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OKEA

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QUARTR

MODULAR FINANCE

Speakers

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CEO | OKEA

Birte Norheim
CFO | OKEA

Operator

Teodor Sveen-Nilsen
Analyst | SB1 Markets

Company Representative

Prepared Remarks

Svein Liknes
CEO | OKEA

Morning, and welcome to the presentation of the third quarter results for OKEA. My name is Svein Liknes. I am the CEO of OKEA, and as previously, I am joined with my CFO, Birte Norheim, who will take you through the financing after my operational update. Afterwards, we will also have a question and answers section, and there is a link on our homepage that gives instructions where you can actually send us some questions, and I hope as many as possible will be able to attend that as well. The third quarter has again been a quarter with very high uncertainty in the world around us, both when it comes to supply, but also demand. It has been a quarter with very high oil and gas prices. In this period, we are focused on what we actually can do something about, and that is to drive operational and project excellence.

Svein Liknes
CEO | OKEA

The key takeaways in this quarter is that we are on track for the guidance and the high end of the guidance for this year. We have started the Garn West South well on Draugen, which we tried to start in Q2, and we said we will start it in Q3. That happened actually in August, so that is now producing in over Draugen. Bestla is ahead of plan and below the previous cost estimates, and we have now adjusted the startup from early 2027, and we expect now production to be started by the end of 2026, which is a very good achievement. We are still driving organic growth, and we have sanctioned Springmus East on the Draugen field, and also Talisker West at Brage, and both of these will be executed and also deliver first oil during 2027.

Svein Liknes
CEO | OKEA

I am also very happy to announce that we are resuming the quarterly dividends from this quarter, which is again supported by a very strong net cash position of the company. When it comes to production, as you can see here, we produce a little bit more than the previous quarter, and the main factor for not producing as much as Q1 is actually the Draugen turnaround. That was executed during this quarter, and you can see the production efficiency on Draugen is down to 65%. However, the turnaround was executed within the 22 days that was planned, and I am also very happy to say that we are now back into full operation. Also very happy to state that Brage is delivering 99% production efficiency in this quarter.

Svein Liknes
CEO | OKEA

We had a prolonged turnaround during the second quarter, but the comeback has been very good and now showing very stable production as we speak. For the remaining assets during this quarter, 90% and above is the number for the production efficiency. As you can see on the bottom timeline here, it is a very good and a very positive operational timeline. We do have Bestla progressing towards production by the end of 2026. So actually now in November, we are handing over activities to operations, and we do expect a completion in December. The Garn West South well has started production at Draugen and has significantly lifted production on Draugen after the startup. There was a bit more gas in the well than expected, so we are seeing more gas production from the well than expected.

Svein Liknes
CEO | OKEA

The well is producing around 15,000 boe equivalent currently, and Draugen is now producing last week above 33,000 bbl in average, which is more than 11 years since they did last time. On the Springmus East, that has been sanctioned, which is also tied back to Draugen, so that is something we will drill in during the second half of next year. As I previously mentioned, the Draugen maintenance and turnaround was successfully executed during this quarter, which creates a very stable foundation for steady production for the rest of this year and well into 2027. Again, going back to value creation, this is the Brage story, still continues to deliver. On the Brage, we have updated and also maintained the drilling rig this year.

Svein Liknes
CEO | OKEA

We have used the beds available for the Bestla project, but as we are now completing the Bestla project, we are again assembling the drilling team on board and starting to drill during the second quarter of next year. We are pursuing new opportunities after the Bestla and the Tverrdal exploration well that we will drill next year, I will get a little bit back to that afterwards, is a very important also contributor, which is following the trend where we discovered the Talisker discovery last year. Again, the same metrics as before, the main metrics that we are following is the production efficiency, which we have increased from 88%-94%. Again, very good development in the resources and reserves on the asset, which then drives commercial lifetime out to beyond 2035. The same story on Draugen.

Svein Liknes
CEO | OKEA

As you can see on the curve here, it looks like it is going down, but actually this is year to date in 2026, and as I just mentioned, this curve will be influenced by the startup of Garn West South, which was now started. As I just mentioned, the production last year was actually at 33,000 on Draugen now as we have started the Garn West South. That will obviously tail down, but a very healthy production development on Draugen as well. We are continuing on the Power from Shore project, which we now have completed the onshore facilities, and we are expecting the end of the offshore construction for the electrification on Draugen by the end of 2027, which is the heaviest construction period.

Svein Liknes
CEO | OKEA

Again, same metrics here, extending the commercial lifetime by adding resources and increasing production efficiency, which we also have done on Draugen since the takeover in 2018. Organic growth, very important part of our strategy as well. The planned exploration wells that we have in the portfolio now is the Kyllinglår, which is being spud in the end of this year, maybe early next year, which is a tieback to Statfjord. Very important contribution to the Statfjord portfolio. We do have the Arkenstone well, which has been in our portfolio for quite some time, so we are very much looking forward to actually do the drilling in the first quarter of next year on this one, which could be a play opener. We do have a prospect called Trust, which is in the Gjøa area, again, targeting drilling in the first half of 2027.

Svein Liknes
CEO | OKEA

As I mentioned, in the Brage area, we have Tverrdal, where we farmed in and took over operatorship last year. We have also moved the exploration well from 2028-2027 because we believe it is very important to map this area to see if there is more resource which could then result in a tieback to Brage as well. We are increasing our organic growth ambitions. Currently, we do have four wells, or an ambition of participating in four exploration wells on the Norwegian Continental Shelf. Over the next three years, we have an aim to increase this ambition number to six wells per year, as exploration on the Norwegian Continental Shelf is also a very important part of OKEA's business and our growth. We have executed one exploration well during the previous quarter, which was called Alpehumle, where we had 20% working interest.

Svein Liknes
CEO | OKEA

That showed out to be a non-commercial gas discovery, but we are still in the license, and we are looking for further prospectivity in the license together with the other partners. We also closed the Mistral sale that we had in Q2, so that was closed in Q3, which shows that exploration also drives value creation in all phases, not only when it starts production. So very happy to see that we were able to complete that during the third quarter as we had planned. With that, I will hand over to Birte, which will take you through the financing, and then I will do a summary before we go back to questions and answers thereafter.

Birte Norheim
CFO | OKEA

Thank you, Svein. Before going into the numbers, I would highlight three things that characterize the quarter: strong operational execution, solid cash generation, and a further strengthening of our financial position. More importantly, we are approaching an inflection point with higher production combined with a lower and more short-cycled investment profile. This is expected to translate into stronger cash flow and increased financial flexibility, which is providing capacity both for value-accretive investments and shareholder distributions. But let us dig into the details, starting with production and sales. Production averaged 29.1 thousand barrels per day. The increase of 8% mainly reflect lower maintenance activities compared to previous quarter. Draugen completed its planned shutdown in September, while Brage, Statfjord B, and Ivar Aasen had their planned shutdowns in the second quarter. This completes the planned maintenance program for 2026, with no major maintenance shutdowns planned until the second quarter next year.

Birte Norheim
CFO | OKEA

We overlifted volumes equivalent to 4.9 thousand barrels per day, resulting in sold volumes of 33.4 thousand barrels per day. The realized crude price decreased by 17% to $96.6 per barrel. With a lower share of NGLs in the sold volumes, the realized liquids price was $94.6 per barrel. Our realized gas price increased by 38% to $121.3 per boe equivalent. Overall, this resulted in petroleum revenues of $316 million. Moving on to the income statement. Operating income remained strong at $332 million, comprising $316 million of petroleum revenue and $16 million of other operating income. Other operating income included a $28 million gain from the sale of Mistral and $7 million of tariff income at Løa and Statfjord. Partly offsetting was a $20 million net hedging loss.

Birte Norheim
CFO | OKEA

Production expenses amounted to $87 million, remaining somewhat elevated due to the planned maintenance shutdown at Draugen. Combined with the lower production during the shutdown, this resulted in a unit production cost of $29.5. With the maintenance program now completed and production increasing, we expect unit production costs to revert to normal levels of $20-$25. Following three consecutive quarters of overlift, we have now recovered the underlift position accumulated since last year, and we recognize an expense of $20 million. Exploration expense were $28 million, mainly reflecting the previously capitalized cost related to Alpehumle and Prince. We also recognize an asset impairment of $33 million at Statfjord, driven by lower volumes and increased CapEx estimates, partly offset by increased forward prices.

Birte Norheim
CFO | OKEA

As Statfjord is measured at fair value, future changes in the underlying assumptions may result in future impairments or reversal of previous impairments going forward. Net financial income was $3 million, and tax expense was $77 million, bringing the net profit to $29 million. Turning then to the balance sheet and our financial position. Goodwill amounted to $88 million, of which $71 million was technical goodwill and $17 million was ordinary goodwill. Cash and cash equivalents increased to $440 million, and in addition, $62 million was invested in money-market funds and classified as other assets, which brings the total cash to $476 million. Interest-bearing debt remained unchanged at $296 million, relating to the OKEA05 and OKEA06 bonds, and this leaves us with a net cash position of $180 million at the end of the quarter.

Birte Norheim
CFO | OKEA

Income tax payable was $179 million, reflecting accrued taxes for the first nine months of the year, partly offset by $20 million in tax refund for 2025, which will be received at the end of the year. Finally, asset retirement obligations amounted to about $1 billion. This is a pre-tax amount, and the liability is also partly offset by asset retirement reimbursement rights of $464 million. Let's move on to the cash development. High realized prices combined with the overlift contributed to cash generated from operations of $225 million before tax. We paid $43 million in taxes relating to the first two installments for the current tax year. Investments amounted to $81 million and mainly relate to drilling activities at Draugen and Statfjord, as well as progress on the Bestla and Power from Shore development projects.

Birte Norheim
CFO | OKEA

Other cash movements were a net positive $22 million and include $30 million in proceeds from the sale of Mistral. Overall, total cash increased by $121 million during the quarter and ending at $476 million. Despite continued high investment activity, we delivered another quarter of strong cash generation. Looking at the year-to-date cash development, we have generated $560 million from operations before tax, while investing $273 million in our portfolio. The investments predominantly relate to Bestla and Power from Shore, together with drilling activities at Draugen, Brage, and Statfjord. Despite a significant investment program, we have continued to build financial capacity, and with the investment profile now starting to come down, this brings us naturally to shareholder distributions. Our strong financial position and good operational performance in combination with a favorable commodity price environment provides a solid foundation for resuming quarterly distributions.

Birte Norheim
CFO | OKEA

With Bestla nearing completion, we are moving into a period of higher production and a lower investment. We are now therefore resuming quarterly distributions with the first distribution of NOR 0.2 Per share to be paid in December. For 2027, our intention is to distribute at least NOR 0.1 per share quarterly. Distributions will continue to be assessed each quarter, taking into account market conditions, the company outlook, and available value-accretive investment opportunities. However, our objective remains clear: to combine attractive shareholder distributions with investment in profitable growth while maintaining a strong balance sheet. Finally, in this financial section, an update on our guidance. For 2026, we are narrowing our production guidance at the high end to 31,000 bpd-32,000 bpd, reflecting the strong operational execution and the startup of Garn West South at Draugen.

Birte Norheim
CFO | OKEA

Our 2027 production guidance remains unchanged at 39,000 bpd-43,000 bpd. For 2026, we are also narrowing our CapEx guidance around the midpoint to $320 million-$340 million. For 2027, we are increasing the CapEx guidance by $30 million-$260 million-$320 million, mainly reflecting the acceleration of the Springmus East production well. Overall, we are entering 2027 with significantly higher production and lower and more short-cycled investments. Around 60% of investments in 2027 are expected to go towards production and infill drilling, which typically have relatively short payback periods. With that, I will hand the word back to Svein for some closing remarks. Thank you.

Svein Liknes
CEO | OKEA

Thank you, Birte. As a summary then for the quarter, very strong operational execution. We are tracking at the high end of the guidance for this year. Very glad to announce and have announced that Bestla is accelerating, so we will have that production this year already. We also have other organic growth opportunities in the pipeline, so we will actually increase production not only in 2027, but also into 2028. We do have a very strengthened cash flow outlook. We see higher production, lower investments, obviously has a very positive effect on the free cash flow, and very glad also to resume the quarterly dividends from this quarter. Also very happy to announce on the picture here is that the operational performance of the company is not just something we think we recognize ourselves, it is also recognized by the authorities.

Svein Liknes
CEO | OKEA

So, very happy to announce that OKEA was awarded the Improved Recovery Award from the Norwegian Offshore Directorate during ONS this year, which also reflects the operational focus that we actually have. With that, I hope as many as possible can join us in the Q&A, and there should be a link on our homepage, and I hope to see as many as possible there. Thank you very much.

Q&A

Operator

To ask a question, please press five star on your telephone keypad. To withdraw your question, you may do so by pressing five star again. We will have a brief pause while questions are being registered. The first question is from the line of Teodor Sveen-Nilsen from SB1 Markets. Please go ahead. Your line will now be unmuted.

Teodor Sveen-Nilsen
Analyst | SB1 Markets

Good morning, Birte and Svein, and thanks for taking my questions, and also congrats on being able to reintroduce the dividends. A few questions from me. First one, that is around dividends. Your current balance sheet and cash flow is very strong, but the book value equity is relatively thin at only 6%. I just wonder how do you think around the cash needed for book value equity versus dividend going into 2027? How low are you willing to let the equity value fall to before you reduce or cut the dividend? That's the first question. Second question, that is on exploration. I guess the big thing on NCS exploration the past few months has been the announced collaboration between Aker BP and Equinor. I just wonder, what's your thoughts around potential impact on OKEA from that collaboration? My final question, that is on M&A.

Teodor Sveen-Nilsen
Analyst | SB1 Markets

Obviously, we've seen a very active M&A market globally this year. Would you say that OKEA is a net seller or net buyer of assets over the next couple of years? Thanks.

Birte Norheim
CFO | OKEA

Thank you for your questions, Teodor. Maybe I can answer the first one, and Svein will take the two next ones. On dividends, I would say that that's not a major concern that we have the book value of equity. I think the key criteria we are assessing is the restrictions in the bond loan and the liquidity going forward. Obviously, we also plan to continue to build equity in coming quarters. So, that's not a major concern with respect to our dividend plan, Teodor.

Svein Liknes
CEO | OKEA

Yeah, for the question about the exploration and the collaboration there between Equinor, Vår Energi, and Aker BP, I think that collaboration is also a signal to the authorities that if the authorities are enabling further exploration in Norway, then also the industry is showing willingness to cooperate, which I think is important. Also, the three big ones can take a different risk profile compared to smaller companies, so I actually think that's a good signal. I still believe there are opportunities for companies like OKEA. We are developing areas ourselves as well.

Operator

It seems like we have lost the sound from OKEA. Let's just give them a few moments to fix this and give us a green light again.

Svein Liknes
CEO | OKEA

Yeah. Are we back on? Yes, okay. Yeah, sorry. I think you lost us there. But on exploration, the collaboration there, I don't know where you lost me, so I will repeat it. I believe that is a signal to the authorities as well that the industry can actually collaborate. I still believe there is room for companies like OKEA in this.

Teodor Sveen-Nilsen
Analyst | SB1 Markets

Okay, I see it live again.

Teodor Sveen-Nilsen
Analyst | SB1 Markets

Okay.

Svein Liknes
CEO | OKEA

Something is happening with the sound, Teodor. Okay, I think something is happening with the sound. I do not know. We are there now? Yeah, okay. On exploration, let me try it one last time. I still believe there is room for other companies in this environment where you do have collaboration between the big ones. Exploration is very important to address the production drop coming in Norway, so there will be room for everyone, and we have our own exploration team working a very attractive target as well. I am not concerned about that one. On the M&A, we are still on a growth trajectory as a company, so I will say that we are a buyer in this environment going forward. But again, it needs to be assets where we see that we can generate further value creation, as we have demonstrated on both Draugen and particularly also on Brage.

Birte Norheim
CFO | OKEA

You are back on? [audio distortion]

Operator

Teodor, can you repeat your question and then we will have them answer it once more, please? Thank you.

Teodor Sveen-Nilsen
Analyst | SB1 Markets

Yeah, sure. Can you hear me?

Birte Norheim
CFO | OKEA

We can hear you, Teodor.

Teodor Sveen-Nilsen
Analyst | SB1 Markets

Can you hear me?

Birte Norheim
CFO | OKEA

Teodor, can you hear us?

Operator

I believe there is still an issue with the microphone at OKEA, so please stand by.

Company Representative

Test. Can you hear this test? We will take the written questions first and then get back to the oral questions. We have a question from Bonilla Johansen. "What is the plan for free cash flow going forward, and what is the projected free cash flow once all current projects come online? Will the focus be on paying dividends or pursuing acquisitions? Are you planning to maintain a fixed quarterly dividend, supplemented by extraordinary dividends if oil prices, production levels, and other factors remain favorable?" Birte.

Birte Norheim
CFO | OKEA

Thank you for your question, Bonilla. The plan for free cash flow going forward is to do what we said in the quarterly presentation. It is to seek a balance between direct distributions to shareholders, and we are constantly looking at our debt levels also in combination. At the same time, we are planning to grow further. We are seeking a balance between those three targets whilst at the same time retain a healthy balance sheet. As for the projected free cash flows, we guide on production-

Operator

Only going down.

Birte Norheim
CFO | OKEA

We guide on production levels, and we have also indicated what we expect from cost per barrel going forward, but we do not guide on free cash flow. The focus on dividends or pursuing acquisitions, I think we are planning to do both. If we plan to maintain a fixed quarterly dividend, I think your interpretation there is reasonable. We indicate a minimum of NOR 0.1 per share in 2027.

Company Representative

Okay, we got a question from Sigbjørn Hovda. "In the Q2 report, you indicated that 77% of expected Q4 oil exposure and 52% of gas exposure were hedged. Those figures have now declined to 67% and 47% respectively. Could you clarify whether the absolute hedged volumes have changed or whether the lower percentages primarily reflect higher expected production?

Birte Norheim
CFO | OKEA

Thank you, Sigbjørn, and I think I can clear-

Operator

Can I check if we have sound from OKEA?

Birte Norheim
CFO | OKEA

Okay. The question from Sigbjørn related to our changed hedging exposure in Q4, and your question asks whether we can clarify if that's a change in the volumes or if it reflects changes in hedging positions. For Q4, we have not entered into any new hedging positions during the quarter, so it is a reflection of the higher production, which is also reflected in the updated guiding where we now narrow towards the high end of the expected range, of the guided range.

Company Representative

Another question from Sigbjørn Hovda. "Are you considering adding new collars at current forward prices?

Birte Norheim
CFO | OKEA

We are always looking at our hedging positions and our expectations of the future, what is going on in the market. I would say that I do not expect to be as conservative with respect to our hedging positions going forward as we have been in the capital-intensive period that we are now moving out of.

Company Representative

We have a question from David Mielsae. "Having set yourself as a mid-to-late-life operator, I want to understand what you think is your competitive advantage compared to your peers. Have you run out of options for lower-risk investment?

Svein Liknes
CEO | OKEA

Well, when it comes to our competitive advantage, I believe that we have demonstrated twice that we are able to generate more value out of assets on the NCS as a good competitive advantage. We have done it both on Draugen and also on Brage, and we continue to do so. 60% of the infrastructure on the Norwegian Continental Shelf is within mid- and late-life assets, so having demonstrated that we are able to generate more value in these, I believe, is an opportunity for us. We are still looking for a diversified portfolio. We are currently operating around 50%, 55% of our production, and where we have demonstrated as well that we are able to improve performance and those operations is mid-to-late-life assets, and we will also work to have a diversified portfolio operated by others.

Svein Liknes
CEO | OKEA

We still believe there are opportunities on the Norwegian Continental Shelf in this segment.

Birte Norheim
CFO | OKEA

I see David is adding a question here and says his apologies, he meant with respect to exploration. Lower-risk exploration, I guess he meant then.

Svein Liknes
CEO | OKEA

Oh, yeah. No, well, our exploration portfolio has been consisting of predominantly exploration close to our assets, which is quicker and cheaper to kind of develop. When it comes to our future, when it comes to exploration, we are also looking at high-impact areas. Next year, for example, we are also taking part in the Arkenstone well, which is a very kind of frontier, high-risk, high-reward exploration well. A company of our size, I believe our ambition of taking part in four wells now is the right one. As we have communicated as well, we are increasing that ambition level to six wells over the next three years. Organic growth is still an important part of our growth trajectory. We have also demonstrated with the Mistral divestment that exploration generates value through several phases of exploration.

Company Representative

Got another follow-up question from Sigbjørn Hovda. "How do you balance opportunities to consolidate ownership in existing assets against acquisition that would improve portfolio diversification, such as part of Lime Petroleum's Norwegian portfolio? Is one approach currently more attractive than the other?

Svein Liknes
CEO | OKEA

Well, I guess if we are consolidating, I am not so sure if that improves the portfolio diversification, because that will also increase our exposure in single assets. Being an operator and having around 40%, 50%, I believe, is a good kind of level of exposure in each asset. But if there was any opportunities and if there is anyone selling their ownership in any assets that we operate, obviously, we know those assets quite well, and we would definitely also look at it.

Company Representative

Okay, that is the final written question. Back again to the line.