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OKEA

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MODULAR FINANCE

Speakers

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Prepared Remarks

Svein Liknes
CEO | OKEA

Good morning, and welcome to the OKEA third quarter 2021 results presentation. My name is Svein Liknes. I'm the CEO of OKEA. With me today, I have the OKEA CFO, Birte Norheim, who will also give you the financial details from the quarter. Before we get to that, I will give some highlights from the quarter and also give you an update on the strategy after Birte's presentation of the financials. Obviously there will be forward-looking statements in this presentation which may be subject to change. The quarter, last quarter for OKEA was a very good one. The financial and operations position for OKEA strengthened further.

Svein Liknes
CEO | OKEA

Our production numbers for the quarter was 16,315, which is more than 3,100 barrels up from previous quarter. The reliability remained high, both on our operated assets and also on our non-operated assets. The Yme new development was announced to start production on the 25th of October, which is a significant milestone for OKEA as it increases our production by in excess of 30%. That is very important for our future cash flow for OKEA. Our financials, operating income in excess of NOK 1 billion, Birte will go through the details there afterwards, which is an increase of more than NOK 400 million. EBITDA of NOK 797 million, net profit NOK 97 million, and our cash position has increased to NOK 1,504 million.

Svein Liknes
CEO | OKEA

Actually, during 2021, the cash position of OKEA has increased by NOK 633 million, at the same time as we've paid NOK 115 million in interest and also bought back NOK 108 million of bonds. A very good financial position and also an operations position, which positions the company very well when it comes to further value equity of growth. With the Yme startup, and with progressing the Hasselmus, which will have Q4 2023 first gas, and also the decision to halt further development of the Vette discovery, which was not an easy decision to make, but we regarded the capital needed to further develop that project could be allocated elsewhere that would generate more value for OKEA.

Svein Liknes
CEO | OKEA

We are also spudding the Ginny well together with Equinor in Q4 this year. 40% stake in that well, and it's close to Draugen and could be a potential further opportunity for organic growth in the Draugen area. We have a strong cash position, and that will give us the flexibility to pursue M&A, that I will also cover later in the strategy update, and shareholder distribution throughout the years to come. We can't talk about the third quarter of 2021 without showing this graph. Obviously, the high prices of oil and gas have influenced our production or our results. The exceptional rise of gas prices as well has benefited OKEA as we are more than 30% exposed in gas in our sold volumes.

Svein Liknes
CEO | OKEA

As a consumer, I'm a bit concerned of the graphs, but I'm very pleased as a supplier. I also think the energy demand and somewhat the crisis we are seeing now is also helping us to define what is the purpose of OKEA, and that is to be a stable energy provider of oil and gas to the market. When it comes to being a supplier, we are a reliable provider of energy. As shown in this graph, we have a very balanced portfolio, as you can see both from a non-operated assets and also operated assets. Year production has increased due to the addition of two wells in the P1 segment, as we call it.

Svein Liknes
CEO | OKEA

The production of Draugen is slightly lower than last quarter, but that is mainly due to a planned maintenance activities with changes of a subsea pump that will give us reliable operations for the future, and also some well maintenance, which has enabled all the wells on Draugen to now be in operations and flowing, which is a good place to be. The Duva reliability is slightly down to 97%, but that is due to the Duva tie-in work that was also done during the quarter. No major shutdowns over the last quarter, and there is no planned major shutdowns in the last quarter of this year either. How do we do it? We have a decreasing trend on the recordable incident frequency.

Svein Liknes
CEO | OKEA

That frequency is mainly due to minor medical treatment cases. We are glad to see that it is trending downwards. We've had zero hydrocarbon leaks still over the last quarter, and we do still have too much CO2 impact that I will address a bit later in the presentation. But we also had one potential incident on Draugen, which shows that HSE can never be out of focus, as we had one railing that loosened on the Draugen platform that could have caused somebody to fall to the sea level. That is thoroughly investigated and also communicated to all other parties on the Norwegian continental shelf to for them to check as well if that could happen at their platforms. Good trend on the incident frequency.

Svein Liknes
CEO | OKEA

We're happy to see that we are managing our barriers so we have no leaks, and we are addressing the CO2 impact that we have. Draugen good production during the quarter, only influenced by what I said, the maintenance activities with the subsea pump and well workovers. High production reliability of 97% continues. Most importantly, on Draugen, we are progressing and realizing the ambition to increase remaining reserves by 50% and also extending the lifetime of Draugen to 2035 and beyond. This will increase the recovery rate of the Draugen asset to above 70%, which is very high. We're actually proud to show and demonstrate that we are able to actually do such a thing. In addition, we are working with new barrels to the Draugen asset.

Svein Liknes
CEO | OKEA

The Hasselmus project has been initiated and are on track for delivery in Q4 2023, which will add 4 million net barrels in gas equivalents to OKEA. We're also working on the CO2 emissions from Draugen. Draugen is an aging asset and are powered by turbines, which obviously then also generates CO2 emissions. We are actively working to reduce our footprint, and we are now on track, and we have plans to reduce the CO2 emissions on the Draugen asset by 95% by 2025. We are doing that by electrifying the Draugen asset and stopping our turbines. We are doing this in cooperation with the Njord asset, which is close by, and this project is being managed and driven by OKEA on behalf of both the Draugen asset and the Njord asset, which is operated by Equinor.

Svein Liknes
CEO | OKEA

This will reduce the CO2 emissions from Draugen by more than 200,000 tons per year, and we have passed DG2, or Decision Gate Two, in both licenses to actually proceed with this and have a final investment decision in 2022. We're also working on other aspects to reduce our footprint. We have installed battery packages on our logistic vessel or supply vessel that serves Draugen, which also adds to reducing our footprint from a logistics operation. We are also participating as partner and technical advisor in other initiatives, such as floating wind turbines and also carbon capture storage initiatives. Moving on to Gjøa, non-operated position, very good asset to be in for OKEA.

Svein Liknes
CEO | OKEA

It also gives us the increased gas exposure, as 60% of the production of Gjøa's gas. Very high reliability, so we are very happy to be part of the Gjøa. Gjøa also has focus on reliable and focus on growth, which is the same parameters, which is very important for OKEA. A good asset to be in. Yme. Finally, we announced on the 25th October that we had first oil of the Yme asset for the Yme redevelopment. Plateau production of Yme will be net to OKEA 8,400 barrels of oil per day, which is a significant contribution, and 5,600 on average over the first 12 months. Reserves, OKEA net again, 9.4 million barrels of oil.

Svein Liknes
CEO | OKEA

There's been significant work done since we came offshore with Yme. I would also give credit and thank the operator, Repsol, for the work they have done, and also the work that has been done by the main contractors, Aker and Maersk, to actually realize this. I'm glad to finally give a date and say that we have now started, rather than just saying that we are estimating a startup in the second half of 2021. Talking of Maersk, today was also the transfer of ownership of the unit, which was called Maersk Inspirer, now just called Inspirer. That change of ownership to the Yme license will generate or have a positive cash flow effect for OKEA of NOK 300 million over the next nine months.

Svein Liknes
CEO | OKEA

That's also a valuable contribution in addition to the operations effect it will actually have that Repsol is operating the asset themselves. Before I hand over to Birte and the financial details, I will give a brief status before I then come back and talk about the strategy. After that, we will have Q&A session, and there's also a chance now to use the link on the webcast to actually ask questions as we go along, and those will be flagged after the presentation. Where we are now, we had a startup of Yme, that I just said, contributing significantly for the production growth of, for OKEA. The timing of the Yme startup is obviously very good. There's very high commodity prices now.

Svein Liknes
CEO | OKEA

We have stopped the Vette discovery, and that is also going back to the strategy again. Capital allocation, where we think the capital will add most value for OKEA and our shareholders, is one of our strategic pillars. I'm gonna get back to that. It was important for us to flag this now, that if we do not believe that this will generate the value we are looking for, then we need to take a proactive approach and then stop it now. We're gonna spud the Ginny exploration well by the end of this year together with Equinor. We will operationalize our new strategy that I will talk about shortly. We are actively working on our projects, both on the Hasselmus towards startup in 2023, and also the electrification of Draugen that will reduce the emissions.

Svein Liknes
CEO | OKEA

On that, I will then hand over to Birte for the financial detail update and then come back shortly on the strategy brief. Thank you.

Birte Norheim
CFO | OKEA

Okay. Thank you, Svein. Also for this third quarter, we'll start with looking at what drives the top line, and we illustrate here the development in volumes and prices over the last five quarters. Starting with the production, as Svein has already outlined, Q3 is now back to normal production levels following the 31 days of planned downtime at Gjøa in the second quarter, parts of which was relating to the Duva and Nova tie-in projects. Produced volumes amounts to 16,315 barrels of oil equivalent per day, up from 13,210 in the previous quarter. Sold volumes amounts to 16,979, which is nearly 4,000 barrels per day in increase, which is 30%, mainly due to this effect.

Birte Norheim
CFO | OKEA

In addition, we had an over-lift situation with about 500 barrels per day equivalent, as well as the compensation volumes from Duva of 165 barrels per day, which additionally drives the sold volumes in the quarter. The market prices for petroleum products have steadily increased since the low point in the second quarter of last year. In particular, we've seen gas prices soaring to record high levels recently. The average realized price for gas in the quarter is equivalent to $97.1 per barrel, which is an increase of 76% compared to last quarter and nearly 7x higher than last year.

Birte Norheim
CFO | OKEA

The realized price for liquids amounted to $67.4 a barrel, which is an increase of 6% compared to previous quarter, and more than a doubling compared to last year with an increase of $35 per barrel. An increase in market prices and an increase in sold volumes, it's a good combination, and it drives the petroleum revenues to NOK 1,017 million for the quarter, which is an increase of NOK 423 million or 71% compared to last quarter, and an increase of NOK 709 million or 230% compared to last year. As mentioned, liquids prices have steadily increased over the last five quarters, and the graph to the left here illustrates the OKEA allocated liftings of liquids over the last seven quarters.

Birte Norheim
CFO | OKEA

In the third quarter, OKEA had three allocated liftings, which is in line with what we communicated as expected in the second quarter. We are also here illustrating the completed lifting of cargoes in the fourth quarter, which relates to a lifting of Draugen in mid-October of 632,000 barrels. Due to Yme just being in its startup phase, we do not provide any guiding on the timing and the size of the volumes expected in the fourth quarter, even if we do expect allocated volumes in the quarter. Note also that for Yme, the adverse quality price differential compared to Brent will be high for the initial liftings. This is due to the assay being outdated, and we expect that this price differential will narrow as the assay is being updated.

Birte Norheim
CFO | OKEA

We do not expect any further liftings from Draugen in the fourth quarter, and also we have not been informed of any liftings from Gjøa or Ivar Aasen in the fourth quarter. That does not mean there will be none, but we have not received any confirmation of such. The graph to the right illustrates the price differential between the average market price in the quarter of $73.4 a barrel and the realized price to OKEA of $67.4. The differential is, in this quarter, mainly due to an adverse adjustment relating to the norm price on Draugen for the first half of the year, as well as the NGL impact. On average, and also for the third quarter, about 1/3 of OKEA's production is gas.

Birte Norheim
CFO | OKEA

As mentioned, following the dip in prices last year, European gas prices have soared recently and trading well above crude on an oil equivalent pricing. During the last part of September, gas was trading about $160 a barrel equivalent, and we have seen this favorable market condition continue into the fourth quarter with October averaging around $170 a barrel. The income statement overall, the third quarter represents another strong financial quarter for OKEA, and EBITDA of NOK 797 million is actually the highest ever for OKEA. We deliver a net profit of NOK 97 million.

Birte Norheim
CFO | OKEA

If we start at the top, total operating income of NOK 1,026 million mainly consists of the petroleum revenue of NOK 1,017 million, as we just reviewed, and also tariff revenue from Gjøa, partly offset by a hedging loss of about NOK 5 million relating to a small hedging position. Production expense of NOK 181 million is equivalent to a cost per barrel of NOK 108 compared to NOK 159 in the previous quarter. This significant improvement is largely driven by two effects. One is that the absolute cost has come down as the operational activity level has normalized as the well intervention campaign at Draugen was completed in the second quarter.

Birte Norheim
CFO | OKEA

Also, of course, with the additional volumes from Gjøa, it drives the average cost per barrel down. There are no impairments in the third quarter, and the improved macro conditions have increased the coverage on all our assets. You may recall that we described certain changes for Yme, which would come into effect once the Maersk Inspirer transaction was effectuated. As this took place now in October, and IFRS requires that the deferred tax effect of uplift is excluded from the impairment assessment, we do expect an impairment in, at Yme, into the fourth quarter, all else equal. This can have quite a significant impact on the impairment line, but importantly, it does not have any impact on the net profit because the offsetting line entry is on the tax expense.

Birte Norheim
CFO | OKEA

It will not have any net impact, but it might cause some disturbances in the P&L in the fourth quarter. Bearing in mind that the resulting cash implication of the transaction and other factors from tax and other factors is a positive effect in excess of NOK 300 million. It could be quite significant, but as mentioned, it will have no impact on the equity. Exploration and operating expense consists of NOK 37 million in exploration expense, mainly relating to the 2021 application round, certain field evaluation activities, and also a one-time write-off of NOK 5 million relating to Vette and Grevling as the projects were halted now in October. SG&A costs amount to NOK 21 million, which is somewhat higher than our average quarter, which is due to the ongoing strategy work and similar activities.

Birte Norheim
CFO | OKEA

Net financial expense of NOK 91 million mainly relates to NOK 18 million in interest expense and NOK 68 million in unrealized foreign exchange loss, mainly relating to our dollar-nominated bonds as the NOK weakened somewhat compared to the dollar during the quarter. Tax expense amounted to NOK 429 million, which brings out a net profit of NOK 97 million. The strong cash position has further improved with a balance at the end of the quarter in excess of NOK 1.5 billion. In addition, we have bought back OKEA02 bonds for NOK 108 million, and we have reduced the net working capital, excluding tax, by NOK 329 million, which is why the strong financial performance is not fully reflected in the cash balance at the end of September.

Birte Norheim
CFO | OKEA

Tax payable of NOK 418 million mainly relates to the tax for 2021. The transfer of ownership of the Inspirer was effectuated in October and will significantly reduce the tax expense in the fourth quarter. Interest-bearing debt amounted to NOK 2.4 billion, and the reduction is due to the buyback. We bought back $12 million nominal value at an average price of 102.5%. This effect is partly offset by the foreign exchange loss, of which NOK 63 million is directly attributable to the bonds. The asset retirement obligation of NOK 4.2 billion is partly offset by the non-current receivable of NOK 3.1 billion from Shell, as Shell will bear the ultimate removal cost from Draugen. Cash development.

Birte Norheim
CFO | OKEA

The cash balance increased by NOK 158 million in the quarter, ending with a closing balance of NOK 1,504 million. Cash flows from operations was NOK 462 million, which includes the changes in working capital. Taxes received was NOK 18 million and is the first installment received for 2021. As it was estimated back in May, given the significant increase in market prices, we actually expect to end up in a cash payable position for the year. These adjustments will be payable in the last three installments, which is due in the first half of next year. The investments was NOK 166 million, half of it which relates to the Yme, and it also includes some investments on the Hasselmus project.

Birte Norheim
CFO | OKEA

Cash paid in relation to the buyback was NOK 108 million, and interest paid of NOK 23 million relates to the OKEA02 bond, which is payable quarterly. For the first nine months, the cash position has increased by as much as NOK 633 million, and the significant increase is mainly due to the solid margins following the strong market for our products, but also high production reliability both from Yme and Draugen. In addition, we received the last three installments for 2020 in tax, in total NOK 291 million, and also the NOK 18 million received for 2021.

Birte Norheim
CFO | OKEA

These inflows are partly offset by the investments that we made, mainly on Yme and P1 and also Draugen and Hasselmus, as well as the two wells that we drilled in the first half, Gjølberg and Eldfjord, of NOK 159 million. In addition to the bond buyback and interest paid on both of our loans, which in total amounts to NOK 223 million. There is no change in our guidance. Nearly all of the plant shutdown at Yme has already been completed this year, and in addition, we have Yme coming on stream this week, which will additionally boost our production output going forward. We keep our guidance of 15,500 barrels-16,500 barrels for 2021 per day, and the outlook of 17,000 barrels-18,000 barrels per day for 2022.

Birte Norheim
CFO | OKEA

CapEx guidance for 2021 of NOK 600 million-NOK 700 million is also unchanged and includes the CapEx investments expected on Hasselmus for the year. On that note, I'll give the word back to Svein Liknes to take us through the strategy update. Thank you.

Svein Liknes
CEO | OKEA

Thank you, Birte. That's the position and that's where the company is now. Obviously one of the main tasks when I'm entering this company as well is to identify where is the company going and why are we going in that direction. Therefore, we launched the strategy update process just after summer, which we have spent quite some time on, to establish our strategic beliefs and also set the direction for the company. The mission was to identify and also execute on the most value accretive path for OKEA going forward. That includes both short term and also long term. The world around us have changed quite significantly over the past couple of years and particularly the last two years.

Svein Liknes
CEO | OKEA

We need to adapt and ensure that our strategy is focusing on the right activities in this period. During my first period, I know the first two, three months in OKEA, I've spent some time trying to establish what is the competitive advantage then of OKEA and what is the current state, because it's also nice, always nice to know where you are before you set the path of where you're going. I've traveled in all our locations, visited all offshore shifts on Draugen and spoken to people. My background is also operations myself, so obviously it's an environment where I think I can communicate well with the crew, and I'm been impressed by what I've seen so far.

Svein Liknes
CEO | OKEA

Very few people in OKEA, as I said before, but those which is working in OKEA is working there for a purpose. They know what they are doing, they know why they are doing it, and they know that if they are not doing it, then nobody else will do it. We're gonna build on that culture and that competency to actually develop the company. In what direction? Our status today is that we believe we have a very solid platform for further growth in OKEA. We have demonstrated that we can actually do transactions and we can improve something that was already well managed in Shell and operated by Shell, has been turned around to be even better. We have extended the lifetime. We are doing infill targets. We are adding on new gas production fields into Draugen.

Svein Liknes
CEO | OKEA

We have demonstrated that we have the capacity to extract value, further value of assets where other ones will divest. Our position when it comes to our financing position obviously also puts us in a good place with a strong balance sheet and robust cash flow, which we will be even more stronger now with the Yme startup and have that startup behind us, which gives us the financial flexibility to actively pursue an M&A strategy. Therefore, that is the path we have wished to move into, is to grow, and we wish to become the mid- to late-life expert on the Norwegian continental shelf. Last but not least, the ESG needs to be central in all our operational activities. If you want to pursue the path of mid- to late-life assets, it's not the easiest path to take.

Svein Liknes
CEO | OKEA

When it comes to ESG, we will do what we can do and also demonstrate that what we can do on Draugen, where we just said earlier, we are reducing the CO2 emissions by 95%, which will enable Draugen to actually be a solid platform for the future for further growth as well. ESG will still be very important to OKEA, and we will deliver on where we can deliver. The three pillars in our strategy going forward is, I'm gonna start from the right-hand side, actually, with capital discipline. I think capital discipline in the markets we are seeing now is very important. As an industry, we have a tendency to completely take off when we see prices like this. Capital discipline and capital allocation, which is driven by further value creation, is very important.

Svein Liknes
CEO | OKEA

We need also to survive a distressed case if that comes in the future. We believe in growth. We believe what we are doing now, if we do more of that, because I think we are very good at it, will generate a lot more value creation. We are looking for scalability, in particular over the next two, three years. Because the market fundamentals and opportunities are in place out there, we believe in an attractive energy market. We of course know that there will be a transition into more renewables, but the E&P and oil and gas will have a very important role for energy supply in this period.

Svein Liknes
CEO | OKEA

That is a position OKEA wants to be part of, and I believe that we have a very good position there that shows we are a reliable supplier of energy. We see M&A opportunities on the Norwegian continental shelf, both when it comes to companies and when it comes to assets. I believe there are quite a few assets on the Norwegian continental shelf where OKEA can add and extract more value than the existing operators. Therefore, we are focusing on the mid- to late-life operatorships, either alone or in partnerships with others. That is the main path that we will pursue now.

Svein Liknes
CEO | OKEA

Based on the three growth levers for continued shareholder value, we will exploit all the existing portfolio we have, which is now the platform we are showing you today, which is very good. We will explore around our assets. We will drive infill or increase oil recovery, and we will add more volumes, and we will extend lifetime, and we will do this in a very cost-prudent manner, so we can actually extract value from it. We will have, therefore, an inorganic path, which is basically around M&As and the partnerships with others where we believe that we can unlock value. We will also pursue still the organic path.

Svein Liknes
CEO | OKEA

I will be considering the attractiveness of the organic development because we see the most value accretive path, at least in the short term, is to pursue production which is already in place. We still need to do this and find our place and be very clear on our ESG position while doing so. On the environmental side, we have already demonstrated and talked about reducing emissions and also reducing other discharges from our operations. That will still be something that is recognized by OKEA. Reuse and extending the lifetime of existing infrastructure on the continental shelf is also a very good environmental effort that OKEA will then pursue. We will do this safely and responsibly.

Svein Liknes
CEO | OKEA

The social part and the S in the ESG, that actually the oil and gas industry is still a fundamental part of the Norwegian society and adds a lot of value, I think also needs to be communicated well, and that is a place OKEA also will take a very central role. OKEA wants to be recognized to deliver competitive shareholder return. That is why we are here. We would like the dividend plan to be presented next year. As I just mentioned, dividend is also capital allocation, and we are looking for value-accretive growth, which needs to be balanced up against the dividend payouts.

Svein Liknes
CEO | OKEA

In any growth scenarios that we are evaluating, in addition to risk and price, the dividend capacity is an important parameter in that strategy that we are putting into our models. We would like to present the dividend plan in 2022. Again, as I said, we are focusing on capital discipline, but we want to be recognized as a shareholder return company that is focused on that as well. What is the twist in the strategy? OKEA was established in 2015 to become the marginal field specialist and has worked with that, developed an organization which is, you know, very competent and looking in very different ways of doing things, very high cost focus, and doing things that others are not doing.

Svein Liknes
CEO | OKEA

That is competencies that we actually also need when we are focusing on mid-to-late-life championing. Cost focus, capital discipline, high reliability, and seeing opportunities where nobody else sees those opportunities. I think that is also a very good platform for OKEA, the organizational one, to actually make this move towards mid-to-late-life operatorship. The cornerstone then at the end, OKEA and Draugen, where we as a company wants to develop, we want to grow, and we want to be recognized as the leading mid-to-late-life operator on the Norwegian continental shelf, which is something that we want to be recognized by. We're also gonna do other value-creating activities. The dominant strategy for OKEA is this path. Last, then summary and outlook.

Svein Liknes
CEO | OKEA

As I just mentioned, we think the market is conducive for growth, and we think it's gonna be a strong market. I do think that the gas prices obviously will tail off as the winter ends and come down to a more normal level. We still believe in very good oil prices going forward, and the energy demand for our products will still be there, is our belief. We think there are attractive deal opportunities on the Norwegian continental shelf that we can pursue, as we can also demonstrate that we are actually a good operator, an excellent operator, by the way, but in already existing mid-to-late-life assets. This will then increase the dividend capacity of OKEA. We would like to present the dividend plan in 2022.

Svein Liknes
CEO | OKEA

We would like when we present such a plan that is actually a robust plan and has even more capacity than it has today. It is part of our capital allocation and priorities. Last but not least, the ESG needs to be embedded in the business we are involved in. It will be activities that we are driving forward to actually reduce our emissions and take the role that we actually have on the Norwegian continental shelf, and we are supporting the industry's targets as well with reducing emissions where we can. I think that is the ultimate slide. That takes us over to the questions and answers section, I think. Birte, if you could join me. I don't know what the deal is.

Svein Liknes
CEO | OKEA

Are we doing web first and then live or?

Operator

Is it on?

Operator

Yeah, there are some questions on the web, but maybe Karl Fredrik first.

Q&A

Karl Fredrik Schjøtt-Pedersen
Partner of Equity and Credit Research | ABG Sundal Collier

Hi, guys. Karl Fredrik Schjøtt-Pedersen from ABG Sundal Collier. Thank you for the presentation. Two questions, if I may. The first is regarding your production guidance for next year. Given the strong production that you had in the third quarter and that even now is in production, isn't the guidance a bit low? That's the first question. Then the second question is regarding the capital structure and your dividend policy for next year. I guess it will be a bit of a front-running, but, how... What will be the basis for the dividend plan? Is it so that it will be connected to a leverage ratio covenant, or is it a leverage ratio, or is it the total capacity of the company? And of course, you have some limitations in the bond structure as well.

Karl Fredrik Schjøtt-Pedersen
Partner of Equity and Credit Research | ABG Sundal Collier

How should we start to think about it before you actually announce it next year?

Svein Liknes
CEO | OKEA

Well, I can answer the first one on the production guidance, and then maybe Birte could answer the dividend structure. Our production guidance next year, as you said, could seem a bit low, but we do have natural decline on the existing assets, both on Yme and also on Draugen. And the plateau of Yme is rather short. That's also something you can see on the 8,600, no 400 in the beginning, and then it tails off and will give us 5,600 thereafter. In addition, Yme has been shut in for quite some time, so we haven't been very bull on the production estimates from Yme. So that is reflected in the production guidance that we have given so far.

Karl Fredrik Schjøtt-Pedersen
Partner of Equity and Credit Research | ABG Sundal Collier

Yeah, you're guiding for a first 12-month production level.

Svein Liknes
CEO | OKEA

Yeah.

Karl Fredrik Schjøtt-Pedersen
Partner of Equity and Credit Research | ABG Sundal Collier

The implied production from the older asset base is fairly high.

Svein Liknes
CEO | OKEA

That is a natural decline from the other assets which is put into that production guidance, yeah.

Karl Fredrik Schjøtt-Pedersen
Partner of Equity and Credit Research | ABG Sundal Collier

Okay. Are there any changes to the operational performance of the assets in addition to underlying decline?

Svein Liknes
CEO | OKEA

No.

Karl Fredrik Schjøtt-Pedersen
Partner of Equity and Credit Research | ABG Sundal Collier

Thank you.

Birte Norheim
CFO | OKEA

There are some maintenance work, yeah, being scheduled for next year as well, but the main part is the general field decline.

Svein Liknes
CEO | OKEA

There will also be tie-in, for example, which is put into the production profile. The Nova field will be tied in next year. The Duva effect that we saw this year with reduction in production when you are due to that tie-in will also happen next year. Again, the same mechanism with compensation for deferred volumes will also come in place then, but it will actually hit the actual volumes, obviously.

Birte Norheim
CFO | OKEA

The tough question for me. Well, I think what we're saying is that we will announce this next year. We will not provide any more details at this stage. I think the key message we're trying to send here is that dividends will be a key priority. You're also pointing to the restrictions that we have in our bond loans, which is right. We have a hard restriction on not paying anything until the end of the year. Secondly, we have, going forward, we have a limitation tied to our net profit. We need to, of course, make sure that we're not restricting any of our terms in the bond loans. We will have to depend on what our growth will look like in the next year.

Birte Norheim
CFO | OKEA

That will, of course, be a key driver for the dividend capacity beyond that.

Karl Fredrik Schjøtt-Pedersen
Partner of Equity and Credit Research | ABG Sundal Collier

Okay. Thank you.

Operator

Okay. First question from the web from Anders Holte in Kepler Cheuvreux. You mentioned the lifting on the. You may have answered this partly already, Birte. You mentioned the lifting on Draugen in October, but are you now saying it's no further liftings planned on any fields for the rest of 2021?

Birte Norheim
CFO | OKEA

Well, for Yme, we are expecting. We're just not guiding on it, considering that it's in its startup phase. From Yme, there could be one, but that's not under our control. The production there is going well. We have just not received any confirmation of any allocation for fourth quarter yet.

Operator

Three questions from Teodor Sveen-Nilsen in SpareBank 1 Markets. First, regarding strategy around mid-late life assets, how do you think about oil versus gas assets, and are there any NCS assets that are more interesting?

Svein Liknes
CEO | OKEA

We are obviously looking into both oil and gas and how the composition is of those assets, but we are not restricting it, because then something could fall out of the screening that, you know, would still generate value for us. The latest period that we have gone through obviously shows that higher gas exposure is an advantage, but it's not something we are guiding in accordance with. It's not something that we are using as a critical target or critical criteria for actually selecting these assets that we are looking at. To the second question, if there are some assets which is more interesting than others, the answer to that is obviously yes, there will always be.

Svein Liknes
CEO | OKEA

If you are, for example, targeting a portfolio, there will always be good assets, but there will also be maybe medium assets. That is part of our screening process. There are definitely assets on the Norwegian continental shelf that fits very nicely into the OKEA operating philosophy and then also can be further improved by them or doing what we have already done on Draugen.

Operator

Okay. Third question from Teodor Sveen-Nilsen in SpareBank 1 Markets. We see bottlenecks in parts of the value chain in other industries. Do you see any delays, bottlenecks, or supply chain issues?

Svein Liknes
CEO | OKEA

Yeah, well, the impact of the boom that we are seeing will obviously generate some constraints in the supplier side, but also in construction and maybe also some on the materials. From OKEA's point of view, we have the Hasselmus project mainly now and the Power from Shore project that we are executing on. The supplier constraints could have been a big risk for us when it came to execution if we had pursued the Vette and Grevling development, obviously, that we need to risk in. We are not so exposed on this supplier restrictions that potentially could come. I would say that from our side, we are not so exposed to it.

Operator

Okay. I actually had one more on the strategy. Are assets outside NCS possible targets?

Svein Liknes
CEO | OKEA

Not in the current regime that we're looking. Now we see a huge advantage in being very focused on the Norwegian continental shelf, both when it comes to how we operate it and the regime we are within, in addition to staying within one fiscal regime as we are extracting value and for this. Norwegian continental shelf only at this time.

Operator

Okay. I think that's what we have. If there are no more questions in here in the auditorium, maybe, Svein, some closing remarks.

Svein Liknes
CEO | OKEA

Yeah. Obviously, we have a very strong position in OKEA that I think we have demonstrated. We have also set the clear path ahead for OKEA that we believe is the pathway where we'll generate most value for our shareholders. We wish to be recognized by the shareholders as well that we are giving good value to our owners. That is one of our main priorities. At the same time, as we need to balance the dividend strategy that I know there's been a lot of questions about, up against the capital allocation when it comes to growth, which will then further increase the capacity for the company to when we enter into the dividend payouts.

Svein Liknes
CEO | OKEA

If the market stays the way it is now, obviously we will. Our position will become even more stronger. That is why we also table that this is a plan that we need to present, based on the position we have. We want to do more of what we are already doing and doing very well, which is operating and extracting value from mid to late life assets on the Norwegian continental shelf. I'm a strong believer that if we are an early mover there will be a lot of assets in Norway over the next decade that actually will fall into the category mid to late life, in addition to then maximizing and being very good on decommissioning.

Svein Liknes
CEO | OKEA

That position, if OKEA positions ourselves there now, I believe there will be a lot of value generated in the next phase. I think that's it. Thank you, everyone, for your attention. We will also be available if there is anything else afterwards.