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OKEA

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QUARTR

MODULAR FINANCE

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Prepared Remarks

Svein Liknes
CEO | OKEA

Good morning, and welcome to the Q4 presentation for 2023 for OKEA. My name is Svein Liknes, I'm the CEO of OKEA, and with me today I also have Birte, who will take you through the financial section afterwards. But I will give the introduction of the quarter before she steps in. There will be a Q&A session after the presentation, and there is a link on our webpage where you can and also phone numbers, where you can post the questions. So I hope as many of you are available afterwards to ask questions, so we can elaborate more on some of the items we go through in the presentation. Q4 in 2023 was a very significant quarter for OKEA.

Svein Liknes
CEO | OKEA

It has been very much dominated by the Equinor transaction that was completed at the tail end of last year in between Christmas and New Year. So we will spend some time in this presentation also talking about the Equinor transaction. But Q4 2023 was also much more for OKEA. It was a record-breaking year or a quarter when it comes to production, both efficiency, but also for the volumes we actually produced during the quarter. So in addition to covering the Equinor transaction, we also want to cover what we actually have achieved operationally through OKEA, and also what is our main focus going forward. So from the operations, we had a record high production of above 30,000 bbl of oil equivalent per day from our assets. That's an increase of 27% compared to Q3.

Svein Liknes
CEO | OKEA

We did have a backloaded production profile, but the last quarter or Q4 really outperformed what we had expected in the beginning, so we also went above the latest guidance we had for 2023. In addition to these numbers, Equinor produced, sorry, 10,900 bbl of oil equivalent per day, which is outside of these numbers, but will also be added through the production for 2023. The increase in production on our assets was mainly driven by Hasselmus at Draugen, that was started on the first of October last year, which was early in the quarter and also below budget. We have also seen very good performance of new wells on Brage, which really has outperformed the expectations. And we have seen also successful well recompletions on Yme, which has all contributed to the strong performance of Q4.

Svein Liknes
CEO | OKEA

We've also seen stable production, both on Yme, Ivar Aasen, and Nova, which is also important part of the assets for OKEA. For the portfolio point of view, the Statfjord transaction was completed on the 29th of December, and I will go back to that transaction in a bit more detail a bit later on. I will move on to mention that the PDO for the electrification of Draugen was approved by the authorities late in Q4, which enables Draugen and also the neighboring asset, Njord, to be electrified from 2027, which will reduce the CO2 emissions from Draugen in 2027 by 95%. Hasselmus also came on stream, that I just mentioned, in October, which was ahead of schedule and below cost.

Svein Liknes
CEO | OKEA

We had three new licenses awarded through the APA 2023, around the hubs where we already operate or, or at least produce. So that is just in line with the growth strategy we have around our assets that we already have. On the financial, we will again talk about the impairment, and Birte will also go through that in more detail in the financial section, but I would like to point out the strong EBITDA of NOK 1,661 million, and also the strong cash flow during the quarter from our operating activities of NOK 1,720 million. The key figures for the quarter. As you can see here on the serious incidents frequency, that is quite stable.

Svein Liknes
CEO | OKEA

We had one serious incident during the quarter out on Brage, which now has been investigated, and the injured party is back at work, but we have done investigation of it, and we are implementing mitigating action to prevent reoccurrence, and also sharing the learning with the rest of the industry. The CO2 emissions is also quite stable at 21, and as you can see, production has had a significant step up during the quarter, so we've had above 30,000 bbl of oil per day. Production expense is slightly up compared to the previous quarter, which is mainly due to increased maintenance during the quarter, and also we had to change a turbine on Brage. So that was the main drivers, and also some inventory and storage adjustments that was done during the quarter.

Svein Liknes
CEO | OKEA

We've seen net cash flow from operations of above 1.7 billion, which is a significant increase compared to the previous quarter, and that is mainly due to liftings in Q3 being paid for in Q4. And we did pay dividends also in Q4 last year of 104 million NOK. So on this slide then, the most important message here is to you know, illustrate that production comes from a variety of our assets now. So building the company, growing the company, and also making a more robust and diverse portfolio, is important for the reliability and sustainability of future deliveries from OKEA. So as you can see here, it's not just one single asset. The extra performance or the increased performance we have seen is actually distributed among all the assets that we actually have.

Svein Liknes
CEO | OKEA

We've seen very high production reliability and availability up in the 90s. Slightly down on Yme in the Q4, but that was mainly due to weather and also offloading the tank to the shuttle tankers, which was prevented due to weather during the Q4. So it's not related to any facility issues as such. Quick operational update on the assets that we have. We're starting with our operator one, the Draugen. We have an increase in production of 50%, which is driven by the Hasselmus tieback mainly, but also very high production efficiency. So which is quite impressive of an asset which had passed 30 years last year.

Svein Liknes
CEO | OKEA

We also had the PDO approved with the Power from Shore from the Ministry of Energy, which again, as I mentioned, will enable us to proceed with the project to electrify the operation for Draugen and meet our commitment towards the CO2 reduction as part of the industry... Also on Brage, our operated assets, very good production increase of 41%. This is infill drilling, finding new targets, drilling them effectively, putting them into production, and that's exactly what we plan to do, and that is what we actually also have been able to deliver on Brage, that we have seen the results of in Q4 in particular, but also 2023 in general.

Svein Liknes
CEO | OKEA

On the Gjøa, we have replaced the reserves there by 83% of everything that was produced, so that is also a quite strong performance on Gjøa, and we are still working on the Hamlet discovery to see options to take that back to Gjøa for the future. On Ivar Aasen, a very stable production during the quarter, and we are preparing for the increased oil recovery campaign in 2026, and we have converted one injector to production, or have converted two injector, I mean, well, to support the production until we get into the IOR campaign in 2026 to maintain the production levels on Ivar Aasen. On Yme, again, stable production on Yme as well. We have successfully recompleted a production well, and we are drilling more wells now in 2024.

Svein Liknes
CEO | OKEA

As I said, very good facility performance on Yme, has been a bit hampered during Q4 due to weather and also the offloading situation on the field, which is something that is out of our control, basically. And Nova, again, very stable quarter for Nova as well, and we have secured a rig to actually drill one more water injection during this year to maintain the support and pressure support, to maintain operations and production from this field as well. So then, one slide on the Statfjord transaction. We have communicated quite a bit on the Statfjord transaction already, in the market and also, you know, externally.

Svein Liknes
CEO | OKEA

But you know, the main basis for the reduction and also the reduction in value is because the RMB revised management budget figures for 2024 indicated a 10-15 reduction in volume estimates. That reduction is due to lack of production efficiency and also lack of well performance. The reason why it has such a big value impact is because it hits early production, primarily in 2024, 2025, and 2026. So the value, therefore, is more significant compared to if it had happened out in 2030 and beyond.

Svein Liknes
CEO | OKEA

So we decided to postpone the closing in November, and that was because the numbers from the RMB figures came in, in October, so we had to analyze and also discuss with our board what is the impact by these updated data and also these updated models that we had actually seen. So that's why we postponed it, and therefore it automatically rolled into December, and then we decided to close the deal on the 29th of December. But again, the adverse changes in the value has resulted in goodwill impairment of above NOK 1.3 billion, that Birte will go through in a bit more detail afterwards, whereof 75% of the reductions is mainly due to the volumes, and the remaining is due to the cost increase. So that is kind of the facts behind what we have seen.

Svein Liknes
CEO | OKEA

So the focus now after closing the transaction for OKEA is to engage ourselves into an improvement program. How can we reestablish Statfjord to be the value-generating asset, as it is supposed to be? So again, it's production efficiency, it's maturing new well targets, drill the targets, put them on production. Basically, the same thing as we are doing and have been demonstrating to be able to do on the Brage field. So we have established already now an internal team within OKEA that will actually work very integrated with the Equinor FLX team to increase the performance of Equinor and of the Statfjord field, together with FLX and Equinor. And I think we have demonstrated a capacity and also competency to actually be a valuable partner in Statfjord, to actually drive this performance and these improvements, demonstrated by our own operated assets.

Svein Liknes
CEO | OKEA

On Draugen, we took over Draugen back in 2018, have extended the lifetime of Draugen from 2027 to 2040. We are electrifying Draugen in 2027. We have increased during the last year or the last quarter, we increased production by 50% on this asset due to new tiebacks and also extremely high production efficiency. So that is something and learning that we want to also contribute with when we engage ourselves more strongly now into the Statfjord organization. Also, on the Brage field, when we took over the Brage field as operator, it produced gross around 7,000 bbl-8,000 bbl, or around 7,000 bbl of oil equivalent per day.

Svein Liknes
CEO | OKEA

Drilling new wells, finding new targets, and also putting them upstream, supported by an extremely high production efficiency to ensure that this is sustainable, is something we have demonstrated on Brage, which has gone then from 6,000, around 6,000, to now 23,000 bbl of oil equivalent per day, really outperforming the expectations that were set previously. So these are very good examples of how we actually can turn these assets, mid to late life assets around, because both of these assets is also beyond 30 years old. So this is possible, but you need to do it in a very vigilant way, and that's our contribution into the Statfjord asset for the future.

Svein Liknes
CEO | OKEA

My last slide before I hand over to the financial section and Birte, is to mention the net reserves replacement for the company, which has been up by 38% since last year, since 2022. And if you look back to the end of year 2020, we actually have doubled the 2P reserves in the company. Very much driven by what we have done, obviously, in acquisitions. And here you can also see the importance and the size of the Statfjord transaction, which is quite important both for our 2P volumes, which is 32 million, and also 2C, 13 million.

Svein Liknes
CEO | OKEA

And we also did the Brasse transaction, which has also added 2C volumes. The reserve revisions of minus 4.6 is mainly due to corrections of disappointing results from the C-8 well on Yme, and the reserve maturation is pretty much evenly distributed between Gjøa, Brage, and Draugen. So this is my final slide, and I'll get back with a summary afterwards, but with this, I will hand over to the financial section that Birte will take you through.

Birte Norheim
CFO | OKEA

Thank you, Svein. The fourth quarter was characterized by strong operational performance, particularly from our operated assets. In fact, we deliver a record high production in excess of 30,000 bbl per day, which is an increase of 27% compared to previous quarter. And that's without accounting for the nearly 11,000 bbl from Statfjord in the quarter. The quarter was also characterized by closing of the Statfjord transaction. Following the disappointing update in volume and production estimates at the end of the year, we recognize a goodwill impairment of nearly NOK 1.4 billion in the quarter. As there is no tax shield on goodwill impairments, this drives the result for the quarter to a net loss after tax of NOK 1.3 billion, which also impacts the dividend capacity for 2024.

Birte Norheim
CFO | OKEA

I will revert to further details on these matters and will start with our production and sales as usual. We produced 30.1 thousand barrels of oil equivalents per day in the Q4. Production at Draugen increased by 50%, mainly due to an efficient start-up of the Hasselmus tieback and high production availability. Production at Brage increased by 41% due to the continued good performance from the Talisker East well and two new wells brought on stream in the quarter. In addition, production from Yme increased following a successful recompletion of a production well, and production at Gjøa, Ivar Aasen, and Nova were stable throughout the quarter. We sold 25.6 thousand barrels of oil equivalents per day. Despite the increased production, this is a decrease of more than 1,000 bbl compared to volume sold in the previous quarter.

Birte Norheim
CFO | OKEA

This is mainly due to underlift positions at Ivar Aasen and Brage, which have been lifted now in January. Market prices for gas have fluctuated somewhat during the quarter. After a brief hike in October, where the per barrel equivalent price was around $100, prices gradually decreased to around $60 at the end of the quarter. Gain on fixed price contracts increased the realized prices by $5.9 per barrel compared to the market price in the quarter. The resulting average realized price for natural gas amounted to $74.6 per barrel of oil equivalent. Oil prices have also fluctuated during the quarter, and starting just above $95 per barrel and steadily moving downwards to the $70s before ending the quarter just below $80 per barrel. The average realized price for liquids amounted to $83.4.

Birte Norheim
CFO | OKEA

The combination of volumes and realized prices resulted in a petroleum revenue of NOK 2.037 billion for the quarter. The graph to the left illustrates the OKEA allocated liftings of crude over the last five quarters, marked by the light blue bars, as well as the market price, marked by the yellow line. OKEA had nine cargoes of crude lifted in the fourth quarter, with the majority of the volumes lifted in October. We also illustrate the completed and planned cargoes for the first quarter, marked in dark blue and gray, respectively. The liftings from Brage and Ivar Aasen have already taken place in January, together with liftings also from Yme and Statfjord. A majority of the remaining liftings for the Q1 are expected in February.

Birte Norheim
CFO | OKEA

The graph to the right outlines the difference between the average market price of Brent for the quarter of $84.3 per barrel, compared to the average realized liquids price for OKEA of $83.4 per barrel. The differential is relatively small, as the pricing differential for NGL is offset by non-price adjustments in the quarter. Following a period of extreme volatility in gas prices around year-end 2022, prices have gradually come back to the same level as before the Ukraine war. On this graph, we illustrate the average volumes of gas sold per month since October last year and the observable average market prices for NBP in the same period. The increase in the volumes in the Q4 was due to production from Hasselmus and higher gas production at Brage. Let's move on to the profit and loss statement.

Birte Norheim
CFO | OKEA

We deliver an operating income of NOK 2,118 million, consisting of the petroleum revenue of NOK 2,037 million and other operating income of NOK 81 million. Other operating income was mainly a result of decreased forward prices for crude, resulting in an unrealized income of NOK 26 million relating to the estimated value of the contingent consideration to Wintershall Dea. It also resulted from tariff income at Gjøa of NOK 33 million and a net gain on financial hedging arrangements of NOK 12 million. Production expenses amounted to NOK 606 million or NOK 206 per barrel. The higher production expense follows from higher level of activity, higher level of maintenance activities, and NOK 23 million in cost of obsolete stock being recognized in the quarter.

Birte Norheim
CFO | OKEA

The increased production volumes in the quarter offsets the effect of the increase in total cost on the production cost per unit. We recognize an impairment of nearly NOK 1.9 billion in the quarter. As I mentioned, NOK 1.4 billion relates to goodwill from the Statfjord transaction, mainly as a result of reduced production and reserve estimates. NOK 513 million relate to the Yme asset and was mainly a result of reduced forward prices for oil during the quarter. Impairment of goodwill is not tax-deductible and cannot be reversed in later periods. The impairment on the fixed asset, Yme, is both tax-deductible and can be reversed. This results in an after-tax effect on the Yme impairment of NOK 113 million kroner.

Birte Norheim
CFO | OKEA

We also like, again, to underline that as both Statfjord and Yme now are carried at fair value, any adverse changes in macro conditions and/or asset performance will result in further impairments going forward. In the case of Yme, any potential positive adjustments will result in reversal of previous impairments. Exploration and operating expense amounted to NOK 58 million kroner and comprise SG&A cost of NOK 37 million and exploration expense of NOK 22 million. The net financial expense amounted to NOK 78 million and mainly relates to a net currency loss of NOK 61 million, following the Norwegian kroner weakening somewhat towards the U.S. dollars during the quarter. The interest expense on the OKEA-04 bond and the Yme bareboat charter of NOK 35 million was partly offset by the interest income of NOK 30 million.

Birte Norheim
CFO | OKEA

Tax expense amounted to NOK 390 million, and as mentioned, there is no tax deduction on goodwill, and the resulting net loss amounted to NOK 1.3 billion. The balance sheet. On the balance sheet in this quarter, you will notice several significant movements that follows from the purchase price allocation of Statfjord. I will do my best to outline the key ones. We recognized just above NOK 1 billion of technical goodwill from the transaction, bringing total goodwill to NOK 2.3 billion. The technical goodwill arises as an offset to deferred tax liabilities recognized in business combinations after IFRS 3. Technical goodwill will be impaired over the lifetime of the asset, in line with the remaining recoverable amount from the assets is gradually reducing below the book value as volumes are being produced.

Birte Norheim
CFO | OKEA

Oil and gas properties from the Statfjord transaction amounted to just above NOK 1.6 billion, which brings the total oil and gas properties to NOK 7.2 billion. Cash and cash equivalents ended at NOK 2.3 billion, and interest-bearing bond loans was NOK 1.2 billion and comprised the OKEA-04 bond of $125 million. Other interest-bearing liabilities of NOK 477 million relates to OKEA's share of the future obligations under the bareboat charter of the Inspirer rig at the Yme field. Trade and other payables increased from NOK 1.8 billion to NOK 3 billion, which mainly relates to NOK 390 million in working capital from the purchase price allocation and NOK 610 million in deferred consideration for Statfjord. The deferred consideration was paid in January.

Birte Norheim
CFO | OKEA

The significant reduction in deferred tax liability from NOK 2.4 billion to NOK 888 million relates to recognition of a deferred tax asset from the Statfjord transaction of NOK 1.2 billion, as well as the tax effect of the Yme impairment in the quarter of NOK 400 million. Tax payable was NOK 2.1 billion and relates to remaining tax payable for 2023. Asset retirement obligations ended at NOK 9.5 billion, where, the increase of NOK 4 billion relates to the Statfjord removal liabilities for platform A, B, and C. The asset retirement liability is partly offset by asset retirement receivables from Shell, Wintershall, and Equinor of NOK 4.2 billion.

Birte Norheim
CFO | OKEA

Cash generated from operations was nearly NOK 2.2 billion in the quarter, and the strong cash generation was a result of cash for two Draugen liftings received in the quarter, combined with high production in the quarter, including from assets on payment quantity agreements. Taxes paid of NOK 477 million relates to two installments of tax paid for 2023, partly offset by a tax refund for 2022 of NOK 77 million. Cash used in investment activities amounted to NOK 1.5 billion, of which NOK 530 million relates to investments in Power from Shore, modification work at Draugen, and Brage drilling. Nine hundred and twenty-one million was used for business combinations relating to the consideration paid for Statfjord at closing.

Birte Norheim
CFO | OKEA

Interest paid of NOK 11 million mainly relates to interest on the Yme bareboat charter, and we paid 1 NOK per share in dividend in December, which amounts to a total of NOK 104 million and brings the cash to NOK 2.3 billion. Looking at the cash flow for the year, steady performance and high sold volumes have resulted in cash generation from operating activities of as much as NOK 6.4 billion for the year. Taxes paid of NOK 1.3 billion relates to the three last installments for 2022, and the first three installments for 2023. And again, partly offset by the refund for 2022 of NOK 77 million, which was received in the Q4.

Birte Norheim
CFO | OKEA

Cash use in investment activities was just shy of NOK 2 billion, and mainly relates to investments in Hasselmus, Power from Shore, Draugen modifications, and Brage drilling. Cash paid in business combinations of NOK 1.2 billion mainly relates to payments on the Statfjord transaction. In total, we generate cash equivalent to about 17 NOK per share during the year, even after accounting for an equivalent use of 12 NOK per share for business combinations, mainly on Statfjord. Dividend of 4 NOK per share amounts to total dividend payments of NOK 416 million for the year. So we will end the financial part of the presentation with some forward-looking.

Birte Norheim
CFO | OKEA

First, look back on our guidance in 2023, which ended for the volume and of produced volumes, ended at 24.6 thousand barrels of oil equivalent per day, which exceeded the guidance of 23,000 bbl-24,000 bbl. Statfjord production of 10,800 for the year, was slightly below the latest guidance of 11,000 bbl-12,000 bbl. Production guidance for 2024 is set to between 35,000 bbl and 40,000 bbl of oil equivalent per day, including production from Statfjord. The guidance range represents an increase of 40%-60% compared to 2023 production. CapEx for 2023 ended at NOK 1.911 billion, and slightly lower than the guidance.

Birte Norheim
CFO | OKEA

CapEx guidance for 2024 is set to between NOK 2.8 billion and NOK 3.3 billion, and comprise investments in drilling of new wells and lifetime extension program at Statfjord, Draugen Power from Shore, Brage infill drilling, and other investments. Our CapEx guidance does not include capitalized interest, exploration CapEx, and projects that are not yet sanctioned. In line with previous communication and following the impairment of Statfjord and its impact to the financial statements, we currently do not have dividend capacity under the OKEA-04 bond terms. No dividend plan is therefore proposed for distribution in 2024, and the board will revert with information on future dividend payments in due time. That's all from me for now, and I'll give the word back to Svein for some closing remarks. Thank you.

Svein Liknes
CEO | OKEA

Thank you, Birte. Before we go to the Q&A session, let me try to sum up then the Q4. We did have a record high production in OKEA, mainly due to solid performance from our operated assets, but also significant and stable contribution from our partner-operated assets. We did complete the Statfjord acquisition in December, which added more volume and more production to OKEA, and we are now implementing mitigating actions in that asset to actually drive performance up in Statfjord, together with the operator, to ensure that we realize the value which sits underneath, Statfjord.

Svein Liknes
CEO | OKEA

The Hasselmus project was completed on the first day of the Q4 as planned, but even earlier than planned, actually, and below the cost, which was budgeted for that project, which is then adding 4,800 bbl of oil equivalent of pure gas to Draugen, enabling Draugen again to be a gas and NGL exporter. We did get an approval for the PDO for the Draugen Power from Shore, which will then enable CO2 reductions of 95% from Draugen in 2027, and we did have strong cash flow from our operating activities during the quarter. So again, a very significant quarter for OKEA.

Svein Liknes
CEO | OKEA

We've increased our production into 2024, and we are really demonstrating that we can operate and also increase efficiency of mid to late life assets, and that's the strategy we want to continue to perform on as well. With that, I will thank you very much for your attention, and I hope as many as possible can join us for the Q&A session just after this. Thank you very much.

Q&A

Operator

Start the question and answer session. If you do wish to ask questions, please press five star on your telephone keypad. If you wish to withdraw it, you may do so by pressing five star again. There will be a brief pause while questions are being registered. The first question will be from the line of Roald Hartvigsen from Clarksons Securities. Please go ahead. Your line will be unmuted.

Roald Hartvigsen
Vice President Equity Research | Clarksons Securities

Thanks for taking my, my questions. I guess we first have to touch up on the structural impairment. Are you in any way reassessing your approach to acquisition of late-life assets in light of the recent structural impairment? And furthermore, what changes or improvement are being implemented in the due diligence process to ensure a more accurate valuation and integration of acquired assets, and how do you plan to avoid similar challenges in future transactions? Thanks.

Svein Liknes
CEO | OKEA

Well, obviously, these transactions has their own inherent risks. We believe that our due diligence processes obviously has been robust in the transactions we have done in the past, because, you know, this company have done around 14 transactions in the past, where 4 of them has been significant, creating the company we have today. So, but what we are doing, though, and will do, obviously, is to ensure that we have a proper after-action review of all our processes, when it comes to due diligence and review of, whichever target we are looking at, based on the experience from the Statfjord transaction. When it comes to targets, however, we still remain a firm believer into the mid to late life assets, and that is where we actually have our competence.

Svein Liknes
CEO | OKEA

But definitely for future DG processes, we have to review now and see what could have been done, done differently, if anything, so we can take that into the future processes.

Roald Hartvigsen
Vice President Equity Research | Clarksons Securities

Thanks. And, and building on that, I think some investors may argue that you are inherently at an information disadvantage when acquiring oil, old oil fields from existing operators, which may have operated said assets for 20, 30, maybe even 40 years or more. Do you agree that there can be an information asymmetry that can arise in these types of transactions? And if yes, do you account for information asymmetry when setting a transaction price?

Svein Liknes
CEO | OKEA

We do, we do obviously have ranges, because the seller obviously always knows more about the asset, but there's no need to kind of think that the seller is not giving the right data. But it's our job and it's our risk, basically, to assess those data and how to treat it. But we are definitely using risk matrices, so we are down-valuing to get the uncertainty range. So there will always be an imbalance there. And those risks that you have in taking over, being mid- to late-life assets, you know, the production profiles and also subsurface risk is very important there, compared to greenfield project, which has significant risks associated with supplier and also delays, et cetera, that we do not see in these projects.

Svein Liknes
CEO | OKEA

I wouldn't call it a disadvantage, but the way it was skewed towards the seller, who actually knows most.

Roald Hartvigsen
Vice President Equity Research | Clarksons Securities

Thanks. And then my last question pertains to alternative use of capital. So in the past, you have been very clear on that, like, every, every barrel you, you buy should be value accretive, and create shareholder value. How do you weigh the decision between pursuing acquisitions and other alternatives, like buying back your own shares, for instance, particularly at times when market values or shares that discount to underlying asset values? I guess what I'm asking is, would it not be cheaper and less risky buying your own barrels on a discounted buyback than pursuing acquisitions?

Birte Norheim
CFO | OKEA

Yeah, I can comment on that as well, and, it's a fair question. However, buying back shares falls underneath the distribution clause in the OKEA-04 bond. So given that we do not have a dividend capacity at the moment, we are also restricted from buying back own shares.

Roald Hartvigsen
Vice President Equity Research | Clarksons Securities

That's it for me.

Operator

Thank you, Roald. The next question will be from the line of Teodor Nilsen from SpareBank 1 Markets. You are now being unmutedo

Teodor Nilsen
Equity Research Analyst | SpareBank 1 Markets

Thank you for taking my questions. Good morning, Anca and Svein. Thank you for the update. A few questions for me. First, in light of the Statfjord deal, should we expect any more M&A to be executed during 2024, or will you now focus on integrating that asset and maybe wait until 2025 to look on more deals? Second question is on CapEx. Could you give some more details on the CapEx per field based on the overall production for the CapEx guidance for the year? And also on the production guidance for 2024, how much does Statfjord contribute to the range you provided? And final question, that is on dividends. Of course, I acknowledge that there won't be any dividends for 2024.

Teodor Nilsen
Equity Research Analyst | SpareBank 1 Markets

However, assuming that there won't be any new major impairments during the year, and by that you're in position to pay dividends for 2025, should we expect some kind of catch-up since you didn't pay dividends in 2024, or will you then resume the same level or the same pace that you had in 2023? Thanks.

Svein Liknes
CEO | OKEA

Yeah, good morning to all. Thank you for your questions. I can do the two of them, and then I can pass over to Bit on the CapEx and maybe also on the dividend and the kind of capital allocation. But for the M&A part in 2024, we still have a strategy to grow this company, and want to grow this company, and within mid to late life assets. But then in the portfolio, like we did, for example, with Wintershall Dea, where we got the operatorship of a mid to late life asset, but also acquired 6% in Ivar Aasen, but also 6% in the newly developed Nova field. So continuing on these kind of portfolio transactions is important for us.

Svein Liknes
CEO | OKEA

We will, you know, review the processes and also if there are any available portfolios for sale on the Norwegian Continental Shelf, also in 2024. We still believe that good transactions, good projects, still can be financed, and we have the capacity to do that. But it's still important for us, obviously, to ensure that it fits into our strategy and what we actually think that we can deliver on when it comes to value creation, transactions. So that is still a yes. We are looking into processes that comes along in the market. When it comes to the production guidance and how much is from the Statfjord field, I don't have that breakdown in front of me, and I'm not sure if we are guiding on field by field.

Svein Liknes
CEO | OKEA

So the overall guidance that we have stipulated now, 35-40, is basically what we are sticking to. So, but obviously, Statfjord has been and will be a significant contributor to OKEA, so that's maybe also why we have this range here, because some of these barrels is part of delivering on the improvement plan that we have stipulated for Statfjord. So for the CapEx, maybe Birte can elaborate a little bit on that before she moves into capital allocation and dividends.

Birte Norheim
CFO | OKEA

Yes, I can do that, Theodore. So what I can say is about 40% of the CapEx is related to infill drilling. I can also say that about 25% is related to Power from Shore, and in total, about one-third of the total CapEx relates to Statfjord, including the infill drilling parts. So, hopefully that provided a bit more color. And with respect to the dividends in 2025, we will revert to that in due course. Obviously, the capital allocation principles that we have applied before remains, which is first and foremost, to retain a healthy balance sheet, and secondly, to balance growth with direct distributions to shareholders. But it's a bit preliminary at this stage and this early to provide more guidance on the dividends for 2025.

Teodor Nilsen
Equity Research Analyst | SpareBank 1 Markets

Okay, thank you.

Operator

Thank you, Theodore. As no one else has lined up for questions, I'll hand it back to the speakers for any written questions online.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you so much. This is Anca Head of IR here. I'll go through some of the questions that have been submitted by investors. Just to bear in mind that already some of them have been answered, so we will be also being mindful of that. So the first questions come from Gunnar from Hafrsfjord. His questions are, "If any transaction, what about funding, bond sales or swap of assets? Please elaborate." The second question is, "Is OKEA looking for a new transaction, M&A in the near term, anything on the table?" That's already been addressed by Svein. "Is it likely for OKEA to look into Vår Energi and to buy or swap assets in order to take over their participation in Statfjord?"

Birte Norheim
CFO | OKEA

Yes, thank you, Gunnar. I can respond to the first one. And obviously, that depends on the transaction. So, you know, we're continuously looking at what's the optimal capital framework of the company, depending on what assets we have in our portfolio and are targeting. And sale and swap of assets is also something we are always looking at as potential. So it, it really depends on, on the transaction at hand. Svein, do you want to do the M&A related?

Svein Liknes
CEO | OKEA

Yeah, I can do that. Vår obviously has announced that they are looking into divesting some of their portfolio, which I believe is a natural thing for them to do. And for us, being still on a growth trajectory and still being, you know, wanting to have more barrels, it's natural for us to also, you know, understand those portfolios. But we are not going into specifics, obviously, of what processes we are in and what kind of transactions we see likely. So, no comment to that.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you. Moving on to our next questions. Peter von der Wense submitted two questions. "What will be the dividend policy this year, 2024, versus coming years, 2025 and further?" This has been partly covered by Birte. And the second question he has is: "What is the reason for OKEA's extremely low PE versus direct competitors? Which info is leading to this value?"

Birte Norheim
CFO | OKEA

Yeah. So yeah, the dividend policy for 2024, as we have outlined in the report and, and also in previous communication, we have restrictions in the OKEA-04 bond, which is tied to the net profit after tax, which restricts us from dividend for at least, some time, given the, the net loss this quarter of NOK 1.3 billion. And 2025, I think you already responded on that to Teodor's question. And, as for the second question on the price earnings, you know, we typically don't, comment on the share price.

Birte Norheim
CFO | OKEA

I, I guess I can say that, you know, in general, we see that smaller, companies, particularly oil companies, they tend to have a bigger discount than the, the bigger ones. So I think growth is a synergy in itself with respect to getting efficient pricing. But I think this is more a question for the analysts rather than the company to respond to.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you, Birte. Moving on to the next question from Eirik Refstie, "Will you buy back the outstanding bonds so you can start shareholder return again?"

Birte Norheim
CFO | OKEA

Yes, yeah, OKEA, that was bonds, not shares. To buy back the outstanding bond, well, we would have to buy back the full bond, in order for us to be able to do that. And, you know, we just issued this in September of last year, so it's gonna be quite expensive. It's in its make whole period until at least March of 2025. So, no immediate plans to buy back the full bond.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you so much. Now we're moving on to questions submitted by Morten Agathon. With the fluctuation in realized prices for oil and gas from Q3 to Q4, can you comment on the company's pricing and hedging strategy, and how it is adapted to market volatility, uncertainties, and the path forward in 2024?

Birte Norheim
CFO | OKEA

Yeah.

Anca Jalba
VP Investor Relations and Communication | OKEA

I'll take it one by one. It's easier.

Birte Norheim
CFO | OKEA

One by one. Yeah. So yeah, we said last year that up towards the end of the closing of the Statfjord transaction, we had quite a conservative hedging strategy, i.e., hedging more than usual. We were also quite fortunate last year to lock in some of the gas sales on high forward sale prices. We have also realized a gain this quarter, equivalent to an increase in the gas prices of about $5.7-$5.9, actually, dollars per barrel equivalent. But the gas prices have come down quite significantly now, so there's less opportunities to lock in prices at higher levels than what we expect to see going forward.

Birte Norheim
CFO | OKEA

For oil and gas, we have targeted to secure the downsides, and partially also by giving away some of the upside above certain levels, in order to reduce the premiums. So this is something that we are continually doing, and we have also a chapter in the report that provides more data on our current hedging positions, which might be worth taking a look at as well.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you, Birte. The second question from Morten is, "Given the slight decrease in cash and cash equivalents, despite the significant investment in Statfjord, how does the company view its current financial position and liquidity in relation to its operational needs and forward investment plans?"

Birte Norheim
CFO | OKEA

Yeah, so our cash balance at the end of the quarter of NOK 2.3 billion, you know. We have the $60 million, which was paid also in January for the remaining payment for the Statfjord deal. But we have liquidity to fund our existing investment plans, but it depends on what happens on the M&A side and what happens on the organic growth side as well, whether we need new capital.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you. The third and fourth question from Morten, they've been answered by Svein and Birte. They refer to the partnerships and acquisitions in the pipeline going forward after transactions with Equinor, and the last question is on the CapEx guidance for the year to provide more details. So we'll move on to the next question from a private investor that states, "I know that you should not comment on the share price, but you- do you agree with the analyst that the share price is, the share price is too low, yes or no?"

Svein Liknes
CEO | OKEA

Yeah, that's a very good assumption. We do not speculate on our own share price, so, so we are not commenting on if it's high or low.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you, Svein. The next question comes from Elaine Lessie. There is quite significant quarter-on-quarter reduction in the deferred tax liabilities. Could you please elaborate on the dynamics?

Birte Norheim
CFO | OKEA

Yes, I believe I outlined some of that in the presentation. I think, you know, the deferred tax liabilities represents the difference between the accounting and the cash or tax calculation. And the key difference that we saw this quarter was related to the purchase price allocation from Statfjord, which reduced the deferred tax liabilities, and the biggest item that impacted that was the taking on of the removal obligations. In previous quarters, when there's been major changes to the deferred tax, it's typically related to impairments, which also impacts the deferred tax liabilities.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you. The next questions have been submitted from John Olaisen, ABG. The first one, on the Statfjord deal, did you not have the option to pull out of the deal, given the lower production and massive increase in CapEx required?

Svein Liknes
CEO | OKEA

Well, in the contract, there is no kind of justifiable reason to pull out of a contract. Once the deal is signed, then it is signed. But obviously, you can always challenge and also argue that you should not close, but obviously, that will then end up in a dispute between the parties. But there is no kind of obvious get out clause in the contract as such, for obvious reasons.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you. And the second question from John is, "In hindsight, what considerations did you do wrong about the Statfjord deal? What have you learned, and what will you do different going forward?"

Svein Liknes
CEO | OKEA

Well, I guess that is what I just mentioned. We will do an after-action review to look into more detail what we could have done differently. But as I also would like to emphasize, we use the same process, the same people, both internally, externally, when we did the Brage transaction, which has gone the completely opposite way, which is producing 23,000 bbl of oil per day now, compared to the 7,000 when we bought it. So, so, you know, but that is something we need to look into. What has actually happened on a Statfjord, and what actually kicks the production or the value as hard as it does, is that the production efficiency on the Statfjord field has not been obtained as was planned originally.

Svein Liknes
CEO | OKEA

The well targets that was drilled has not been drilled satisfactory, and they have not delivered the way that it should deliver. And there is a technical issue when it comes to the aquifer and actually how you manage to actually get more liberated gas out of the reservoirs, which I will not go into now, which is very closely interlinked to high production efficiency. And with the unplanned shutdowns we saw or experienced after we had signed the deal last year, both on Statfjord Charlie, but also on Alpha, then that prevented, FLX and Equinor to maintain that high production efficiency. So those are the main, main factors that we are, are looking into now, as well as we have developed our own, Statfjord group in OKEA now to, to support Statfjord, but also support FLX.

Svein Liknes
CEO | OKEA

With the experience we have from Draugen and from Brage, is to increase production efficiency, it is to increase the well targets and find new maturation targets and getting them into production, because that is the main root of the problems we have seen on the Statfjord asset. Once that is sorted, then the RMB numbers and also the reserves can be increased in the future for Statfjord as well.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you. The next question is coming from Paul Dahl. Have you seen any changes to the M&A market? How are dynamics developing?

Svein Liknes
CEO | OKEA

The M&A market is continuously changing, but I think some of the significant events that may affect the M&A market now is when some of the big transactions we have seen, where Harbour is coming in, taking Wintershall Dea, that could obviously initiate some divestments and also some cleanup in the portfolio, and also the Vår and Neptune merge or the buyout there, which obviously also have triggered, you know, some optimization. So the M&A market is in continuous development and changes. But we are continuously as well with our BD and M&A team in some of these process and reviewing processes to ensure that we are also participating in those processes which we find relevant in our strategy.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you, Svein. The next question comes from Eberhard Morgenstern. Sorry for mispronouncing the name. What are the exact terms in the OKEA-04 bond that prevent dividend payments in 2024? Thank you.

Birte Norheim
CFO | OKEA

Yeah, so it's the permitted distribution clause, and one of the terms there is tied to net profit after tax. The restriction is 50% of the previous four quarters of net profit after tax. Unless you're in a cash positive position, then you could pay 100% of the net profit after tax. So that is the key terms.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you, Birte. Next question comes from Kristian Falness, "Should we look at all your assets as core, or could we see that assets will be up for sale swap in 2024?"

Svein Liknes
CEO | OKEA

Yeah, well, obviously, OKEA now in 2024, we are a company which are guiding now on 35,000 bbl-40,000 bbl of oil per day. Just two years ago, when we launched this strategy, we produced 16,000 bbl of oil per day. So obviously, we've gone through a very strong growth phase of the company as well, building both diversity when it comes to number of assets, but also when it comes to, you know, both partner-operated, but also own operated. So just a couple of, you know, one year or two years ago, we didn't have so many trading chips to actually do.

Svein Liknes
CEO | OKEA

So that is also an important part of our growth strategy, that we actually are diversifying our portfolio, which could then end up in using also swap opportunities in assets both that we operate, but also in partner-operated assets. So that is more and more increasingly also part of our BD kind of focus. It's not just M&A, but it's also a divestment or swapping opportunity that will arise as we are growing.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you. We've had questions from David Mirzai, which have been answered. The next one comes from a private investor, "What competence does OKEA have that Equinor does not have?"

Svein Liknes
CEO | OKEA

Well, let's work with FLX now and also Equinor. Equinor obviously possesses a lot of competencies, so I'm not gonna say that OKEA sits with something that, Equinor does not have. But what OKEA actually sits with is what we also demonstrated in Q4, which has shown the immense improvements that we have seen, both on Draugen, but also seen on Brage, an asset that we took over a year and a half ago, which has increased, even in Q4 last year, the production by 41%. That is an asset which is above 30 years old. So I would say, instead of saying what Equinor does not have, I would say that the competencies that OKEA has is to identify opportunities to do things very focused, to focus on the value stream in our production streams.

Svein Liknes
CEO | OKEA

Also we have an excellent subsurface team, which is able to look for new opportunities and also to drill them out. I'm not gonna say that, you know, this is easy to do. It is very complicated, and Statfjord is a very complicated asset as well. But we strongly believe that these are competencies we can definitely share with Equinor and also use them on the Statfjord field, and that is also the signals we have received in return from Equinor, that these competencies are something that is also desired for us to share with them.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you, Svein. One last question in the chat here. Will OKEA invest in offshore wind or other low profitable projects, maybe low carbon or, maybe?

Svein Liknes
CEO | OKEA

Yeah, these kind of projects and these kind of investments is not part of the current OKEA strategy. Never is a word that you should use with great caution. But obviously, it's not part of the kind of value growth or value accretive strategy that OKEA has now. We want to focus on what we can do to create value for our shareholders, and that is to operate mid- to late-life assets and grow our own, so partner-operated portfolio.

Birte Norheim
CFO | OKEA

I guess we can add to that, Svein, that we could invest in these kind of projects if it is for supporting the operations on the assets, like, for example, the Power from Shore project at Draugen.

Svein Liknes
CEO | OKEA

Yeah, as an industry, us as an industry is obviously looking for CO2-reducing measures. One of these measures is to have alternative sources to power our platforms. We have just gotten an approval to actually power Draugen with power from shore, but in the future, which has also been shown on Hywind Tampen, maybe that power needs to come from floating wind, for example. But then it will be OKEA buying that power, most likely from other suppliers, which is able to make value chain of floating wind, and then we will buy it on a power basis. So we could obviously take part in that.

Anca Jalba
VP Investor Relations and Communication | OKEA

Thank you. This concludes the questions in the chat. We'll hand it over for the operator to see if there's any more questions waiting on the line through the call.

Operator

We still don't have anyone lined up for questions, so I will hand it straight back to you.

Anca Jalba
VP Investor Relations and Communication | OKEA

Okay. Thank you all for participating.

Svein Liknes
CEO | OKEA

Yep. Thank you very much.