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OKEA

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QUARTR

MODULAR FINANCE

Speakers

Birte Norheim
CFO | OKEA

Operator

Svein Liknes
CEO | OKEA

Company Representative

Prepared Remarks

Svein Liknes
CEO | OKEA

Good morning, and welcome to the presentation of the Q3 results for OKEA for 2022. My name is Svein Liknes, I'm the CEO of OKEA, and together with me today, I have our CFO, Birte Norheim. She will take you through the financial results after I've taken you a bit through the highlights for the quarter and also some details of our assets. Overall, the Q3 for OKEA has been a very strong quarter. With a lot of volatility in Europe and also in and around us, the financial results and also operational results have been very strong. The production both on Draugen, Ula, and Ivar Aasen has been very good during the quarter, but we are still seeing a more slow ramp-up on Yme compared to what was anticipated and planned.

Svein Liknes
CEO | OKEA

I'll get back to that when I speak about Yme in more detail a bit later. On the financial side, we had a record high operating income and also a record high EBITDA, and very good profit for the quarter. We generated above NOK 900 million of cash flow during the quarter. We've also recognized an impairment of above NOK 600 million on the Yme asset that I, as I mentioned, we'll get back to when we speak about Yme a bit later on. Both our operations position and our financial position again strengthens OKEA position to continue our path and our strategy on value-accretive growth. We are net cash positive. We have reduced our debt during the quarter by redemption of OKEA zero two in July.

Svein Liknes
CEO | OKEA

We are very close to transferring the operatorship of Brage and also the remaining portfolio that we have acquired from Wintershall Dea. We have continued the dividend payment, and we'll also do so in December. We will also today announce that we have an intention to pay also NOK 1 per share in each quarter also for 2023. For our projects, both our Hasselmus project and Power from Shore is progressing according to plan. As I mentioned, we've seen extreme volatility in the European gas market. Oil prices have been fairly steady, although they have dipped a bit, most likely due to the ongoing recession fear in the capital markets. We have seen extreme volatility in the gas pricing, which obviously has affected the market.

Svein Liknes
CEO | OKEA

We are still seeing very high prices in the market, both for gas and also for oil, obviously. The UK market is still trading substantially to a discount compared to the European market for gas, but we expected that to be converged during the winter of 2022-2023. Our production of gas from OKEA is currently predominantly going to the UK market. For the customers, we will have the option, and also for Norway, have the option also to export to the European market in the future. Back to the numbers. We've had, as I just mentioned, steady base performance, both on Draugen, Ula, and Ivar Aasen. You can see on this graph here that we had a slight decrease in production from Draugen, but that was mainly due to planned maintenance activities and also wireline operations in the wells.

Svein Liknes
CEO | OKEA

You can also see here that the performance on Ivar Aasen has increased quite significantly with double production. The gas compared to oil is very much in line with what we had in the previous quarters, with approximately one-third of our production in gas. Very high reliability, both on the Ula asset and also on the Draugen asset. Safety and emissions. You see a drop there in the serious incident frequency. That is because one of the incidents we had more than 12 months ago has now dropped out of the statistics. That was the loose handrail on Draugen, so that has dropped. The increase you can see on total recordable incidents is 2 personal injuries that we have had on Draugen related to pinched fingers, et cetera. No long-term damage to people or equipment.

Svein Liknes
CEO | OKEA

They are all back to work again, but obviously it goes into our statistics, and it's something we are focusing on. Also happy to say that we've had zero hydrocarbon leaks during also this last quarter. When it comes to CO2 emissions, that is pretty much the same as we have prognosed previously in the last quarter. Production from Yme and also electrification of Ivar Aasen in the short term will positively contribute to the statistics going down. The main contributor will obviously be the electrification of our Draugen operations later on. Going into more details on each asset. Back to Draugen. Good production and performance on Draugen. Planned activities, both on maintenance and also well work.

Svein Liknes
CEO | OKEA

Very important wireline operations on Draugen has been executed also to monitor the integrity of the wells and with a very positive result that has demonstrated that the wells we have on Draugen today do have the integrity to continue operations until 2035 and also to 2040, which was important information to gather. Our projects, both the Hasselmus project is progressing in accordance with plan. We completed the drilling of the production well this summer in July, actually, which was ahead of schedule and also below budget.

Svein Liknes
CEO | OKEA

We are executing on the top side prefabrication as we speak, and we are planning for production start in the Q4 2023 with a plateau gas production of 24,400 barrels of oil equivalent, but pure gas, which will convert Draugen from a gas importer for fuel purposes today, which is driving cost, to actually starting to export gas from the Q4 2023. The last major project that we have is the Power from Shore project, which we are doing jointly together with Equinor asset. We have completed the studies. We have also approved the project in the Draugen license. We are waiting then for the new license to also execute on the approval process later on this fall, so we can take a final investment decision jointly within 2022.

Svein Liknes
CEO | OKEA

Again, demonstrated that the Ula asset, although we only have a working interest of 12% in the asset, is extremely important to OKEA. We think the operator is operating the Ula asset very good. Very stable production, 100% reliability, and high production throughput of more than 7,000 barrels of oil per day. The Nova tie-in that also comes into to Ula commenced operations in July. As we have announced previously, those volumes are being compensated for in kind. Also worth noting that in the Wintershall Dea transaction, OKEA is also taking over 6% of the Nova assets that have started producing this summer and is ramping up in accordance with plan.

Svein Liknes
CEO | OKEA

The work is also ongoing to mature the new Ula Nord project, which includes the Hamlet discovery that we announced earlier this year towards the final investment decision by the end of 2022. Yme production very much the same as during the last quarter as we reported, but this has been very much influenced also by a six-week shutdown on the Yme field due to leaking pipe work that was happening due to an incident on Yme. Yme started producing again early in October and is still on a ramp-up phase. As we have said before, the ramp-up is going much slower than anticipated, and that is also affecting the production numbers obviously for OKEA.

Svein Liknes
CEO | OKEA

We have also seen during the first initial months of operation on Yme that the water cut is higher than expected, which are reducing the reserves by 2 million barrels net for OKEA during the period or between the period 2022-2035, hence the impairment we are reporting today. Some of this reduction can be compensated later on through infill drilling, et cetera, and that is something we are obviously working on in the asset. The Beta North drilling campaign is ongoing, and also the Gamma drilling campaign is due to commence in Q4 2022, putting on the additional wells on Yme. We will see the plateau production of 6,600 barrels of oil per day net to OKEA during the first half of 2023.

Svein Liknes
CEO | OKEA

Ivar Aasen asset, as I just mentioned, they had a rough Q2, but have really picked it up in the Q3, doubling production. Which was, you know, the downfall in the Q2 was due to power generation issues from the other rig, which has been sorted. Ivar Aasen has produced above plan since they resumed production. Ivar Aasen is also electrifying their operations during the fourth quarter of this year, having a positive contribution in the environmental footprint from the Ivar Aasen, which will also have a knock-on effect on the performance for OKEA.

Svein Liknes
CEO | OKEA

The last asset that I would like to mention is the addition of the Wintershall Dea portfolio, here represented by the Brage platform, which is part of that portfolio we are taking over, in addition to 6% in Nova and also in excess of 6% on Ivar Aasen. Obviously, the Brage comes with a platform and with people, so we get 140 new employees in OKEA with a target takeover date on November first this year, which is in accordance with the plan that we announced previously. We have all the approvals, both from the PSA, from the Ministry of Finance, and also Ministry of Petroleum and Energy in Norway. Everything is now lined up for a successful takeover. That is a very important part for OKEA.

Svein Liknes
CEO | OKEA

If we are gonna deliver on a strategy to be the best mid- to late-life asset operator, we also need to demonstrate that we are the best ones to actually execute on these complex transactions and transitions as we have done on the Brage asset now. We are really looking forward to November first when we can add the previously Wintershall Dea portfolio into the OKEA portfolio. With that, I will hand over to Birte, who, as I just mentioned, will take you through the financial results for the quarter.

Birte Norheim
CFO | OKEA

Thank you, Svein. As you say, the Q3 has been another eventful quarter for OKEA. With operational performance from Draugen, Yme, and Ivar Aasen continuing to be solid, and in combination with high realized prices, we delivered record high revenues as well as EBITDA. On the more disappointing side is the performance at Yme, which resulted in significant impairment, as well as a reduction of our guidance for the year. Overall, however, we deliver a solid cash generation to capital providers, which has partly been used to buy back debt and partly to distributions to shareholders. At the end of the Q3, we are net cash positive by NOK 1.4 billion, and we are ready to take on new assets to our portfolio. Let's go in a bit more detail and start with our production and sales.

Birte Norheim
CFO | OKEA

In the Q3, we produced 16,064 barrels of oil equivalents per day, which is more or less the same as previous quarter. Yme continued its solid production performance. For Draugen, the lower production was mainly due to planned activities for scale squeeze of subsea wells and a wireline logging campaign on the platform wells. Production at Ivar Aasen has been stable during the quarter, but performance at Yme continues to disappoint, with ongoing production disturbances resulting in about six weeks of downtime in the quarter. Sold volumes of 17,264 barrels of oil equivalents per day was an increase of 1,307 compared to previous quarter. This was mainly due to higher lifted crude volumes from Gjøa and Ivar Aasen.

Birte Norheim
CFO | OKEA

Compensation volumes from Duva and Nova amounted to 431 barrels of oil equivalents per day in the quarter. The average realized price for natural gas of $194.8 per barrel equivalent was more than double the price realized in the previous quarter, as well as the price realized last year. The average realized price for liquids was $106.6 per barrel, which is $6.3 per barrel higher than last quarter, and $39.2 per barrel higher than last year. Overall, this resulted in total petroleum revenue of NOK 2,114 million, an increase of NOK 860 million compared to previous quarter, and more than double compared to last year.

Birte Norheim
CFO | OKEA

Liquid prices have come down somewhat over the last quarter, with a starting price for the quarter of about $120 per barrel, and a closing price below $90 per barrel. The graph to the left illustrates the OKEA allocated liftings of liquids over the last five quarters. In the Q3, OKEA had six partial cargos with crude lifted, with the majority of the volumes received in July. We also illustrate some of the completed and planned cargos for the fourth quarter. Marked in dark blue is the completed lifting of 67,000 barrels from Yme in October, and marked in light blue is the expected liftings, which includes 652,000 barrels from Draugen, and 158,000 barrels from Gjøa, both expected in November.

Birte Norheim
CFO | OKEA

Further guidance on liftings is not provided on Yme in the ramp-up phase, nor on the assets acquired from Wintershall Dea prior to the completion of the transaction. The graph to the right outlines the difference between the average market price of Brent for the quarter of $100.7 per barrel, compared to the average realized liquids price for OKEA of $106.6 per barrel. The positive difference relates to the timing effect, largely, since the majority of the volumes were lifted in July, at the time before prices came down towards the end of the quarter. In addition, we had positive price adjustments from previous periods relating to the norm price on Draugen.

Birte Norheim
CFO | OKEA

On this slide, we illustrate the average volumes of gas sold per month since July last year, and the observable monthly average market price in the same period. We export our physical flow of gas, which is currently from Gjøa and Ivar Aasen to UK on NBP day-ahead prices. As Svein has stated, the prices have been extremely volatile recently. Following all-time high for European gas prices in August, with NBP prices of $400 per barrel, gas prices have come down, and NBP ended the quarter at just above $110 per barrel. Let's look at the profit and loss statement. We deliver a record high operating income of NOK 2.143 billion, consisting of the petroleum revenue of NOK 2.114 billion, and other income of NOK 30 million.

Birte Norheim
CFO | OKEA

The other income mainly comprises tariff income at Gjøa of NOK 42 million, partly offset by a net loss on hedging positions of NOK 21 million. Production expenses amounted to NOK 425 million, or NOK 253 per barrel. The cost is higher than what we expect going forward, both in absolute terms and in terms of cost per barrel. The absolute costs were high, mainly due to the well maintenance and high prices for gas import at Draugen, in addition to the continued high production cost at Yme during the ramp-up phase. The high cost per barrel was additionally impacted by the low volumes from Yme during the quarter. We recognize an impairment of NOK 609 million related to the Yme asset in the quarter.

Birte Norheim
CFO | OKEA

Earlier than expected water cut in the wells have resulted in a reduction in estimated reserves of 2 million barrels net to OKEA over the lifetime of the field. The impairment charge is partly offset by the related tax income effect of NOK 475 million, resulting in a net P&L impact of NOK 134 million. Please note that the Yme asset is subsequently recognized at fair value. Any changes in macro conditions and asset performance will result in further impairments or full or partial reversal of impairments going forward. As such, there is a potential for some volatility to the profit and loss statement going forward relating to Yme. Exploration and operating expense amounted to NOK 63 million, consisting of NOK 45 million in SG&A costs and exploration expense of NOK 19 million.

Birte Norheim
CFO | OKEA

The expense in the quarter was higher than our run cost, mainly due to transition activities related to the transfer of operatorship on the Brage asset from Wintershall Dea. Net financial expenses amounted to NOK 113 million, and mainly relates to the net interest expense of NOK 52 million and NOK 17 million in call premium due to the early redemption of OKEA02 in July. In addition, we recognize the net foreign exchange loss of NOK 41 million as the Norwegian kroner weakened by nearly 9% relative to dollars in the quarter. The foreign exchange loss relates to the dollar-denominated net debt, and is partly offset by foreign exchange gain on the US dollar-denominated cash. Tax expense amounted to NOK 633 million, which brings the net profits for the quarter to NOK 104 million.

Birte Norheim
CFO | OKEA

Looking at the balance sheet, cash and cash equivalents ended at NOK 2,668 million. In addition, NOK 9 million was placed in low-risk investments, which brings the total liquidity to nearly NOK 2.7 billion. As the remaining outstanding bond loan amounted to NOK 1.3 billion, OKEA is net cash positive at the end of the quarter by NOK 1.4 billion. Trade and other receivables amounted to NOK 1,347 million, and includes a $10 million prepayment on the Wintershall Dea transaction. Tax payable amounted to NOK 1,749 million, and mainly relates to the accrued tax for 2022. In July, we significantly reduced our interest-bearing debt through the buyback of OKEA02, which has $100 million remaining outstanding.

Birte Norheim
CFO | OKEA

At the end of the quarter, the remaining outstanding NOK 1.3 billion related to the OKEA 03 loan, which carries a fixed coupon of 8.75% and matures at the end of 2024. Other interest-bearing liabilities of NOK 572 million relates to OKEA's share of the future obligations under the bareboat charter of the Maersk Inspirer rig at the Yme fields. Total asset retirement obligations of NOK 3.6 billion is partly offset by the asset retirement receivable from Shell of NOK 2.5 billion. As a result of the steady performance on most of our key assets, combined with high realized prices, the cash generation in the quarter was strong.

Birte Norheim
CFO | OKEA

Cash generated to capital providers amounted to NOK 960 million, which was used for the buyback of OKEA02 by NOK 1.1 billion, and a dividend payment of NOK 104 million in total. Total liquidity ended just below NOK 2.7 billion. On the first of November, the transaction with Wintershall Dea will be completed, which will reduce the cash balance in the coming quarter. Cash flows from operations was as high as NOK 1,692 million, and taxes paid of NOK 509 million relates to the first installment for the tax year of 2022. Cash used in investment activities was NOK 370 million and mainly relates to CapEx spending, about half of which for the Hasselmus gas development.

Birte Norheim
CFO | OKEA

Interest payment of NOK 24 million relates to the interest paid on the OKEA zero two bond prior to the redemption late July, as well as the financial lease at Yme. Looking at the total cash generation in the first three quarters, the very strong position of generation cash to capital providers of nearly NOK 2 billion represents a cash flow of more than 20 kroner per share. This has been achieved by solid operational performance on most of our producing assets in combination with a strong market. Total improvement in our liquidity position has been NOK 429 million, on top of the early buyback of OKEA zero two of NOK 1.4 billion in total for the year, and total dividend payments of NOK 197 million.

Birte Norheim
CFO | OKEA

In addition, we have paid nearly NOK 1.1 billion in taxes, and NOK 906 million has been invested in developments, drilling activities, and acquisitions. As we also indicated in our Q2 reporting, the ramp-up at Yme has progressed slower than what we anticipated. This development has continued with very low plant availability in the Q3. The updated prognosis from the operator indicates that plateau production will be pushed back to the first half of 2023, which leads us to revise our production guidance for 2022 by 1,000 barrels of oil equivalents per day from a range of 16,000-17,000 to a range of 15,000-16,000 per day. Note that the guidance level for 2022 does not include volumes from the Wintershall Dea transaction.

Birte Norheim
CFO | OKEA

In addition to our own produced volumes, we expect between 900 and 1,200 barrels of oil equivalent per day as in-kind compensation volumes from Duva and Nova in 2022, which additionally increases our sales and cash flow. Production outlook for 2023 and CapEx guiding for 2022 remains unchanged. Following the announcement of our dividend plan for 2022 in May, we paid our first cash dividends of NOK 0.90 per share in June, and NOK 1 per share in September. We also stated an intention to pay NOK 1 per share in Q4 this year. The board has now resolved to pay NOK 1 per share in December, and the board is also stating an intention to distribute the same amount each quarter in 2023.

Birte Norheim
CFO | OKEA

This results in total dividend payments for 2022 of NOK 2.90 per share, with an intention to pay total dividends in 2023 of NOK 4 per share. The dividend payments in 2023 is subject to an authorization from the general meeting and may be revised in case of significant changes in market environment, the company situation, and/or value accretive opportunities being available. 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

Thank you, Birte. Before I go through the summary and outlook, I would like to make you aware that you can ask questions or send in questions using the links that you can find on our webpage. There will also be a Q&A session once we have concluded on the summary and outlook that I'll go through now. The wrap up from this quarter must be that OKEA has demonstrated that we are delivering on our growth strategy with the acquisition we have done from Wintershall Dea on the Brage and Nova and also the Ivar Aasen assets that will now be included into the OKEA portfolio from November first this year. We have continued solid performance both on Draugen, Ivar Aasen and Gjøa, and we are also working closely with the operator on Yme on the ramp-up schedule, which has now been changed slightly.

Svein Liknes
CEO | OKEA

The organic project in OKEA is progressing well, both the Power from Shore project and also the Hasselmus project that will turn the Draugen asset from to becoming a gas exporter. We have a very solid cash position. We do pay dividends as a company to the shareholders, and we're also reducing the outstanding debt. This overall positions OKEA to actually continue the delivery on the strategy that we have set out to become the mid- to late-life operator on the Norwegian Continental Shelf. With that, I would just say thank you for attending the presentation today, and we are sending over to the Q&A session shortly. Thank you very much.

Q&A

Operator

Ladies and gentlemen, if you have a question for the speakers, please press five star on your telephone keypad. To withdraw your question, please press five star again. We will have a brief pause while questions are being registered. As there are no questions at this moment, I'll now hand the word back to the speakers.

Company Representative

Yeah, we have a couple of questions on the webcast. First two questions from Ola Eikanger in SEB. As for Svein's comment regarding NBP prices, why do you expect the discount to close in the coming winter versus TTF? The second question is, how do you assess the downward risk associated to 2023 production guidance? What is the assumed Yme contribution to the 25-27 thousand barrels a day guidance?

Birte Norheim
CFO | OKEA

Okay. I can maybe take the first one, and Svein, you maybe want to answer the second one. This is the fact that we refer to the expectation, the market expectation of the discount to close. This is basically based on market observations on the forward prices. We have seen that prices have started to converge, but we don't have a strong opinion on it. We just observe what the market is willing to price these different commodities at.

Svein Liknes
CEO | OKEA

Yeah, I can answer the next one, which is regarding the Yme and also the risk to the guidance. This is obviously guidance we believe in. As I mentioned in my presentation, we expect plateau production from Yme during the first half of next year, which will contribute with 6,600 barrels of oil per day, net to OKEA. Obviously, the annual average will be lower than that one, but we are not guiding asset by asset. Obviously, you will then know how much it is. We believe in that guidance.

Company Representative

Thank you, Svein. The next question is from Jonas Lysen in ABG Sundal Collier. M&A is stated as part of your strategy. Do you have any particular transaction on the table at the moment? Should we expect any acquisition over the next 3-6 months?

Svein Liknes
CEO | OKEA

Yeah, I can answer that one. We are looking at opportunities continuously. I can obviously not be explicit if we have anything on the table at the moment. Growing the company and also making the company more diverse when it comes to asset base, and also adding more barrels within the segment where we have said that we are gonna be leading, which is mid- to late-life operatorship, in addition to quality partner-operated barrels, is something we are looking at continuously. These processes sometimes go quick, sometimes they take a long time, but we still think that our strategy fits the Norwegian Continental Shelf very well. I'm quite certain that there will be opportunities that will fit our strategy and also within our kind of framework.

Svein Liknes
CEO | OKEA

I will not timeframe it, but it's something which is very important for our strategy.

Company Representative

Yeah, that was all the questions asked on the webcast. Are there any further questions on the call?

Svein Liknes
CEO | OKEA

No. If there is no further questions, then, thank you for your attendance to the presentation, and I'm looking forward to speak to you again in the next quarter in January. Thank you.