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OKEA

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QUARTR

MODULAR FINANCE

Speakers

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Prepared Remarks

Erik Haugane
CEO | OKEA

Welcome, and thank you for logging on to OKEA's fourth quarter presentation. The details of the presentation and the report itself you will find on our website, www.okea.no, under the tag Investors. The fourth quarter was an excellent quarter for the company. We delivered excellent results in production. We had a net profit of NOK 182 million. Let us just jump into the details and Birte Norheim, our CFO, will present you the financial results. Birte, please continue.

Birte Norheim
CFO | OKEA

Thank you, Erik. Production reliability were high both at Gjøa and Draugen during fourth quarter. Production increased by 22%, or nearly 2,900 barrels a day compared to third quarter, following completion of the turnaround at Draugen and the planned downtime at Gjøa. Production were 5% lower compared to last year, or about 850 barrels a day. The lower volumes at Draugen were partly due to gas previously being exported, currently being used as a power supply and replacing diesel. Also the temporary shutdown at the I-1 well, which was now back up and running again in February. At Gjøa, we had five days of reduced production in relation to the union strike which ended in October. Sold volumes were 36% higher than last year, or nearly 5,000 barrels a day.

Birte Norheim
CFO | OKEA

That was mainly due to allocation to OKEA of accrued lifting from Ivar Aasen, as well as the large lifting from Draugen in October. We have observed significant improvements in market prices for petroleum products over the last month. We did not get the full effect of the liquids pricing in Q4, partly due to the Draugen lifting occurring very early on the recovery curve. The realized price for liquids were 36% lower than last year, down from $61 a barrel to $39 a barrel. The recovery was, however, significant for natural gas, which was realized at prices 48% higher than last year. That brings the petroleum revenue to NOK 581 million, an increase of 9% compared to last year and more than double the average for the previous two quarters.

Birte Norheim
CFO | OKEA

As for the income statement, the operating income of NOK 584 million mainly consisted of the petroleum revenue of NOK 581 million, as just outlined, tariff revenue from Gjøa of NOK 16 million, and partly offset by cost and accrued losses relating to hedges of NOK 15 million. Production expense amounted to NOK 189 million, or NOK 110 per barrel, compared to NOK 121 per barrel last year. That lower cost and that improvement largely relates to the very high production reliability and good performance both at Draugen and Gjøa. In Q4, we are reversing an impairment at Yme of NOK 117 million. That was mainly driven by a very important milestone being achieved on December 31st, 2020 when Mærsk Inspirer was installed at the Yme field offshore. That significantly reduces the timeline risk towards production startup. In addition, the improved macro factors significantly increases the fair value estimate.

Birte Norheim
CFO | OKEA

As we are now, for all practical purposes, recognizing Yme at fair value, we should expect to see further changes in these estimates, which will result in either future impairments or future reversal of impairments, and these effects will be largely driven by macro factors at balance sheet date. Exploration and operating expense consists of NOK 44 million in exploration expense, mainly relating to field development activities at Hasselmus as well as seismic purchases. SG&A cost of NOK 48 million is above average and is a result of an annual recalculation of cost allocated to licenses, as well as bonus awards under our share incentive program. SG&A cost for the full year amounted to NOK 87 million, a decrease of NOK 16 million or 16% compared to last year due to cost-cutting initiatives.

Birte Norheim
CFO | OKEA

Net financial items is a gain of NOK 243 million, which mainly consists of an unrealized foreign exchange gain relating to the dollar-nominated bond loans as NOK strengthened by 10% compared to USD during the quarter. This is partly offset by an interest expense of NOK 23 million. Tax expense for the quarter amounted to NOK 227 million, representing an effective tax rate of 55%, brings the net profit for the quarter to NOK 182 million. Cash and cash equivalents amounted to NOK 871 million, I will get further back to this. The current tax refund of NOK 296 million losses in 2020. Interest-bearing debt amounted to NOK 2.4 billion, this amount has come down partly due to buybacks and also due to unrealized foreign exchange gains.

Birte Norheim
CFO | OKEA

The asset retirement obligation of NOK 4.2 billion is partly offset by the NOK 3 billion in non-current receivable, as the cost of removal from Gjøa and Draugen will be borne by Shell. Cash at the start of the quarter, as well as cash at the end of the quarter, is just shy of NOK 900 million. Cash from operating activities amounted to NOK 108 million. Taxes received of NOK 164 million is the net of two tax installments received, each of NOK 154 million, partly offset by the residual tax for 2019 paid of NOK 144 million. Cash to investment activities of NOK 188 million mainly comprise investments relating to Yme, Gjøa P1 project, as well as the gas import project at Draugen. Interest paid of NOK 71 million relates to both OKEA02, which is payable quarterly, and OKEA03, which is payable semi-annually.

Birte Norheim
CFO | OKEA

During the quarter, we also did a partial buyback, an additional buyback of OKEA02, for a nominal value of $2 million or a cash outlay of NOK 16 million. This is a discount of 11%, we note that currently the bonds in OKEA02 is currently trading around par. We are also providing guiding on production as well as capital expenditure for 2021 and an indication of expected production given our existing portfolio for 2022. As for 2020, we are pleased to deliver above our guidance. Production of 16.1 thousand barrels a day compared to the guiding of 14,000-15,000 barrels a day is due to the strong performance we have seen throughout the year, both for Gjøa and Draugen, resulting in an outperformance compared to our guiding in excess of 1,000 barrels a day.

Birte Norheim
CFO | OKEA

CapEx is just below or at the low range of the guiding, ending at NOK 980 million, compared to our guiding of the range between NOK 1 billion and NOK 1.1 billion. As for 2021, the production guiding is in line with the actuals for 2020 at 15.5-16.5 thousand barrels a day. We have a few factors driving that. We have a few positive drivers, which is relating to the two new wells at the Gjøa P1 project, which we expect to come on stream now in February, as well as the Yme startup expected in second half of the year. These effects are offset by 45 days of planned shutdown in Q2 at Gjøa. Parts of this will be compensated as deferred production in 2022 and as well as a general field decline.

Birte Norheim
CFO | OKEA

The increase in the 2022 outlook of 17,000-18,000 barrels a day is mainly due to an expected full year of production from Yme. CapEx guiding for 2021 of NOK 600 million-NOK 700 million is a significant reduction compared to 2020, which is mainly due to both the P1 project as well as the Yme new development project, both nearing completion. On that note, I'll give the word back to you, Erik. Thank you.

Erik Haugane
CEO | OKEA

Thank you, Birte, for enlightening us about the excellent results of the fourth quarter. I will now talk a little bit about our projects and our assets. Let me start with the production as already shown. Here you see the production results of the entire year, also compared to the fourth quarter in 2019. We did the last quarter, as already said, produce more than 60,000 barrels a day on average, which is almost exactly the same as we did for the entire year of 2020. As you see, half of the production for OKEA comes from the Draugen field, and the other half is gas coming from Gjøa. Right now, we are about halfway exposed to gas and half to oil. Let me first talk about the Draugen field. Draugen is in its late life, even though it's another 20 years to produce.

Erik Haugane
CEO | OKEA

That meant that we had to start, we didn't have enough gas in the field, so we have used diesel to fuel the energy system on Draugen. We rebuilt the system such that we could import gas. We are now importing gas, which started in the fourth quarter, importing gas from the Åsgard Transport System. Now we are fueling energy on Draugen with gas from the Åsgard Transport System. Also what is important on Draugen is to keep the wells in operations, and we have, together with Oceaneering, we just the other day managed to repair one of the BOPs. You see here the operations going on at 280 meters water depth. We actually managed to get the valves to work. This is a well that has been shut down since 2019, and it yesterday started to produce again.

Erik Haugane
CEO | OKEA

The next thing that will happen in the Draugen area is the Hasselmus gas discovery, just north of Draugen. It's planned for development. Not only will we produce between one and two billion cubic meter of gas from Hasselmus, but it also will probably be an enabler for producing the gas discovery further north of that again. By producing gas from Hasselmus, we avoid importing gas from Åsgard Transport System and we can also then export our condensates from Draugen, which is a pretty high value and rather than use the condensate for fuel. A lot of good work is done on Draugen. At the same time, we operate that with a very high regularity. We expect that we will make a decision on Hasselmus in the first half of this year, and it's possible then to have first gas from Hasselmus in 2023.

Erik Haugane
CEO | OKEA

With the very high CO2 taxes that is announced, we are really incentivized to find other power solutions to Draugen, and we have come quite far in establishing a project where we can have power from shore. We also expect to do final investment decisions sometime during this year. The plan for Draugen is to try to produce as much as 70%, to extract as much resources as possible, or with investment already done, it's a very sensible thing to do in a Circular Economy type of philosophy. We plan to operate such that we can be in production until at least 2040 and produce as much as 70% of the reserves in the field. As far as the Uar concerns, where the rest of our production comes from, a new development project in the so-called P1 sector has just finished.

Erik Haugane
CEO | OKEA

The two wells there will be put on stream anytime now. That will also contribute to a better production on Gjøa. Gjøa is, of course, also of interest for us for two other reasons. One thing is that we have acquired shares and operatorship of Aurora, which is another gas discovery. It is possible that we will drill a pressure well on Aurora to make sure that we have the quality that we say on the gas and the volumes that we say in order to get a reasonably good tie-in contract to Gjøa before we develop that field. That will be a small one well development. The pipeline is already laid over the Aurora area. In addition, as I will return to, we also got awarded a license just west of the Gjøa platform.

Erik Haugane
CEO | OKEA

A very important thing that did happen at the end of the quarter was that the Yme platform was finished in the Egersund yard and towed out to its location. New Year's Eve, it actually landed next to the Valhall platform, where it shall stay for the next 10 years to produce the Yme field. This event really de-risked the timing of the project. Now we are really confident that first oil will be seen from the Yme field later this year. That will have a significant contribution to OKEA's production. Another thing we did in the fourth quarter was to acquire the Vette discovery. It's another 40 million barrel discovery. It's about the same size as Grevling. We have been working very hard to get the cost down on Grevling. Not only with a lot of good engineering work for the facility itself.

Erik Haugane
CEO | OKEA

We look upon a combination or a coordinated development between Vette and Grevling as an enabler to get the break-even cost even further down and significantly down. We're working with the partners, how to see how to develop those two fields in a kind of combined solution. In addition, we work around Grevling, where the same partners, Grevling, also hold the license south of Grevling, operated by Chrysaor, where two prospects, Jerv and Ilder, will be drilled this year. Actually, the spudding of the first well is already in March, and of course, a discovery in one of these prospects will have a significant impact on the development plan and the value, of course, of the Grevling field. As also mentioned before, we were successfully awarded six licenses. It's eight discoveries in these six licenses, and we operate four of the six.

Erik Haugane
CEO | OKEA

There are three areas these six licenses are in. One is, of course, around the Draugen, where we have a kind of core area right now, where we have four licenses together with Wintershall Dea, with Equinor, with Vår Energi, with Pandion, with ONE-Dyas, and with M Vest Energy. Several of these new licenses contains discoveries already, and that will be really interesting to see whether we can find development solution or additional reserves that enable us to develop these fields. Another area we picked up license is north of the Norne field, together with Lime Petroleum, where there are two discoveries. So another example of finding discoveries to see whether there is possible to develop it with modern technologies and a new view of the area.

Erik Haugane
CEO | OKEA

The third area where we acquired a license was as already mentioned, right west of the Gjøa field, and that is together with DNO and Pandion. Of course, that's also an area we are already engaged in, so that also will be interesting to follow. DNO is operator of that license. I want to wrap up by having some comments on the outlook. First, let me mention how the market has developed. As you see and already seen from illustrations earlier today, the realized oil prices was pretty low in the second quarter and have increased a bit since. The general tendency with the oil price seems to be go higher, and as the world is kind of getting back to normal sometime after Corona, we think we will again see as also most agencies will see again the need of oil is growing significantly.

Erik Haugane
CEO | OKEA

We also see the gas prices are picking up. As I already mentioned, OKEA produces also a significant amount of gas. What has happened the second half of 2020 and seem to still be the trend is that the gas prices have picked really up. There was actually a LNG cargo going in Asia for equivalent of $240 a barrel, that was kind of an anomaly in the market. It really shows the volatility of oil and gas and the value also of gas going forward, we think. As for the outlook of OKEA, we maintain that we will produce around 16,000 barrels a day also this year, and that will increase next year because of Yme will be in full production. From 2023, we assume and plan that the production from new developments will kick in, both Hasselmus and Grevling, Vette.

Erik Haugane
CEO | OKEA

These are not sanctioned, of course, and we have not here at all forecasted anything from the new licenses that I just mentioned. We are pretty confident that we within five years have picked up production about 20,000 barrels a day. We have a lot of triggers, also in the short term, in 2021. Already within a few days and definitely in February, we will see two new production in operations from OKEA. We will have the production from Yme this year. We will make the final investment decision on Hasselmus. We are partners in three firm exploration wells, and the first one is actually spudding now in March. We'll possibly drill another well on Aurora, as already mentioned, and we expect that we and partners will discuss and agree on a concept selection for Vette Grevling.

Erik Haugane
CEO | OKEA

Not at least, we will mature a significant larger portfolio now than we used to have had following the April 2020 award. We have doubled the number of operatorships following this award, and we have eight new discoveries to look into and another 15 or so new prospects in that portfolio. That concludes the presentation. Thank you for listening, and now it's open for questions, which then I will try to answer the best we can. Please post your questions now. Thank you very much.

Q&A

Operator

Thank you. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, press star one to ask a question. We'll pause for a moment to allow everyone an opportunity to signal for questions. Once again, that's star one to ask a question. We'll now take our first question. It comes from Anders Holte from Kepler Cheuvreux. Please go ahead.

Anders Holte
Analyst | Kepler Cheuvreux

Good morning, guys. Thanks for a good presentation. It's also good to see that 2021 looks to be quite a turnaround year. I just have a couple of questions, if I may. First, you give quite solid guidance on spending levels for this year and also your production. I'm curious if you can give us any flavor in terms of the spend on exploration for this year and also if you can give anything in terms of operational costs, either in NOK per barrel or USD per barrel, that would also be good. My second part is more related to the capital structure of the company. With your current tax incentives in place and your quite lower spending level in 2021 compared to last year, this is to be quite a cash building up on the balance sheets.

Anders Holte
Analyst | Kepler Cheuvreux

Just curious to know if there's any thoughts of refinancing any of your debt structure in order to pay down cost of capital or how you see the capitalization of OKEA going forward? Thank you.

Erik Haugane
CEO | OKEA

Birte here, please.

Birte Norheim
CFO | OKEA

Yes. Thank you, Anders. Well, there was a few questions. We don't provide guidance on spendings on exploration. As Erik said, we have three firm wells planned. As for the capital structure, yes, we are having quite a solid cash balance at the moment. We are also planning to embark on quite a few projects. At the moment, we don't have any plans to do any refinancing. We are exploring various options to finance new projects. Not in the very near term. In the near term, we don't foresee any major changes to our capital structure. Production expense per barrel for 2021, we don't provide guidance on that. I think the track record that we have for 2019 and 2020 is a good indication.

Birte Norheim
CFO | OKEA

Whilst that we have also communicated before that we are working on reducing the cost, particularly on Draugen, our operated assets. We don't provide specific guidance on that.

Anders Holte
Analyst | Kepler Cheuvreux

Okay, thanks.

Operator

We'll now take our next question. It comes from Teodor Nilsen of SpareBank 1 Markets.

Teodor Sveen-Nilsen
Analyst | SpareBank 1 Markets

Good morning, thanks for taking my questions, and thank you for the update. I have a few questions from my side. First one on Yme. I just noted that you changed your wording marginally, that you now indicate first or the second half of this year compared to what you previously said was 2021. I just wonder if there actually a change in the outlook there, or what's the reason for the minor wording change? Second question on Gjøa. Positive to see that they will come in a new well, I just wonder what should we expect in terms of production increase in first quarter from Gjøa. Third and last question on Draugen. You're talking about power from shore and then 130 km of cable. Could you indicate what that project will cost?

Erik Haugane
CEO | OKEA

Yes, Erik here. I can start on Yme. Yme has been the project that has created a lot of aching in the partnership because of delays.

Erik Haugane
CEO | OKEA

When we assessed Yme in the third quarter, during the fourth quarter, we put in space for a lot of, came into the winter season, and we put in a lot of space for significant weather standby during the process. The fact that the Yme platform landed on site on New Year's Eve was one of the few lucky incidents in the Yme project, because it was a weather window just immediately following the completion at the yard. That, in theory, took away four months of hypothetical weather standby. When the platform is there physically and we see the project now going forward with Mærsk Inspirer to hook up everything on the rig. There are still weather uncertainties for some of the work. With the rig in place, we have taken away the biggest risk of significant delays.

Erik Haugane
CEO | OKEA

There are still four or five months work left. Of course, there might be some work that is hindered by weather during the winter. Now we are very confident that we will see first oil from Yme after the summer into the second half of 2021. The risk of delaying that to 2022 seems to be extremely small. Do anyone have that from what Yme will produce?

Birte Norheim
CFO | OKEA

We were not supposed to share.

Erik Haugane
CEO | OKEA

We are not sharing it.

Birte Norheim
CFO | OKEA

It is included in our guiding figures for the year.

Erik Haugane
CEO | OKEA

That is, besides, it's operated by Neptune and it is their estimates and figures that they count. Of course, that will be seen in the monthly report that the entity delivers. Production will not be a surprise when it comes to the end of first quarter. The power from shore project from to Draugen, it's a pretty long distance. Of course, it probably costing around NOK 2 billion to do it. What we are working together with Equinor is this project together with them to use on Njord. How we share the cost and what it eventually will cost to them, we don't know yet. That's what we are working at right now, and expect to have a firm project proposal to the license. The same goes with Equinor, that they will have a firm process towards their license.

Erik Haugane
CEO | OKEA

Then we have a joint decision, hopefully before the summer. It looks like this project can be feasible with all the kind of subsidies and support that we can have to realize that project. The benefit for us, in addition to paying less CO2 taxes, is of course that having electricity as an energy source on Draugen will also enable us to reduce the operation cost towards the tail end of the field more than we can with the present turbines. You will get the numbers when we have the numbers. They are quite tentative right now.

Teodor Sveen-Nilsen
Analyst | SpareBank 1 Markets

Okay. Just to be clear, those NOK 2 billion will be shared with the Njord and Draugen partners, right?

Erik Haugane
CEO | OKEA

We don't really have a full overview of what the extra cost will be between the two, because we have two different frequencies of currency on the two platforms. It is a project going on now with different suppliers and kind of competitive ideas of how to do this in terms of what kind of currency you bring to where, et cetera. There are still issues up in there. The cost range is, it's a quite expensive project, of course, but yeah.

Teodor Sveen-Nilsen
Analyst | SpareBank 1 Markets

Okay. Thank you

Erik Haugane
CEO | OKEA

licenses. It will probably be north of that.

Teodor Sveen-Nilsen
Analyst | SpareBank 1 Markets

Okay, thank you.

Operator

Once again, if you would like to ask a question, please signal by pressing star followed by the one on your telephone keypad.

John de los Santos
Head of Investor Relations | OKEA

Okay, this is John from OKEA. On the web, we have a question from Jørgen Torstensen from Fearnley Securities. Two questions. Could you please add some color on the higher SG&A for the quarter? The second question, do you have a rig lined up for the exploration program this year?

Birte Norheim
CFO | OKEA

Maybe I can take the first one please. Maybe this was posted before I elaborated on this in the presentation, but it's basically relating to the fact that we've done a reallocation of cost to licenses during the fourth quarter. As we are ending up at a lower cost than what we initially budgeted due to the cost-saving initiatives, we have a reversal of the previous allocation to licenses. Also the effect of the bonus awarded in the fourth quarter in relation to the Share Incentive Program is also a part of the effect that we see in the fourth quarter. We have some more information also in the quarterly report in note 13.

John de los Santos
Head of Investor Relations | OKEA

Yeah.

Erik Haugane
CEO | OKEA

Yeah, that's for the rigs. The three firm wells, there are rigs allocated and the COSLInnovator is the first one going to this year. Their prospects, starting in next month already. With respect to the potential appraisal well, we have not assigned any rig yet. For the firm wells, there are rigs assigned.

John de los Santos
Head of Investor Relations | OKEA

Another question from the web, from Harald Storedal of Soft Value. Could you give any clarity on CapEx level in 2022?

Erik Haugane
CEO | OKEA

In 2022?

Birte Norheim
CFO | OKEA

Not at this stage, this will depend on what projects, how the projects that we are now having important milestones is progressing. That's why we have limited the guidance to 2021.

Erik Haugane
CEO | OKEA

A lot of these projects require that we submit the PDOs or other things that has to be approved by government, et cetera. The real investments will probably not be seen before we are in 2023, 2024. The fastest project going forward is Hasselmus, where we will see some investments taking place in 2022, but we don't know exactly how much now.

John de los Santos
Head of Investor Relations | OKEA

Okay. Are there any more from the moderator?

Operator

There are no more questions over the phone.

John de los Santos
Head of Investor Relations | OKEA

One other question here. You're drilling three firm wells here, Jerv and Ilder, and Ginny. Can you say, are they oil or gas? Can you say a little bit about the prospect size?

Erik Haugane
CEO | OKEA

Jerv and Ilder, one of them is gas, the other is Most likely gas, the other is most likely oil. Actually most likely dry for both. Most likely water in both of them. That's how the exploration goes on. The size expectation is in the 50, 60 million barrel range. They are not huge projects, but of course, 50, 60 million barrels next to Grevling will make a huge difference to the economy of the two joint projects, because then you have 100 plus in that one development. That would be really significant.

John de los Santos
Head of Investor Relations | OKEA

Okay. If there are no more questions, I'll just say thank you from OKEA. If there are any other questions, we have given our contact details, and I'll be very happy to get back to you. Thank you.