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OKEA

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QUARTR

MODULAR FINANCE

Speakers

Birte Norheim
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Prepared Remarks

Ole Myhre
VP of Investor Relations | OKEA

Okay. It was testing the last time. Okay, we try again. Welcome to the webcast for the presentation of the first quarter result for OKEA. We will present this from our office in Trondheim. My name is Ole Myhre, VP, Investor Relations. With me here in the office in Trondheim, I have our CEO, Erik Haugane, our new CFO, Birte Norheim, SVP Project and Technology, Knut Gjertsen, and Lead Controller, Ivan Snefjell. Also joining from Kristiansund, we have our SVP Operations, Tor Bjerkestrand. Okay, Erik. Try again. You start.

Erik Haugane
CEO | OKEA

Good morning, everyone. In this peculiar year that we are in now, we have, in OKEA, no Corona sick people. That is good. We have had a very good operational quarter with no serious incidents in our operated activity. We have a good, stable production, very good uptime on both Gjøa, operated by Neptune, and Draugen by OKEA. Operational-wise, I'm really pleased with how the quarter went. Financially it's, of course, less good. The income has been half a billion NOK, and our profit before tax and depreciation was NOK 312 million. However, according to accounting rules, we also have to adjust the values because of market conditions. The exchange rate, Norwegian kroner to US dollar, has made our bonds more expensive. If that continues till 2024, we will have those extra expenses.

Erik Haugane
CEO | OKEA

Of course, the outlook for the oil price is lower than it was at the start of the year, and we consequently have impaired more than NOK 600 million from our book value. CFO, Birte Norheim, will go through this in detail just after my introduction. What has been, of course, ours and most people's activities in the last month has been the reaction towards the corona epidemic. Adhering to the rules that the various countries have introduced, which, of course, has led to an enormous reduction in energy demand, which again has affected the oil price. Consequently, we have worked hard now to reduce spendings, and we have reduced the spendings this year by more than NOK 270 million. I look for another NOK 160 million in savings going forward. The operating cost has been reduced.

Erik Haugane
CEO | OKEA

Immediately after the COVID-19 pandemic was declared, we reduced number of staff on board Draugen, for example, from more than 70 down to 36. We took action immediately to save cash. We have, because of the market perspectives we see going forward, we have also postponed projects and all our exploration activities. We do take this situation seriously, and I will get back to that at the end of the presentation. For now, I leave the word to Birte that can go through the financials from this quarter. Please, Birte. c

Birte Norheim
CFO | OKEA

Thank you, Erik. Talking on the revenue side, we have seen a very strong production during the quarter, in excess of 90,000 barrels of oil equivalents per day. The general field decline has been offset by the very high uptime seen both on Draugen and on Gjøa during the quarter, in addition to production optimization measures. The sold volumes are down by 22% compared to last year, which is partly due to a lower volume on the cargo from Draugen in the quarter, as well as only one offloading of Gjøa compared to two last year. The realized prices are down both on the liquids, but most notably on the natural gas, where prices have come down by as much as 56% compared to last year.

Birte Norheim
CFO | OKEA

The lower sold volumes and the lower realized prices are partly offset by the strengthening of the U.S. dollars and the sterling compared to Norwegian kroner, and results in a total petroleum revenue of NOK 504 million for the quarter. The financial statements, as Erik said, reflect the current market turbulence, significantly impacted by non-cash items, impairment, and unrealized foreign exchange losses relating to our USD-nominated bond loans. The total revenue of NOK 561 million, in addition to the NOK 504 million outlined on the previous slide on petroleum revenues. It includes unrealized gain on productions for oil and tariff revenue from Yme. The production expense reflects the volume sold, as well as a reduction in SG&A in the quarter, and provides for our average production cost of NOK 87.3 per barrel.

Birte Norheim
CFO | OKEA

That brings the EBITDA to NOK 312 million, and it is the impairments of NOK 634 million, and the net financial items of NOK 423 million, NOK 382 of which relates to unrealized foreign exchange losses, which drives the net loss to NOK 785 for the quarter. A bit more on impairment. Obviously, we have observed some impairment indicators in the market as the pricing of petroleum products have changed significantly. It is mainly due to the changes in forward curves that we are making such significant impairments. On the right-hand side on the graph, we are providing an overview or a split in between the different categories of impairment, and the most significant one is the technical goodwill of NOK 346 million, which mainly relates to year-end Draugen. We have impaired ordinary goodwill of NOK 253 million and a less significant impairment of Yme of NOK 35 million.

Birte Norheim
CFO | OKEA

On the cash side, we have a solid cash balance going into the quarter, just shy of NOK 1.7 billion, and we had a solid cash position going out of the quarter, just shy of NOK 1.3 billion. You may note that cash generated from operations are somewhat less than usual. That's partly due to the lower revenues, but also due to changes in working capital, most notably to the final settlement on the Shell transaction, which took place during the quarter. Investment activities mainly relates to Yme, and also on the P1 well at Gjøa, and some investments also made at Gjøa, at Draugen. You may have noted that we during the quarter, performed, or executed a partial buyback of the OKEA02 bonds. We bought back just in excess of $6 million nominal value at around 20% discount.

Birte Norheim
CFO | OKEA

As Erik also said that the market is beyond doubt challenging at the moment. After all, OKEA is quite well-positioned to manage through the turmoils. We have a solid cash balance. We have no maturities until 2023 and no near-term refinancing needs. In addition, we have production expense for the quarter averaging at $8.3 per barrel, and we are continuing to focus in on preserving cash and reducing costs. However, we do see that in a continuing low price scenario for oil, we risk ending in a breach on the leverage ratio in our bond loans during 2020. We are therefore intending to approach the bondholders to seek a waiver, and we have mandated DNB Markets as financial advisors in this process.

Birte Norheim
CFO | OKEA

As the final slide for the financial section for this presentation, we provide an illustration of the forecast cash development and also leverage ratio, in two different scenario. Both are based on the forward rates for gas and oil. The yellow line represents the scenario where Yme startup occurs before the end of 2020. The blue shadow represents a scenario where Yme startup takes place in second quarter. As you may see, the Yme startup impacts both the low point on the cash balance and also on the leverage ratio. The additional volumes from Yme, combined with the increase in forward prices supports the long-term cash generation for OKEA. We intend to approach the bondholders quite soon, and with the ultimate target to summon for a bondholder meeting and get support for our waiver requests.

Ole Myhre
VP of Investor Relations | OKEA

Okay. Tord.

Tor Bjerkestrand
SVP Operations | OKEA

Yeah. Thank you. I'm Tor Bjerkestrand, SVP for operations in OKEA for both operated and non-operated. As Birte Myhrstad and Eric said, production has been excellent for the first quarter. In fact, we have beaten the target by 5% at Draugen and 2% at Gjøa. If you go to the next slide 13, you will see the Draugen details. First and most important, I have to say thanks to the organization for the fantastic work. We have no serious incidents or leaks in the first quarter, which is a fundamental principle of operations. In addition, the availability which has been achieved at Draugen is phenomenal. We are 97% availability at such a mature asset. In combination with production optimization, you squeeze barrels out every day. We have reached a 5% production above target, which is a very good result for us.

Tor Bjerkestrand
SVP Operations | OKEA

When it comes to the operation during quarter one, of course, we were hit by the COVID-19 late in the quarter. We took measures straight away, reduced manning, implemented restrictions, we have been in control of the situation since day one. In addition to the COVID-19 situation, of course, taking down the OpEx and CapEx have been a process for us, we have taken down the cost, also postponed and suspended the cost. Which is important for Draugen, our operated asset, is to keep the safety performance. That's the key of our operations. The availability is hard work every day. It doesn't come by itself. We will also now go to D2, one of our oil producers, to fix the downhole safety and get that back in production. We are lifting our next load in May. That is a safeguarded, safe loading.

Tor Bjerkestrand
SVP Operations | OKEA

Of course, continue to manage the COVID-19 situation. I don't think this is over by now. It still can come back also. Of course, we have a big maintenance turnaround coming up. We are in plans already, equipment all ready, contractors all ready. I have to mention our contractors. Thank you all for a excellent job the first quarter. Without the contractors, we haven't been able to deliver. When it comes to Yoho, and Neptune does a great job at Yoho operationally, and they have beaten the target by 2%. They have one incident at one drilling rig at the Yoho license, but no leaks, and a very high availability. Yoho have also managed the COVID-19 situation excellent, and they're also, of course, in the same situation as us, the reducing OpEx and CapEx.

Tor Bjerkestrand
SVP Operations | OKEA

For Yoho also, keeping the safety performance is critical and availability, and of course, be able to maneuver through this COVID-19 situation and the low oil price scenario. My final remarks is that first of all, no serious incidents or leaks at Draugen, our operated asset. That's critical. Of course, we beat our target on production first quarter, 5% at Draugen and 2% at Yoho. Thank you.

Ole Myhre
VP of Investor Relations | OKEA

Okay. Thank you, Tor. Then Knut on projects.

Knut Gjertsen
SVP Project and Technology | OKEA

Thank you. I'll try to give a short update on the most important OKEA projects for now. First of all, we'd like to start with Yme, where we have just completed an offshore campaign, and you can see on the picture up to the right, the wellhead module that now has been successfully completed. There's some remaining work that's quite within control. We are very pleased with the work done there. During the offshore campaign, we pulled deep set plugs into existing gas injectors. Quite good achievement to manage to pull them well. We managed to gather the information that we needed from the well to know what we had to do going forward. The Rowan Viking rig that was sort of supporting the operation is demobilized as well. Going to Egersund, where we upgrade the Maersk Inspirer. The progress has been lower than planned.

Knut Gjertsen
SVP Project and Technology | OKEA

The current COVID-19 situation adds to the challenge. To mitigate the situation, we work and the operator works, and of course the yard works very hard to source people, both Norwegian skilled workers and also foreign skilled workers, all within the current COVID-19 regime. Looking forward, the current plan is to start production end of this year. Of course, given the current situation with COVID-19 and other challenges, we see that there is a clear likelihood that we go into 2021. It's really now hard to tell exactly the expected time, but hard measures have been taken to safeguard the schedule. The current situation, of course, also influences on Yme and the 2020 CapEx is expected to increase somewhat. Going to the other projects. On Gjøa, the P1 project operated by Neptune. The P1 project is to tie back to Gjøa.

Knut Gjertsen
SVP Project and Technology | OKEA

We have just completed a Gjøa P1, and we needed two additional side tracks to meet the well objective, which of course drove the CapEx a bit up. We managed to get the information from the campaign that we needed, which was quite good. We now aim for a production startup of Gjøa P1 together with Neptune in first quarter next year. Further to the OKEA-operated Grevling/Storskrynten, which is a field development project. The current status is that it has been matured towards concept select. It's fair to say that we had to move two exploration wells in the license, Ilder and Jerv out to 2021 to safeguard our expenditures. By doing that, we have reduced the spendings in 2020 significantly. The last project I would like to mention is the Hasselmus, also OKEA operated, which is a gas tie-back to Draugen.

Knut Gjertsen
SVP Project and Technology | OKEA

As you might know, we just passed decision gate 2 on that project, have now decided to suspend the project for a year. We are in the middle of a process of closing it down, controlled in close cooperation with our suppliers, which will enable us to have a quick restart when the time is right. By doing this, we of course reduce our CapEx exposure both this year and not at least next year significantly, which is quite good given the current circumstances. Even though we have taken strong measures to reduce our expenditures, it's fair to say that the situation on Gjøa P1 and Yme drives some additional CapEx for OKEA in 2020. Thank you.

Ole Myhre
VP of Investor Relations | OKEA

Okay. Thank you, Knut. Erik.

Erik Haugane
CEO | OKEA

Yeah, thank you all. In these peculiar times, the focus of the board and the management is to prepare the company for the growth that will happen when we get out of this situation. We are really in a period now going forward of too much oil out in the market. It is sensible for us to try to forward all maintenance work and everything we need to do anyway to this summer in order to delay the next cargoes from Draugen. We have a cargo coming from Draugen now early May, which is partly hedged. We don't know if the Norwegian authorities will impose some production restrictions, but it make good business sense anyway to concentrate any stops, any maintenance work to this summer to not add to the difficulties in the market.

Erik Haugane
CEO | OKEA

We estimate that the next cargo from Draugen will be delayed till August, if that plan is carried out. We are, in addition to that kind of market adaptation, we are protecting the cash, and prepare ourselves for a growth position as the market conditions improve. We think that as analysts also estimate that a lot of production is taken fairly permanently out, and that when market partly recovers, that we will see a better pricing of oil products. For this year and also into next year, we need to protect our financial position, and we already mentioned the waiver period. The long-term outlook is very good.

Erik Haugane
CEO | OKEA

We will increase our production significantly when Yme is in production, and we expect a rise in product prices as to the market when it comes to 2021, 2022. We are in good shape. Because of this maintenance work we do and also they do on Yme, we're also going to tie in other fields. We will produce less the next few quarters than we did last year, which of course is a good thing in today's market conditions. We prepare our company to grow into the future, and as everyone else, we of course follow various M&A opportunities as we go forward. Even though this year is financially challenging and not very profitable, the outlook for the company is, in my view, very good. We have proven our concepts that 700 million barrels of oil on the Norwegian shelf are profitable at normal oil prices.

Erik Haugane
CEO | OKEA

Being the lead operator in this segment, we are going into a great future following this event that we experience today. Thank you very much for your attention for this presentation, and we look forward to answer any of your questions. Ståle.

Q&A

Ole Myhre
VP of Investor Relations | OKEA

Yes. There has been a couple of questions on the webcast. The first one is from Anders Faalta. What realized oil prices have you seen so far in Q2? Follow, any comments around the ability of selling cargoes? If oil prices stay at the $20 mark, what will be the cash burn for OKEA Q2 2020? Thank you.

Birte Norheim
CFO | OKEA

What do we want to say about the realized prices, Erik?

Erik Haugane
CEO | OKEA

The only realized prices we have had in Q2 was from Yme.

Birte Norheim
CFO | OKEA

Yme.

Erik Haugane
CEO | OKEA

I don't have the overview of that. No?

Birte Norheim
CFO | OKEA

No.

Erik Haugane
CEO | OKEA

We don't know those yet. As I said, the only two quarter cargo which is most of our oil, of course, is from Draugen, will happen in early May, so it hasn't happened yet. Then we think the next cargo will be in August. Anybody's guess on the oil price in August are appreciated. Send it to us if you know.

Ole Myhre
VP of Investor Relations | OKEA

Okay. There was one more question on Yme. Knut, what is the status on Yme field development and production start? I guess you pretty much covered that.

Erik Haugane
CEO | OKEA

You can repeat if you like.

Ole Myhre
VP of Investor Relations | OKEA

Yeah.

Knut Gjertsen
SVP Project and Technology | OKEA

Yes. The planned production start for Yme is end of this year. As I said, the current circumstances, of course, drives a big uncertainty to the start of time. There is, of course, a significant risk that we will experience a delay beyond that. We work, of course, very hard to safeguard the schedule, and we, of course, trust the operator and the ultimate arc to work hard on this going forward.

Ole Myhre
VP of Investor Relations | OKEA

Another question here from Magnus Fagerbakke. How many production wells planned at Grevling/Storskrynten, and also many planned at Hasselmus?

Knut Gjertsen
SVP Project and Technology | OKEA

I don't have the Grevling numbers, to be frank. Of course, we can provide that information. Hasselmus is basically one well. Since it's a gas field that is fairly easy to drain.

Ole Myhre
VP of Investor Relations | OKEA

Okay. From Carl Fredrik Pedersen. Can you guide for quarterly production and quarterly sales?

Birte Norheim
CFO | OKEA

We are providing the annual guidance, as was on the last slide, of 14,000-15,000 barrels of oil equivalents per day. Sales, yeah, that's a function of the market prices, which is uncertain at the moment, and the production, of course. As Erik said, if we are pushing forward the maintenance, that will have an impact on our sales in the second quarter.

Ole Myhre
VP of Investor Relations | OKEA

Okay. That was the question on the webcast. If you have, after this presentation, Okay, sorry. There was one small question coming up. I think we can go for that. What is the cash cost per boe given the lower production output anticipated this Yme?

Birte Norheim
CFO | OKEA

Well, we are not guiding on that. We are providing the numbers for first quarter, which was 87.3.

Birte Norheim
CFO | OKEA

We're not providing any further guidance on that as of now.

Ole Myhre
VP of Investor Relations | OKEA

Okay. I think with that, we conclude the webcast. If you have any more questions following this presentation, please feel free to reach out and we'll try to answer as best we can. Okay. Thank you all for watching this presentation.