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OKEA

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QUARTR

MODULAR FINANCE

Speakers

Svein Liknes
CEO | OKEA ASA

Moderator

Operator

Birte Norheim
CFO | OKEA ASA

Prepared Remarks

Svein Liknes
CEO | OKEA ASA

Good morning and welcome to the OKEA ASA second quarter results presentation for 2025. My name is Svein Liknes, CEO of OKEA ASA, and as usual, I have my CFO with me, Birte Norheim, who will then do the financing afterwards. There is a link on our homepage where you can post questions or also call in for the Q&A session, which will start immediately after this presentation. The highlights for the quarter are, again, that it's been a very strong operational performance throughout the quarter. We've seen high production efficiency, and we've also seen strong production with 31,700 barrels of oil equivalent per day, which is in the high end of the range we have guided for.

Svein Liknes
CEO | OKEA ASA

This is even though we have seen some lower production from Statsjord due to delays in drilling of new wells, which have to be drilled to increase the production as it is declining. We have also seen then strong production performance from Brage, especially, and also Drøgen, and also Jøa, which is operated by others, but which has also contributed significantly. The financial performance through the quarter has been affected by reduced forward prices, so we have seen a technical goodwill impairment of $32 million this quarter. We have also refinanced the OKEA 06 during the last quarter, and Birte will go through the details of the financing section more afterwards.

Svein Liknes
CEO | OKEA ASA

In our portfolio, we have completed the Sognefjord East well, which was something we called a Kim discovery two years ago, and we have now completed the drilling there, and we started that on 1st of July in accordance with plan. We see very healthy production from this reservoir, which has lifted production on Brage again back to a 10-year high. We have also commenced drilling of the Talisker exploration and production well on the west side of Brage, which again we will continue to drill now and will then start production next year, which is an important contributor as we do have a no-drilling period in 2026 on Brage, as we need the bed space for the Bestla development project. The Garn West South production wells have also been sanctioned, which is a tieback to Drøgen.

Svein Liknes
CEO | OKEA ASA

There is already a well there, so we will do a sidetrack on this well, which will also lift production from Drøgen from next year again. Bestla development project remains on track. We have now installed the subsea template, and we are expecting the drilling rig Deepsea Yantai to arrive between July and August. It's the latest update for drilling, starting drilling of the wells. We have completed the protection of the power cable, which now is completed from onshore to Drøgen and from Drøgen to Njord. That work is also completed, and we do see good progress on the onshore facilities, which will be in operation from mid-next year. These are the key numbers for the quarter. Everything we do, we need to do safely and also sustainably. I'm happy to see that we have a sustainable and continued stable serious incident frequency of 1.1.

Svein Liknes
CEO | OKEA ASA

That means we have had no new incident. We've seen lower production, 31.7, as you can see here, which is still in the high end of our range. Due to this increased or strong production, we are also narrowing down the guiding from 28,000-33,000 to now 30,000-32,000. We are narrowing it down on the upper end of the guiding. Production efficiency has been very strong at 93%. We do see above 90 on all our assets, and our production expenses have increased slightly during the quarter, and that is predominantly due to subsea intervention and on a scale squeeze on the D2 well on Drøgen that I will get a little bit back to, which is an expensive thing to do. On this one, we do see the natural decline from 34.2-31.7 over the quarter.

Svein Liknes
CEO | OKEA ASA

This is mainly due to lower production from Statsjord due to the drilling of wells that I have mentioned, but also backed then by increased production from other assets that we have in our portfolio. The production efficiency on our whole portfolio, as you can see here in the bottom, is all above 90%, and that is obviously something we are working very hard to achieve. A quick rundown of the details on all our assets. Drøgen, as I have mentioned, very good production performance. We did attempt a scale squeeze, which is an intervention in the well D2, to get it flowing again, but we were unsuccessful in actually doing that. We are still working on a solution how we're going to get the D2 well back. The D2 has not produced neither in Q1 nor in Q2 this year.

Svein Liknes
CEO | OKEA ASA

We are commencing the drilling of the Garn West South, which we now have sanctioned by the end of 2025. We are using the same drilling rig that will be drilling on the Bestla field, Deepsea Yantai first, and then it will come to Garn West South immediately thereafter to do this production drilling, which will then increase production on Drøgen from mid-2026. On Brage, again, extremely strong operational performance with high production efficiency, also very high drilling efficiency, I would say. We have now completed the Sognefjord East production well, which has shown very good results and is now producing, and as I just mentioned, taking the Brage production back up to a 10-year high. This will contribute significantly into Q3 and the rest of the year as well.

Svein Liknes
CEO | OKEA ASA

We have started now the Talisker exploration and production well drilling in July, and we expect the first production from this one in the first quarter of 2026. In the Statsjord area, lower production, as I already have mentioned, is due to delays in the drilling of new wells, and we are working very closely with the operator and also Våreneski as partner in the license to sanction new wells, but also look into the drilling performance on how we can contribute with our experience from our drilling operations as well to have the drilling operations more efficient, but also put it more quickly into operation after completion. Ivar Aasen, again, a very good quarter, very high production efficiency, somewhat lower volumes from Ivar Aasen. That is due to allocation of gas volumes related to the Hans tieback to Ivar Aasen.

Svein Liknes
CEO | OKEA ASA

The increased oil recovery program for 2026 has been sanctioned, and we do expect first oil in the fourth quarter of 2026 after these wells have been drilled on Ivar Aasen. Last but not least, the Jøa-Nåva area, again, continued very high production efficiency. We will have a three-week maintenance shutdown planned in August for this asset, which will affect both Jøa and Nåva, and this will include adjustments of the processing facilities and an attempt to enhance production even further. On our development projects, they are progressing well. We have the Bestla project, which is the tieback to Brage. The subsea template is now installed. As I mentioned, we are expecting Deepsea Yantai to arrive and start on the two wells to be drilled on Bestla between July and August.

Svein Liknes
CEO | OKEA ASA

We are still on track for a startup early 2027, and we believe that we have good control of the risk on this project. This will be a very significant contribution with 10,000 barrels net to OKEA when it starts early 2027. Also, the Draugen Power from Shore project, a very complex project, but the onshore facility is now well underway. The onshore facility will actually be in operation from mid-next year as we are providing power to Njord. We have completed the cable from onshore to Draugen. We have completed the cable from Drøgen to Njord, and we are now continuing with the equipment installation offshore, which is the next phase we are going into. Again, an important and significant project for the Drøgen to be sustainable until 2040 and beyond. This will also reduce the CO_2 emissions by 95% when it comes in operation in 2028.

Svein Liknes
CEO | OKEA ASA

With that, I will get back on a summary later on, but before I do so, I will hand over the word to Birte to take you through the financial section. Thank you.

Birte Norheim
CFO | OKEA ASA

Thank you, Svein. The financial statements for the second quarter are impacted by the reduction in petroleum prices, which resulted in a technical goodwill impairment. That drives the bottom line into the red. I want to remind you that this is a technical expense, which will never have a cash impact, and it therefore also has no tax shield. Let's dig into the details, starting with production and sales as usual. Production ended at 31,700 barrels of oil equivalent per day. The lower production mainly relates to Statsjord, where drilling of new wells to offset natural decline was delayed. We sold 33,000 barrels per day, which is a total overlift of 117,000 barrels. Market prices for both gas and crude decreased significantly during the quarter. The average realized liquids price was down 13% and ended at $63.1, and the average realized gas price was $71.4.

Birte Norheim
CFO | OKEA ASA

The underlying realized gas price was down 23% but was partly offset by a hedging gain on gas equivalent to $5.6 per barrel. This is included in the realized gas price. This resulted in total petroleum revenue of $196 million. The graph to the left illustrates our crude liftings over the last five quarters, as well as the average observable market price. The graph to the right outlines the difference between the average market price of Brent for the quarter of $67.9 compared to the average realized liquids price for OKEA. Positive quality and price adjustments brought the realized crude price to $68.4, which is $0.50 above the market. 14% of total volume sold were NGLs. This is equivalent to 20% of the liquids volumes. As NGLs trade at a discount to crude, it reduces the average liquids price to $63.1.

Birte Norheim
CFO | OKEA ASA

Here we illustrate the volumes of gas sold over the last five quarters and the observable average market price in the same period. Following the peak in the first quarter, prices have come down but remain historically strong. Over to the profit and loss statement. We deliver operating income of $206 million, consisting of the petroleum revenue of $196 million and other operating income of $10 million. Other operating income mainly relates to net tariff income at Jøa and Statsjord of $5 million and a change in fair value of contingent considerations of $3 million. The change in contingent consideration was due to lower forward prices. Production expenses amounted to $74 million or $23.5 per barrel. The high cost per barrel was mainly due to maintenance activities on several assets, as well as the lower volumes.

Birte Norheim
CFO | OKEA ASA

As mentioned, impairment of technical goodwill amounted to $32 million and was mainly due to the lower forward prices. Exploration expenses and SG&A of $27 million comprise exploration expense of $21 million, of which $8 million relate to the dry well at Prince, and $10 million relate to seismic purchases. SG&A amounted to $6 million. Net financial expense amounted to $3 million and comprised $1 million in net expense interest and $7 million in expense cost tied to the refinancing. This was partly offset by a net currency gain of $9 million following a strengthening of Norwegian kroner against the U.S. dollars by about 4% during the quarter. Tax expense amounted to $26 million, which brings the net loss to $21 million. Moving on to the balance sheets, goodwill amounted to $114 million and comprised $98 million in technical remaining goodwill and $16 million in ordinary goodwill.

Birte Norheim
CFO | OKEA ASA

Cash and cash equivalents amounted to $423 million. In addition to the cash balance, $41 million in excess liquidity has been placed in money market funds, which are classified as other assets. We issued a new bond loan in June with a nominal value of $175 million. Due to settlement of the $125 million OKEA 04 bond in early July, interest-bearing bond loans at balance sheet date amounted to $422 million and comprised all three bond loans. Both cash and bond debt on the balance sheet as per 30th of June is therefore artificially high, but with a net zero effect. Income tax payable of $98 million represents tax accrued for the first half of the year, partly offset by $5 million in tax refund for 2024, which is expected repaid at the end of the year.

Birte Norheim
CFO | OKEA ASA

Asset retirement obligations of $935 million are partly offset by asset retirement receivables of $445 million from Shell, Equinor, and Harbor Energy. We issued a new bond loan in June, which is our sixth bond issue. OKEA 06 is a senior secured $175 million facility with four-year maturity and a fixed coupon of 9.18%. This interest is payable semi-annually. The proceeds were used for calling the OKEA 04 bond and for general corporate purposes. OKEA 06 has the same general terms as OKEA 05, with the exception of the distribution clause tied to net profit after tax. In OKEA 06, the definition has been modified to exclude the effect of technical goodwill impairments. In relation to the refinancing process, we also increased the revolving credit facility to $45 million. The revolver still remains fully undrawn.

Birte Norheim
CFO | OKEA ASA

Overall, the refinancing provides for a strengthened and longer-dated capital base with no bond maturities until mid-2028. Cash generated from operations was $115 million. Taxes paid of $108 million include the two last tax installments for 2024. Issue of the new bond loan resulted in net proceeds of $170 million. $80 million was used for investing in the Drøgen electrification project, the Bestla development project, and production drilling on Statsjord and Brage. This brings the total cash to $464 million. During the quarter, we placed another $15 million in money market funds, bringing the total balance there to $41 million and the cash balance to $423 million. If we adjust for the settlement of the OKEA 04 bond, which as mentioned was paid in early July, it brings the total cash to $337 million and the cash balance to $296 million. Finally, I will provide an update on our guidance.

Birte Norheim
CFO | OKEA ASA

With a strong first half with production on the higher end of our expectations, we are tightening the spread towards the upper range and update our guidance for 2025 from 28,000-32,000 barrels per day to 30,000-32,000. As Svein mentioned, as a result of the newly sanctioned production wells, we increase our 2026 production guidance by 5,000 barrels per day from 26,000-30,000 barrels per day to 31,000-35,000. In relation to the newly sanctioned wells, we also increase the CapEx guidance for 2025 by $30 million-$40 million-$350 million-$380 million. CapEx guidance for 2026 remains unchanged at $300 million-$360 million. Just to end, a couple of other elements that are worth highlighting. As mentioned, the OKEA 04 bond was repaid in early July after the balance sheet date for this second quarter reporting.

Birte Norheim
CFO | OKEA ASA

This results in a somewhat grossed-up balance sheet with respect to cash and interest-bearing debt. As you may be aware, with effect from the tax year 2025, tax payment intervals have changed. From the tax bill being split into six installments per year, petroleum companies will now pay 10 installments per year. The overall structure remains the same, where half of the payments are payable in the second half of the income year and the remainder in the first half of the following year. For OKEA, we have estimated that each of the five tax installments payable in the second half of 2025 will amount to between $5 million and $6 million. In line with previous communication, we currently do not have an announced dividend planned. This is due to a relatively large investment program, particularly in 2025 and 2026.

Birte Norheim
CFO | OKEA ASA

The Board intends to revert with a dividend plan when it considers to be in a position to distribute. This will, amongst other things, depend on the macro environment. That's all from me for now, and I'll give the word back to you, Svein, for some closing remarks. Thank you.

Svein Liknes
CEO | OKEA ASA

Thank you, Birte. As a summary then for the quarter, before we go into Q&A, we've seen strong production performance on our assets. We have produced in the high end of our guiding, which means that we are narrowing in our guiding as well in the upper end. We have done successful refinancing of the company in this quarter. We are sanctioning new wells that will add to our portfolio. As has also been mentioned, add so much that we are increasing the guiding by 5,000 barrels for 2026. We still have an ambition to drill up to four exploration wells per year, but that always depends on having the right targets, which is attractive enough to actually invest in. We are building our portfolio continuously, and we are still looking for investment opportunities to grow the company further.

Svein Liknes
CEO | OKEA ASA

With that, we will go into the Q&A session, and there should, as I said earlier, be a link on our homepage, and I hope as many as possible will attend and ask questions that we will answer thereafter. Thank you very much.

Operator

Thank you. We will now start the Q&A session. If you wish to ask a question, please press five star on your telephone keypad. To withdraw your question, you may do so by pressing five star again. There will be a brief pause while questions are being registered. As there appears to be no questions on the conference call, I'll hand it back to the speakers for any written questions.

Q&A

Moderator

OK. First question from Joon Agelan. Is the start of dividends getting closer now that liquidity for 2025 and 2026 has been secured after the announcement of the new bond?

Birte Norheim
CFO | OKEA ASA

Thank you for the question, Joon. The purpose of the bond issue was to refinance OKEA 04 and to increase the liquidity buffer into a period of higher organic investments. Through this exercise, we provided added flexibility and also extended the maturities of our debt. As of now, we have no other updates than that the board will revert with a dividend plan when it considers to be in a position to distribute.

Moderator

OK. Next question from Russell Siewanka. Arkenstone, one of your JV partners, has guided the restart in Q4 2025. Does OKEA agree that this is the targeted redrill and comfortable with drilling safety risks?

Svein Liknes
CEO | OKEA ASA

Thank you for that question. I noticed that our assessment is that it's not realistic for us to do the Arkenstone spud again in Q4 2025. That is something which is being continuously assessed in the license, obviously. It could be updated, but we believe it will be pushed further out. I guess that also links to the second question that you have here, the drilling safety. That is the reason why we also believe re-engineering of the well needs to take place. That's why we also believe it will be drilled at a later stage. Obviously, we will not drill that well until all the JV partners are comfortable with the drilling safety risks.

Moderator

All right. Another question from Russell Siewanka again. Mistral and Jøa-Når. What is the development plan and timing for Mistral? With Jøa-Når, what is the status of that project? Is it still going ahead? There are several other discoveries in addition to Jøa-Når. Are there any complications with different JVs or agreements?

Svein Liknes
CEO | OKEA ASA

Yeah, good questions. When it comes to Mistral, the license there is working to develop that as soon as possible. From the operator Equinor, it has also been defined as a fast track development project, which most likely will then be linked towards the Lindholm development. When it comes to Jøa-Når, we have now decided to take a DG2 in December this year on what to do further on the Jøa-Når. That is linked to the last questions where you say there are several discoveries in the area. I do not see that as complications. I see that more as opportunities because then you can have a coordinated development of all these discoveries in the area. That is something we are assessing at the same time. The next decision gate for the Jøa-Når and the area development there is to have a decision gate in December this year.

Moderator

OK, thank you. Another question from Joon Agelan. Does the bond that expires in 2028 have the same covenants as the 2029 in regards to technical goodwill?

Birte Norheim
CFO | OKEA ASA

Thanks again, Joon. As we also stated in the presentation, the general terms are the same with the exception of the net profit after tax definition under the distribution clause, which in the new bond explicitly excludes the effect of technical goodwill. Bear in mind, for as long as the OKEA 05 bond or the '29 bond is outstanding, the technical goodwill will not be excluded from the dividend capacity, as that will be the least common multiple of the two bonds.

Moderator

Thank you. There is another question from David Mjøtsæ. In terms of looking at investment opportunities, OKEA sold EMA interest as it was non-material. Will additions require operatorship or a large equity stake? What other asset characteristics are you looking for given the current intensive CapEx phase?

Svein Liknes
CEO | OKEA ASA

Yeah, the M&A market and what we are looking at there obviously is quite a big picture. When we did the Wintershall DEA transaction, that was a perfect portfolio, I would say, because then you take over an aging asset that you actually operate. We have demonstrated that we can turn it around. In addition, you are also including partner-operated barrels in the same transaction. I would say that is kind of the ideal transaction. We are trying not to be too screened out too much. We are very open to a lot of opportunities. Having demonstrated now twice that we are able to turn assets around, which has been in a late life, and put them in mid-life again and extend the lifetime, I think operated assets will always be of a greater interest.

Moderator

Thank you, Svein. I think that concludes the written questions unless there are any final ones. No one on the line, so.

Birte Norheim
CFO | OKEA ASA

That appears to conclude the call. We wish you a good summer.

Svein Liknes
CEO | OKEA ASA

Thank you very much. Have a good summer.