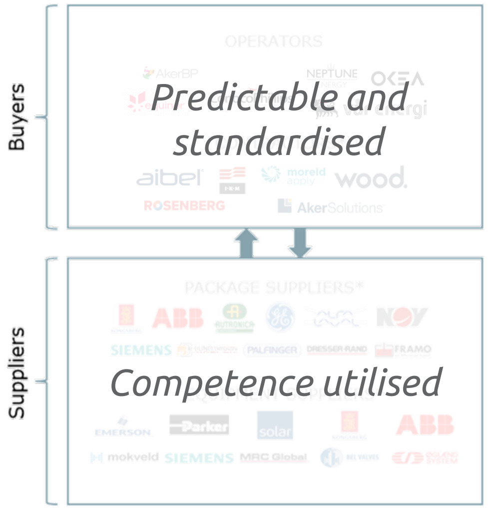
(examples of relevant companies)



Joint Industry Guideline

(with corresponding checklists)

Desired situation



*Participating companies:** Equinor, Aker BP, Vår Energi, Aibel, Aker Solutions, Wood, IKM, Moreld Apply, ABB, Kaefer

The guideline highlights four main recommendations, facilitating more efficient collaboration across the value chain

Increase use of industry
STANDARD DELIVERY

By using functional requirements, standard products should be the basis for all deliveries.

Necessary customisation should be based on cost-benefit considerations.

Better and earlier use of
SUPPLIER EXPERTISE

Early selection and involvement of key supplier(s) expertise for optimisation of scope.

Establish joint effort for smart design in a Total Cost of Ownership (TCO) perspective.

ALIGN DRIVERS
across the supply chain

Use compensation formats and incentives to drive value creation for the overall business case as well as cost efficient design and supply chain collaboration.

Compensate key suppliers for significant and value adding engineering contributions.

Use industry standard contracts through the supply chain, ensuring transparent risk allocated where best managed.

Change operator and contractor
CULTURE

Understand and avoid cost-driving behaviour.

Leadership in the companies to drive change, implement best practice and adjust based on results from benchmark.

Cross-organisational collaboration to utilise competence for value creation.

This annual report investigates the industry's ability to change in line with the recommendations

Purpose

This report aims to measure and reflect the current state and development of the industry's ability to change in line with the Joint industry guideline. The Standardised supply chain behaviour project aims to increase the use of standardisation and improve the actors' competitiveness from deliveries of qualified technologies to top-side projects and installations.

Background

The interaction between actors in the Norwegian offshore industry has historically not functioned optimally. In 2019, Offshore Norge and the Federation of Norwegian Industries, developed together with operators, contractors, and suppliers, a set of recommendations. These aim to improve the supply chain collaboration, resulting in increased competitiveness and reduced costs.

Input and methodology

The input of the annual report is provided from

- Interviews and surveys from operators, contractors and suppliers
- Commercial analysis from various contributors

The Joint industry guideline has four main recommendations

Increase use of industry STANDARD DELIVERY

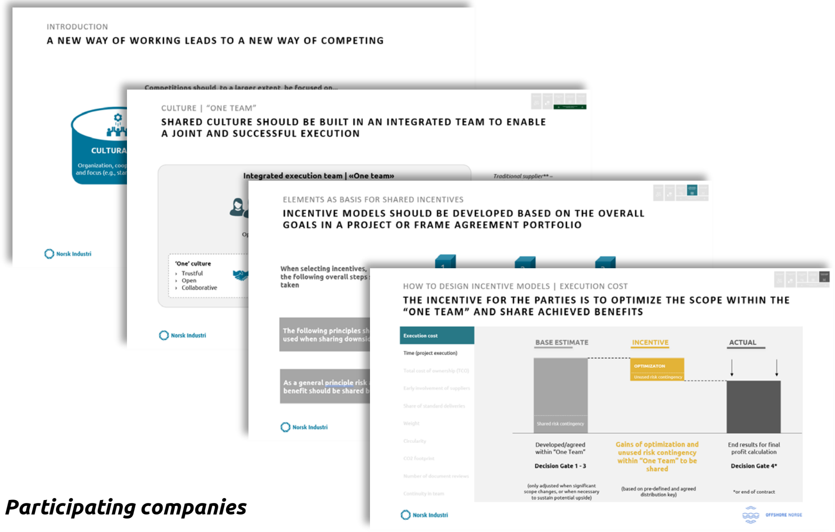
Better and earlier use of SUPPLIER EXPERTISE

ALIGN DRIVERS across the supply chain

Change operator and contractor CULTURE

EXECUTIVE SUMMARY

New best practice recommendations for incentives and contractual drivers developed by the industry in 2024



Participating companies

equinor, aibel, Aker Solutions, KAEFER ENERGY, vår energi, AkerBP, moreld apply, ABB

Positive climate for collaboration within projects, with encouraging signs of improved supply chain behaviour despite high activity levels making project delivery primary focus

Increase use of industry
STANDARD DELIVERY

Piloting and digitalisation (e.g., common industry solutions as EqHub) are seen as positive contributions towards standardisation – operationalisation is still time consuming

Better and earlier use of
SUPPLIER EXPERTISE

There are clear signs of earlier supplier involvement – room to further utilise this collaboration in optimisation and smart integration

ALIGN DRIVERS
across the supply chain

Industry best practice's for aligning drivers developed in 2024 – serving as input towards designing contract strategies and project execution models

Change operator and contractor
CULTURE

The Standardised supply chain behaviour toolbox is developed and tested – the cultural journey for companies aiming to work in accordance with these guidelines takes time

Several companies have come a long way, and have had great success, with testing and implementing new project execution models aligned with the guidelines

Feedback indicates a positive development overall, especially for suppliers

Operators

- Operators choose contract strategies with varying degree and approach to implementation of guideline principle
- Report that a shift to more standard equipment is often challenging and time-consuming on mature installations
- Encourage greater contractor and supplier contributions in scope optimisation and smart integration

Contractors

- Report large variation in contract strategies and behaviour across clients and projects
- Stress the importance of aligning incentives – contracts should focus more on “carrot” and less on “stick”
- Highlight pilot projects as an important step towards driving change

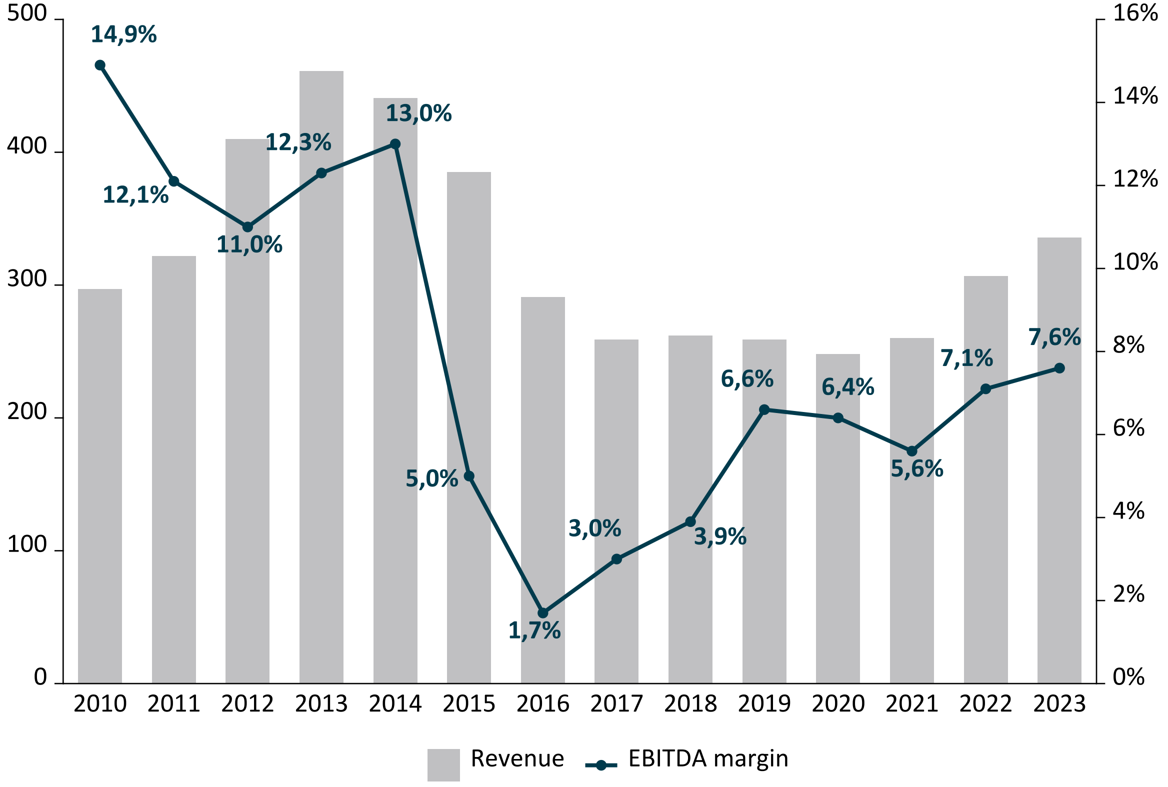
Suppliers

- Have experienced a significant improvement in use of industry standard equipment and delivery
- See positive tendencies regarding the initiative and intentions, but emphasise need for further operationalisatio
- Report earlier involvement in projects and better cross-company collaboration

COMMERCIAL EFFECT

Continued revenue growth and high activity for suppliers on the NCS – modest growth in margins due to increased costs

Revenue and margins for Norwegian-based suppliers
(in billion NOK)

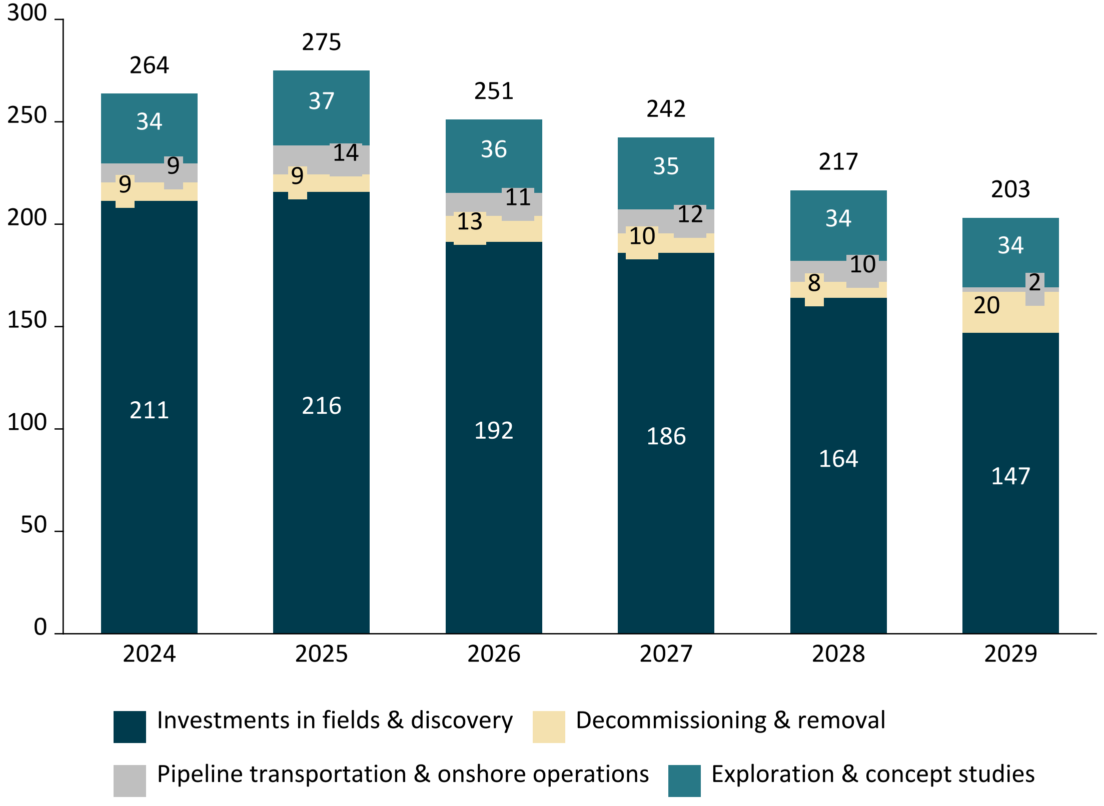


- Norwegian-based suppliers experienced approximately 9% revenue growth from 2022 to 2023, building on the previous year's trend
- There are large variations in margins amongst suppliers in the value chain, for instance, depending on what products & services they deliver
- Norway's temporary tax regime provided a short-term boost for oil and gas technology and service companies, who are now benefiting from increased project approvals
- Additional factors behind the recent revenue increase include the deprecation of the Norwegian currency and the tightening of multiple markets, especially those involving field development
- EBITDA margins have remained relatively flat due to an increase in costs for suppliers – similar results are expected for 2024, with margins remaining stagnant due to cost dynamics
- In 2024 we expect to see revenues continue the upwards trend due to high project development activity in Norway – growth is aided by the further weakening of the NOK

Sources: Rystad Energy Research and Analysis and Offshore Norge – Investeringsanalyse 2024-2028

Total investments are expected to peak at 275 BNOK in 2025 (4% increase) – then projected to gradually decline towards 2029

Total investments in NCS 2024 – 2029
(in billion 2025 – NOK)



- The increased investment activity towards 2025 is driven by the expanded scope of certain ongoing development projects, combined with increased infill activity and production drilling on fields in operation
- After 2025, total investments are projected to gradually decline towards 2029 – mainly due to projects initiated before 2025 being completed
- Capacity constraints in several supplier segments may persist, though this is expected to be temporary
- Factors such as higher prices for various goods and services contribute to raising the investment forecasts – a weakened Norwegian krone amplifies this effect, in addition to increased activity levels
- International export is expected to play an increasingly important role for Norwegian based suppliers in the years to come – historically, export accounts for about 1/3 of revenues

Sources: Offshore Norge – Investeringsanalyse 2025-2029

ABILITY TO CHANGE

Increase use
of industry
STANDARD
DELIVERY

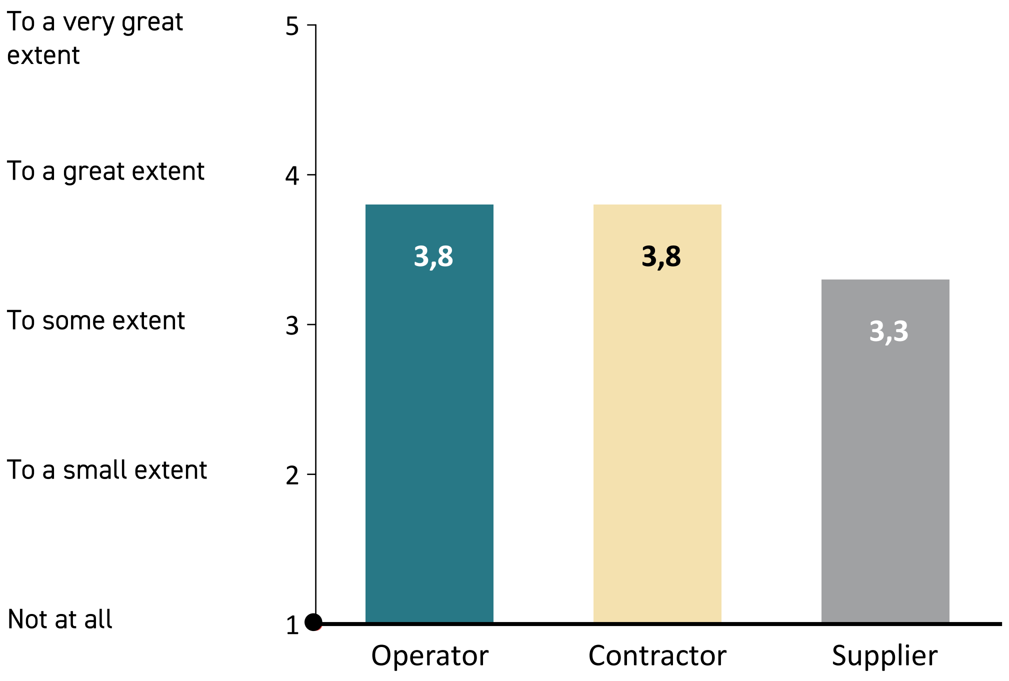
Better and
earlier use of
SUPPLIER
EXPERTISE

ALIGN
DRIVERS
across the supply
chain

Change operator
and contractor
CULTURE

Overall change in supply chain behaviour the past 3-5 years

*"To what extent do you believe there has been **change in supply chain behaviour** for the **past 3-5 years**?"*



There has been a clear change in supply chain behaviour over the past 3-5 years

- Changes are varying across and within operators – depending on chosen strategies and execution models in projects
- Reports suggest a higher strategic focus on the topic. Several proven pilots creates pull effect in some areas
- Suppliers have experienced the most positive change relative to last year
- High activity levels the past years have created a market with an emphasised focus on resource access
- Behaviour varies between companies and projects, with change still reliant on individuals rather than rooted in company culture

Increase use of industry standard delivery

	Operator	Contractor	Supplier
To what extent is industry standard equipment solutions normally utilised?	↓	↑	↑
To what extent is standard equipment treated as standard equipment in the project? (including documentation and follow-up)	↓	→	↑
To what extent are industry standard requirements utilised?	↓	↓	↑
To what extent are standard documentation, and pre-defined follow-up of documentation normally utilised?	↓	↓	↑
To what extent do you perceive the documentation requirements as efficient and fit for purpose?		↓	↑
To what extent do buyers over-specify their requests?			↓

Status 2024 (score 1 - 5): 2,8 3,2

Change since 2023: ↑ Positive change ↓ Negative change → No change

Piloting the guideline principles in projects and digitalising industry solutions (e.g., EqHub) supports standardisation

- Suppliers report greater adoption of standard industry requirements
- Standardisation is largely driven by individual efforts both on buyer and supplier side
- A positive development in the digitalisation of the space (e.g. EqHub) has made documentation processes simpler and more efficient
- Company-specific requirements are still very much present, but transparency has improved so that suppliers are more easily compensated for delivering on such requirements
- Further increased management awareness followed by testing in pilots would help drive standardisation
- Incentives motivates contractors to drive standardisation in projects

Better and earlier use of supplier expertise

	Operator	Contractor	Supplier
Has key supplier(s) been identified, selected and informed (prior to optimisation and freeze of scope)?	↓	↓	↓
Has key supplier(s) expertise and technology been utilised pre-PO and contributed to optimisation and smart integration?	→	→	↓
To what extent is the lead time in engineering efficient pre PO-issue?	↑	↓	↑

Status 2024 (score 1 - 5): 2,8 3,2

Change since 2023: ↑ Positive change ↓ Negative change → No change

Positive signs of early involvement – room to further utilise this collaboration in optimisation and smart integration

- Various examples of pilots across several companies indicate a positive development in the industry
- Both operators and suppliers report more frequent contact and alignment between companies than before – several comments on higher involvement of key suppliers early in projects
- Some companies have conducted training and engaged in internal discussions on effective collaboration with suppliers
- Reports suggest room for improvement in supplier proactiveness as well as supplier maturity for idea generation

Align drivers across the supply chain

	Operator	Contractor	Supplier
To what extent does the contracts support common drivers across the supply chain to remove unnecessary work, stimulate collaboration and contribute to fit for purpose delivery?	↑	→	↑
To what extent are drivers aligned, communicated and understood by all parties?	↑	→	↑

Status 2024 (score 1 - 5): 2,8 3,2

Change since 2023: ↑ Positive change ↓ Negative change → No change

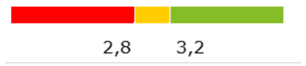
Industry best practices for aligning incentives and contractual drivers was developed in 2024

- Both suppliers and operators see improvement in incentive alignment since last year
- "Recommended best practices for aligned incentives and contractual drivers" was developed by the industry in 2024 – a useful tool towards ensuring shared incentives and fruitful collaboration
- There are several examples of parties experiencing projects with diverging incentives
- Contracts often tend to emphasize penalties over incentives
- Risk is usually priced into contracts by suppliers/contractors and not shared
- Incentives lie also in intangibles – suppliers recognize that a strong reputation and reliability increase their chances of being chosen for future projects

Change operator and contractor culture

	Operator	Contractor	Supplier
To what extent do you experience positive change in behaviour related to the guideline recommendations?	↓	↑	↓
Based on previous questions: How efficient and predictable are the project clients (operator and/or contractor) compared to similar clients in other relevant industries (e.g maritime oil and gas clients)?			↑

Status 2024 (score 1 - 5):



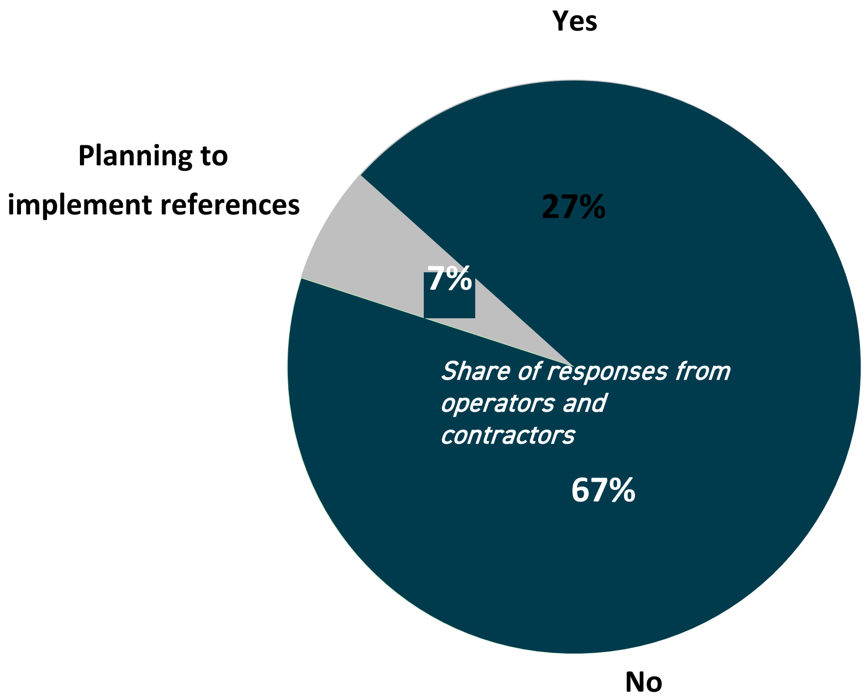
Change since 2023: ↑ Positive change ↓ Negative change → No change

There is a positive climate for collaboration and change

- There seems to be consensus about the initiative and mindset being the right one, but change is not fully materialising in all areas
- It is positive with a common arena with a clear mandate where relevant people from the industry can drive change
- Passionate individuals and top management attention is essential to drive cultural change
- The following people-focused factors are highlighted as potential hurdles for cultural change:
  - A high employee turnover rate
  - A high degree of externally hired manpower
  - Many nationalities – employees from different cultures approach things differently

References to the joint industry guideline in operator and contractor management systems

"Is there any references to the Joint Industry guideline in your internal management systems?"



Several of the large operators have established guideline references in management systems in 2024

- A visible increase in companies reporting having references to the Joint Industry guideline in internal management systems
- Some report to be in alignment with the overall principles in their management systems, without having directly implemented the guideline
- Few are planning to implement references to the Joint Industry Guideline in their management systems
- International companies with management systems suited for different countries rarely include specific regional standards or guidelines

APPENDIX

Industry best practices for incentive alignment and risk allocation have been developed

Actions 2024	Completed activities 2024
Facilitate for success of established workgroup, tasked to describe best practices for incentives and risk allocation in the supply chain	✓ Finalised best practice recommendations ✓ Presented at several industry arenas
Facilitate for implementation of guideline references in contractor and operator management systems	✓ Status assessed in annual report 2024 ✓ Increase in companies with established references ✓ Continuous dialogue with operators
Ensure communication of guideline for Standardised supply chain behavior at relevant forums	✓ Communicated at several internal and external arenas, e.g.: o Offshore strategy conference o Operations committee o Norsk Industri open industry meeting o Asset and License management seminar
Strengthen implementation networks within operator and contractor companies	✓ Continuous dialogue with operators

Survey results from 2024 (change since 2023)

		Operator	Contractor	Supplier
Increase use of industry STANDARD DELIVERY	• To what extent is industry standard equipment solutions normally utilised?	3,2 (-0,6)	3,5 (+0,3)	3,3 (+0,5)
	• To what extent is standard equipment treated as standard equipment in the project? (including documentation and follow-up)	3,4 (-0,1)	2,8 (–)	2,8 (+0,2)
	• To what extent are industry standard requirements utilised?	3,7 (-0,3)	3,0 (-1,2)	3,7 (+0,9)
	• To what extent is standard documentation, and pre-defined follow-up of documentation normally utilised?	3,4 (-0,4)	2,8 (-0,2)	3,3 (+0,8)
	• To what extent do you perceive the documentation requirements as efficient and fit for purpose?*		2,7 (-0,3)	3,0 (+0,7)
	• To what extent do buyers over-specify their request? *(Opposite high/low score interpretation)*			3,4 (-0,1)
Better and earlier use of SUPPLIER EXPERTISE	• Has key supplier(s) been identified, selected and informed (prior to optimisation and freeze of scope)?	3,8 (-0,2)	3,3 (-0,2)	2,9 (-0,4)
	• Has key supplier(s) expertise and technology been utilised pre-PO and contributed to optimisation and smart integration?	3,9 (–)	3,5 (–)	3,0 (-0,5)
	• To what extent is the lead time in engineering efficient pre PO-issue?	3,4 (+0,1)	2,7 (-0,1)	2,9 (+0,4)
ALIGN DRIVERS across the supply chain	• To what extent does the contracts support common drivers across the supply chain to remove unnecessary work, stimulate collaboration and contribute to fit for purpose delivery?	3,6 (+0,2)	3,2 (–)	2,6 (+0,5)
	• To what extent are drivers aligned, communicated and understood by all parties?	3,6 (+0,1)	2,8 (–)	2,7 (+0,2)
Change operator and contractor CULTURE	• To what extent do you experience positive change in behaviour related to the guideline recommendations?*	3,3 (-0,1)	3,7 (+0,2)	2,4 (-0,1)
	• Based on previous questions: How efficient and predictable are the project clients (operator and/or contractor) compared to similar clients in other relevant industries (e.g maritime oil and gas clients)?			2,6 (+0,1)

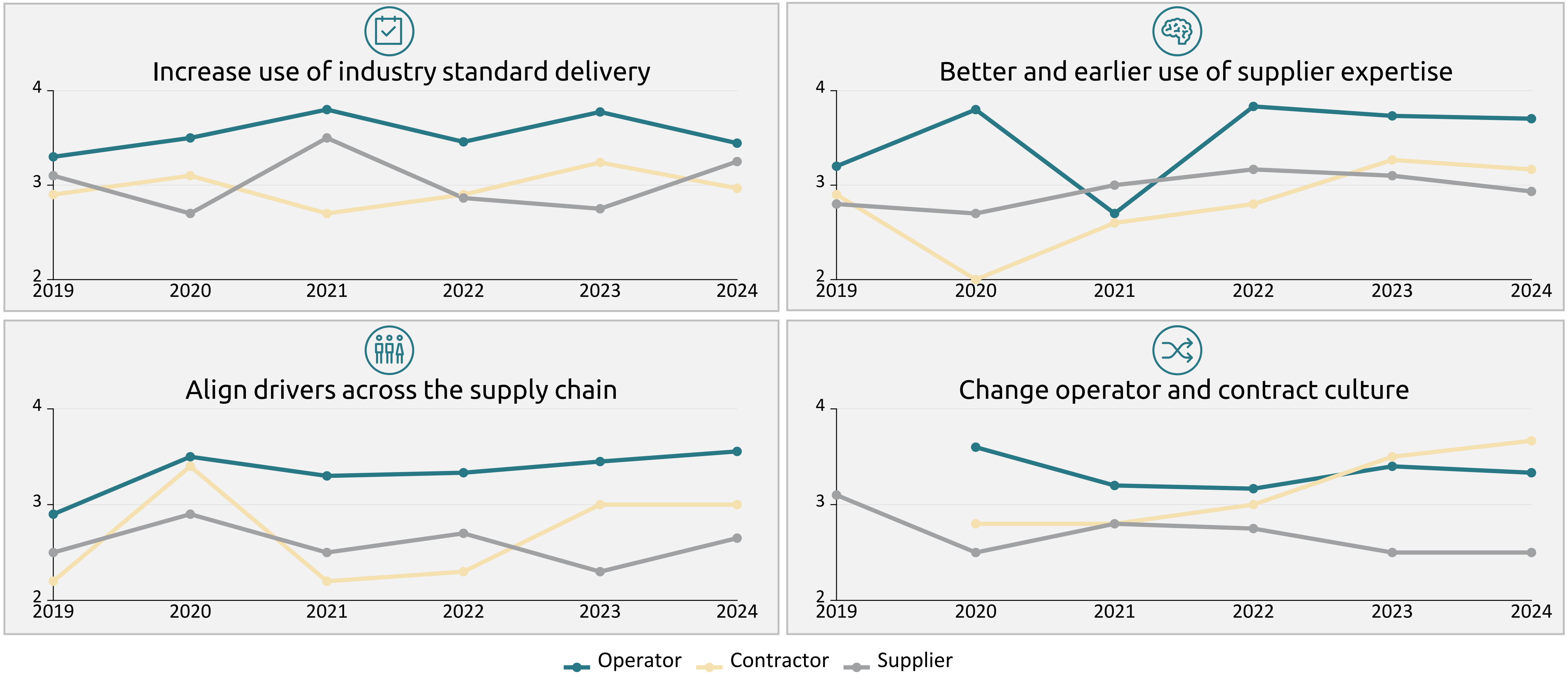
Scoring values: 1 = Not at all 2 = To a small extent 3 = To some extent 4 = To a great extent 5 = To a very great extent

Limits: 2,8 3,2

Norsk Industri

OFFSHORE NORGE

Operators and contractors see a long-term improvement in driver alignment and contractors reporting cultural progress for four consecutive years



(scoring 1-5 where 5 is best)

How to drive implementation efforts

- **Anchor the guideline recommendations** in corporate strategies and management systems
- **Ensure top management commitment** and implementation involvement
- **Understand your partners** to foster successful collaboration
- **Communicate benefits** by showcasing real-world pilot successes
- **Acknowledge that change takes time** and requires ongoing effort

Interview guide 2024

General	• How familiar are you with the industry guideline and checklists? • How do you see the development in the industry practice and culture over the past 1-2 years?
Topic specific	• Largest unrealised potential related to: Increased use of standard delivery • How will you normally treat deviation from standard? Who carries "the burden of proof"? • Largest unrealised potential related to: Better and earlier use of supplier expertise • Any good examples from projects with well-understood incentives that were aligned between all parties? • What do you see as the largest bottle necks/barriers to achieve change in culture and practice? • Emphasize main differences between maritime (rig owners and ship owners) and oil & gas clients *(for suppliers only)*
Implementation	• Have you, or are you planning to, implement any references to the Joint Industry guideline for Standardised supply chain behaviour (or corresponding checklists) in your internal management systems? *(for operator and contractor)* • Do you see any low hanging fruits to take out benefits of recommended guideline best practices? • Do you have any recommendations to specific measures to increase the effect of the implementation effort?
Other	• Open: anything to add to this topic?

Joint industry improvement arena for Standardised supply chain behaviour