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Aker BP ASA (AKRBP.NO)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Aker BP First Quarter 2022 Presentation Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to the company. Go ahead.

Kjetil Bakken

Vice President-Corporate Finance & Investor Relations, Aker BP ASA

Good morning. Welcome and thank you for tuning in to Aker BP's first quarter 2022 presentation and conference call which, as always, will be hosted by our CEO, Karl Hersvik; and our CFO, David Tønne. And as always, after the presentation, we will open up for questions. And with that, here is Karl.

Karl Johnny Hersvik

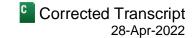
Chief Executive Officer, Aker BP ASA

Thank you, Kjetil, and really good morning to all of you listening in to this Q1 presentation in 2022. So, first quarter of 2022 was yet another quarter of record earnings and strong progress for Aker BP. The main driver of our production performance was, of course, the high oil prices and even higher gas prices in Europe. Together with stable production, this resulted in a record high free cash flow of \$1.1 billion.

The backdrop for the record high gas prices is the European energy crisis, which has been long in the making in my opinion and has been further amplified by the Russian war against Ukraine. In this dire situation, we are doing what we can to maximize our gas export to Europe, and we have managed to increase our gas volumes to a record level in Q1. We have also, as a part of the same strategy, started a blowdown phase of Skarv, which will further increase our gas production ahead. And we have sold our stake in Cognite this quarter and realized a significant gain, which contributed to the record results, I'll comment on that a bit later.



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Now, turning our attention to the growth project, I'm pleased to see that all early phase projects, which is project where we are yet to submit the PDO, are progressing towards PDO submissions by the end of 2022. And we are on track to deliver all projects on time. Hod started producing from the first well in early April and the team is now working to bring the other five wells on stream in the coming weeks or months. At Johan Sverdrup, the Phase 2 development made significant progress during the quarter and remains on schedule for first oil in the fourth quarter of 2022. The PDO for Hanz and Kobra East Gekko have now been improved by the authorities and the Trell & Trine project has secured approval of its pre-investment program.

And we have, of course, also made good progress in the Lundin transaction, which has now been approved by the shareholders of both companies, and we expect the final government approvals shortly. Closing of the transaction has been planned for end of June with a full organizational integration from the 1st of October. And with that, let's have a closer look at the production performance of the first quarter.

The Q1 production ended up just above 208,000 barrels per day, stable quarter-on-quarter. The slight increase was driven by higher gas production from Skarv and Alvheim area as well, partly offset by lower production from the Ula area and Ivar Aasen compared to the previous quarter. Including a bit of overlap, we sold 216,000 barrels per day in the quarter.

Our gas production reached a record level of 45,000 barrels of oil equivalents, which is a record, of course, for Aker BP. This was helped by the first full quarter of production from Ærfugl and late in the quarter, we also started the gas blowdown in Skarv, which will further boost gas production going forward.

I'll come back to that shortly.

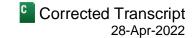
At Ivar Aasen, we had an unplanned shutdown towards the end of the quarter due to technical issues on Edvard Grieg. The production has now restarted at approximately a 50% level, and we expect to be back at full capacity when remediation works are completed in May. In order to minimize the impact of the shutdown, we have used the opportunity to perform maintenance, which was originally scheduled for a turnaround later in the quarter. And just to confirm, we remain on track with regards to our full year production guidance of 210,000 to 220,000 barrels per day.

Now, let's move from production to HSE performance. Safety is always and has always been our first priority, and we are working continuously to build and maintain a strong safety culture in Aker BP. In the second half of last year, the trend started to move in the wrong direction with a total of 13 injuries with low or moderate severity in the last half year. This was countered by a significant effort and we're now back on track with only one injury recorded in the Q1 2022.

When it comes to CO2 emissions, we remain unchanged at 4.8 kilograms per barrel, which is below our own target of 5 kilograms and less than about a third of the global industry average. And we continue to drive emissions down through energy efficiency improvements, electrification of our new fields and through close collaboration with suppliers to address emissions also in the upstream value chain, that is [ph] upstream alone (00:06:42) value chain.

We are also working on a decarbonization strategy to cover our residual emissions with a view to achieve net zero of Scope 1 and Scope 2 by 2030. We believe that low CO2 emissions are a competitive advantage, of course, with regards to direct emission costs, but also with regards to access to and cost of, of course, capital. Now, moving to – on to our assets and our projects, let me first comment on the sale of Cognite.

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It should be well-known that digitalization has been a cornerstone of the Aker BP improvement strategy for many years now. And some of you who have followed Aker BP have heard me talk about digitalization repeatedly. Our ultimate goal is to utilize the full power of digital technology to transform the way we operate and develop our assets. One of the steps we took very early on was to contribute to establishing Cognite to help develop a state-of-the-art data platform to support our digital strategy. We were Cognite's first customer and instrumental in the development of what is now its main product, Cognite Data Fusion.

Cognite Data Fusion has since become a commercial success with many customers across various industries. And as such, our strategic purpose of the ownership has been – in Cognite has been fulfilled. And in Q1, we sold our shares to Saudi Aramco for a consideration of \$118 million, which resulted in a net gain of \$99 million in the quarter.

Through the Cognite journey, we have established an excellent platform for our continued digital journey. The next step is to establish an ecosystem of applications on top of this platform and in this context, we have participated in the founding of yet another company called Aize. This company is building applications for project execution and operational support on the top of CDF.

Aize is not starting from scratch. The company is building on decades of software development within the Aker Group, and the first priority for this collaboration is to develop a truly digital project execution model. The first use will be the NOA Fulla project and we believe this holds the potential to become a new industry standard. Aize is also working to improve condition-based maintenance and barrier management for guite a few of our assets.

Now, let's move on to our assets and project and this time, let's begin with Skarv. The Skarv field has now been in production for nine years and oil production from the original reservoirs is declining. Our strategy here is very, very similar to the one we have had for years on Alvheim, which is simply to find additional resources in the area and tie them back to and hence maximize the capacity utilization of the Skarv FPSO. We are simply using the same strategy developed on Alvheim on Skarv.

The first big tieback wave was completed last year with the startup of Ærfugl, two years ahead of original schedule. We also managed to literally squeeze in the small but highly profitable Gråsel development and in parallel a combination of transactions and exploration, we have added discoveries like Shrek, Ørn and Alve Nord to the resource base. And we're now preparing for the next wave of tiebacks for the Skarv Satellites project.

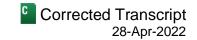
Skarv contains a mix of oil and gas and until now, we've held back on the gas to maximize oil recovery. This means in practice that we have re-injected a large part of the produced gas to support reservoir pressure. And we have now come to a point where it actually makes more economic sense to export the gas, both because the remaining oil volumes and potential are low and because of the high gas prices. We have, therefore, initiated what we call the Skarv blowdown. In technical terms, this means that we have stopped injecting gas in certain reservoir compartments of Skarv and instead are exporting this gas to meet the strong demand in Europe.

The blowdown also fits well in the wider area strategy, because one benefit of the blowdown or starting the blowdown now is that it makes more processing and export capacity available for the Skarv Satellites, which are of course due to come in stream a bit later on, the first one from 2025.

In the first quarter, we did a concept select for the Skarv Satellites. The goal is to submit PDOs by the end of this year and we're well on track and the Satellites will add close to 70 million barrels to our reserves and is an excellent illustration of our strategy of maximizing value creation through the assets with continuous areas development.



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We are also preparing for a longer term in this Skarv area and this year, we have planned a total of five exploration wells in the Skarv area with a combined net unrisked volume potential of more than 90 million barrels. We actually are very excited about this program, which has the potential to add substantial resources and contribute meaningfully to the value creation of Skarv into the next decade.

Now, let's move on to our project in execution, which means after we have delivered PDO and let's start with one that has started production, namely Hod. Hod was actually the first project to be sanctioned under the temporary tax regime, only the day after it was approved in the Norwegian parliament. And only 22 months later, we're able to flip the switch on the first well in the field. And in my humble opinion, this is a remarkable achievement in the midst of a pandemic world.

Hod is developed with an unmanned platform, which is remotely operated from Valhall. We have drilled six new wells and the first started producing in April. Work continues to stimulate the remaining wells and bring them on stream over the coming weeks and months. To me, this is a great example of what Aker BP is all about, low cost, low carbon barrels, strong project execution in close collaboration with our alliance partners to secure attractive project economics. With power from shore via Valhall, the production of Hod will have minimal CO2 emissions.

In this project, a total of five alliances have contributed and we've been working as one team from start to finish. We truly believe that this is a way forward for the industry, bringing in the best players across the value chain, aligning interest and working together to develop better, more robust projects and hence create even more value.

Now, let's move on to a couple of other projects in the execution phase. Starting with Johan Sverdrup, the P2 platform and the bridge linking the platform back to the field center were installed according to plan and cost during the quarter. And drilling campaign have started ahead of schedule in January. This leaves us firmly on track to produce first oil in Q4 2022 from this ongoing amazing project.

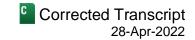
Both Kobra East Gekko in the Alvheim area and Hanz at the Ivar Aasen had their PDOs approved by the authorities in Q1 and have now moved into execution. At KEG, which is what we call Kobra East Gekko, we are now preparing for the installation of new pipelines, which will be done in the third quarter. Well planning, engineering, fabrication and procurement activities are also progressing according to plans.

At Hanz, we have already drilled a shallow gas pilot and we're now doing detailed engineering. We are focusing on early placement of procurement orders to secure capacity and process. And development consent for Hanz includes an innovative solution for water injection, which actually saves us one [indiscernible] (00:16:33).

And the [ph] Christmas tree (00:16:36) is actually recycled from the abandoned the Jette field. In total, this contributes to low breakeven combined with power from shore. This also makes Hanz one of the greenest project on the Norwegian Continental Shelf. To me, this is standardization and reuse in practical terms.

All in all, I am happy to report that all our project in execution are progressing according to plan and cost. And equally important are all the early phase project, which is where we have not submitted a PDO, which we intend to bring into execution mode over the next quarters because we do have some truly transformative projects in the pipeline, including, of course, NOAKA and Valhall NCP/King Lear. Both these projects, as well as the Skarv Satellites, Trell & Trine and Lille Prinsen remain on track to submit PDO by the end of the year and thus be covered by the temporary tax regime. We expect all these project to meet our investment criteria of \$30 breakeven, and they will also contribute to further reducing our emissions intensity.

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We remain laser focused on bringing these project across the finishing line and at the same time, we are not blind to the things that are happening in the world around us. Rising inflation and supply chain issues have been key global topics in a post-pandemic world, and with Russia's recent invasion of Ukraine, this has further accelerated and complicated this issue. This, of course, begs the question what consequences for cost and schedule on our projects will this have? So let me add some color on how we're working to make sure that our project are delivered on time and on budget and with the high-quality demand we have in all our projects.

So, first of all, we have been working systematically over many years to improve our project execution process and supply chain efficiency. The most important tool if you want is the alliance model. This model brings together Aker BP and our key suppliers in one team with common goals and shared incentives. The model involves full transparency on costs and capacity, which enables better planning and allow us to structure the activities in our project portfolio in the most optimal way.

The alliance model does not shield us completely from the inflation and the inflationary forces, but it certainly provide us with much more visibility and control than the alternative. And we're also able to tap into the global supplier within our alliance partners.

We will be executing many project in parallel and we have, therefore, established a cross-functional team to manage this, let's call it, project portfolio. The team will support the individual project in driving synergies, standardization, risk management and mitigation, and consolidate issues and facilitate resolutions across these projects. Many have talked about standardization for a long, long time; in Aker BP, we are executing.

Through our alliances, we have also implemented a supplier-managed risk program where the structure is to ensure that we have a good company overview of the key risk and are able to respond quickly with mitigating actions. The alliance models allow bad news to travel fast and allow us quickly to respond to upcoming issues.

We have also strengthened our procurement strategy and instead of doing procurement separately for each project, we have established a common organization to consolidate the purchases for bulk and materials across all projects. The goal is, of course, to ensure a coordinated go-to-market strategy and optimal utilization of available supply capacity. And of course, we seek to place our orders as early as possible and sometimes even earlier than the PDO approvals. The goal is to ensure competitive terms and timely, high-quality deliveries.

Again, the alliance models give us visibility, availability and communication with the key suppliers. One such example is the Trell & Trine project, where the pre-investment program was recently approved by authorities. Here, we have already secured vessel and materials for the planned pipelay campaign in 2023, which also enable us to drill Trell & Trine wells in direct continuation of the Kobra East Gekko drilling campaign in the same area.

In summary, we are closely monitoring our supply chain while taking actions to ensure the robustness of our project and are confident that we, together with our alliance partners, will be able to deliver. And now, let's move to the financial review, which will be presented by our CFO, which is still David Tønne. The floor is yours.

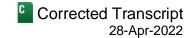
David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Thank you, Karl, and good morning, everyone. It is truly a pleasure to present Aker BP's first quarter results with record high revenues and cash flow generation. As mentioned, production was stable quarter-on-quarter, but with an increased share of gas. The price environment further improved with realized liquid prices increasing almost 30%. Free cash flow was \$1.1 billion in the quarter, an increase of 50% from the fourth quarter.



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Our net debt ended the quarter below \$1 billion, supported by a very strong cash position of \$2.8 billion. This cash will soon be put to use to pay the \$2.2 billion cash consideration for the acquisition of Lundin's oil and gas business at closing, now expected end of June.

The first quarterly dividend payment of \$0.475 was paid in the first quarter. This is up 40% from the dividend level last year. The next dividend payment is scheduled for the 11th of May, and the current plan is to pay a total of \$1.90 per share in 2022.

If we then move on to take a look at our revenues and sales figures. With stable production and increase in prices, we report a record high total income of \$2.3 billion in the quarter, a 24% increase quarter-on-quarter. Net production was 208,000 barrels of oil equivalents per day and as we over-lifted 8 barrels, this left sold volumes at 216,000 barrels of oil equivalents per day.

The realized crude price was roughly \$104 per barrel. The price was positively impacted by strong differentials across our crude qualities. And adjusting thing NGL, our average liquids price was just shy of \$101 per barrel, up 28% from the fourth quarter. The average realized price for natural gas was \$171 per barrel of oil equivalents, close to the average realized price in the fourth quarter last year, but it is worth noting that there has been an extreme volatility in the gas prices the last few months. Combined, this gave us a realized average hydrocarbon price of \$115.5 per barrel of oil equivalents in the first quarter, up 20% quarter-on-quarter.

We continue to see a strong contribution from gas in our portfolio, now representing over 30% of revenues. Skarv is the biggest gas producer in our portfolio with 55% of our gas production. And as Karl has already covered in the operational update, we have now initiated the gas blowdown, which in short means that we are producing more gas out of the reservoir and reducing gas injection. This has several benefits. First of all, it makes sense from an overall reservoir management perspective. It provides additional gas export to Europe in a time when the market is in distress and desperately needs more reliable energy and it makes sense financially given the current relative price between gas versus oil.

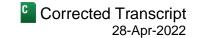
Roughly 90% of our gas is sold on contracts that are linked to spot day ahead and we have the option to further increase this to almost 100% by October this year. During the quarter, we also decided to lock in the price for a small part of our 2022 gas production when the prices spiked in March. Since then, prices have come somewhat down and as a consequence, we have booked an unrealized gain of almost \$40 million on these derivatives in the quarter. Over the coming years, we expect Aker BP's gas production to increase as several of our large development projects have a significant share of gas.

Now, let's shift focus from revenues and sales over to capital spend and cost. Although we are in a very strong price environment, we continue in Aker BP to focus on capital discipline and cost awareness. Total spend across key cost categories, capital investments, exploration, abandonment and production costs are down roughly 20% quarter-on-quarter. The main driver for the reduction of almost [ph] \$90 million (00:25:59) in CapEx quarter-on-quarter is less investments on Alvheim as we have completed the drilling of the Kameleon Infill West well.

In exploration expenses, we have a reduction of almost \$27 million in field evaluation costs. This cost category continues to decrease as more and more of our early phase projects pass concept select and move into the phase where these costs are instead capitalized.

On production costs, we had an increase of \$26 million quarter-on-quarter where the key drivers were continued high well maintenance activity on Valhall, an increase in environmental taxes, and last but not least, higher power costs on the electrified fields, which of course is correlated to the high gas prices in Europe positively impacting

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our revenues. Although the increase in production cost in absolute dollar terms is not substantial compared to the changes in other items, the increase impacts the cost per barrel produced metric quite significantly since production volumes are stable.

As seen on this slide, on a per barrel basis, production cost amounted to \$11.6 per barrel in the first quarter. This is, of course, higher than the guided \$10 per barrel average for the full year. However, in the second half of the year, we do expect cost per barrel to trend down as planned well maintenance work will be lower and production ramps up on Hod and Johan Sverdrup.

With this as a backdrop, I will move on to take a quick look at the full P&L for the quarter. When we subtract production cost of \$220 million and other operating expenses of \$7 million from total income, we get to an EBITDAX of \$2.064 billion, up 26%. Exploration expenses amounted to \$58 million, of which \$39 million was dry well costs, mainly related to the Grefsenkollen exploration one.

Depreciation was \$231 million or \$12.3 per barrel. Net financial income was \$61 million and included a gain of \$99 million related to the sale of our shares in Cognite, as Karl has covered previously. Profit before tax ended at \$1.8 billion, up 51%. Tax expenses amounted to \$1.3 billion, which means an effective tax rate for the quarter of approximately 71%. And consequently, net profit ended at \$537 million or \$1.49 per share, up 47% quarter-over-quarter.

In addition to the record high revenues, we also had record high cash flow generation in the quarter. And breaking that down, you can see that operating cash flow after working capital and taxes ended at \$1.375 billion in the quarter. The first quarter was impacted by a working capital adjustment of roughly \$266 million. The key driver was increased value of receivables related to oil sales late in the quarter, which again is more or less a direct consequence of the significant price increases.

Taxes paid in the quarter were \$388 million, in line with previous guidance. Investment activities excluding payments on lease debt amounted to \$400 million. And in addition, we have a positive contribution of \$118 million in cash inflows related to the sale of our shares in Cognite. Free cash flow ended at \$1.1 billion in the first quarter or \$3 per share.

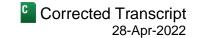
Then we paid a dividend in the quarter of \$171 million, equal to \$0.475 per share and interest payments on lease debt and other finance items were \$77 million. We then ended the quarter with a cash balance of \$2.8 billion, an increase of \$845 million from the fourth quarter.

In addition to the strong increase in cash on the balance sheet, as always, I would like to highlight a few other things. Property, plant and equipment increased by \$281 million or \$492 million with additions and we had \$211 million in depreciation. Receivables and other assets increased by \$296 million. The increase is mainly due to receivables related to oil sales accruals and this is the main driver for the increase in working capital that I just mentioned.

On the right-hand side of the balance sheet, the main changes are related to an increase in tax payables of \$760 million and an increase in equity of \$366 million. The latter, of course, is the profit for the period minus the dividends distributed.

Relentless work over many years has put Aker BP in a strong position with a portfolio of quality assets benefiting from low cost and low carbon that then generates high cash flows. These cash flows have enabled us to build a financial flexibility and positions us to invest in our portfolio of profitable growth projects in a supportive fiscal

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regime, while we, in parallel, return significant value back to our shareholders. Through the cycle, our investment and financing costs are expected to be covered at a \$30 oil price, and the rest is value that will be returned to our shareholders over time.

To me, it's the combination of a strong technical team, a real drive to reshape the industry through, for example, digital and the alliance model, and last but not least, the ability to execute transformational M&A that are the three things that really have set the company apart and positioned Aker BP as one of, if not the E&P company of the future.

And on the latter point of transformational M&A, the acquisition of Lundin Energy's oil and gas business is now planned to close on June 30. And financially, I believe, we could not be better prepared. Supported by a very constructive price environment, we have continued to deleverage with a net debt ending the quarter at less than \$1 billion and with no debt maturing before 2025.

Our liquidity position is very strong and with over \$2.8 billion in cash, we're actually now projected to have the capacity to fund both Q2 dividends, taxes and the cash consideration to Lundin of \$2.2 billion without issuing any new debt. The rating agencies have also taken note of this. And on the 8th of April, S&P upgraded Aker BP to BBB flat with a stable outlook.

The balance sheet of Aker BP is constructed to withstand the volatility of the commodity markets and, at the same time, allow us to seize both organic and inorganic opportunities when they arise. And while we do this, we will return the value we create back to our shareholders.

According to our Aker BP's dividend policy, our dividends shall reflect the financial capacity through the cycle, considering the long-term financial outlook and the credit profile of the company. Our ambition is to provide a sustainable, growing dividend. For 2022, the board of directors has proposed to pay a cash dividend of \$1.90 per share. This is up 40% from 2021 on a per share basis, and the first installment was paid already back in February and the next is due in May. In addition to growing [ph] this distribution (00:34:41) sustainably over time, our dividend policy also opens up for extraordinary distributions in the form of either extraordinary cash dividends or buybacks if oil and gas prices are sustained above \$65 over time.

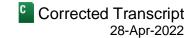
Now, before I leave the word back to your Karl to conclude, I will share some reflections on the financial guidance for 2022 in the context of the Q1 results. And please note that this guidance is for Aker BP as is and does not include any effects of the Lundin acquisition.

In February, we guided production between 210,000 and 220,000 barrels of oil equivalents per day for 2022. In the first quarter, we produced 208,000 barrels, which is close to the lower end of the range. This is in line with our communication on production phasing when the 2022 guidance was announced in February.

As also communicated in February, we have a month of turnarounds on both Johan Sverdrup and Valhall in June that likely brings total production for the first half of the year slightly below 200,000 barrels of oil equivalents per day. In the third quarter, we expect a further ramp up of production on Valhall and Hod and in the fourth quarter, we expect Johan Sverdrup Phase 2 to come on stream.

Guidance for the full year, therefore, remains unchanged at 210,000 to 220,000 barrels per day. We have guided on an average production cost of around \$10 per barrel for 2022. First quarter production costs were \$11.6 and due to the shape of the production profile, it is expected to have higher than average cost per barrel in the first

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half of the year. In the second half, we expect production cost to trend down and we maintain the guidance of around \$10 per barrel on average for the year.

Capital Investments was guided at round \$1.6 billion for the full year, roughly 40% is planned spent in the Valhall area, 20% in the Alvheim area and 20% on NOAKA. In the first quarter, we spent slightly below average but this is due to natural phasing of the activities and the guidance is kept as is.

On exploration, we have an ambitious program in 2022 with a total of 13 wells to be drilled and we expect to spend roughly \$400 million pre-tax. The program progressed according to schedule in the first quarter and we make no changes to the guiding.

Lastly, we expect to spend roughly \$100 million on decommissioning in 2022, down 50% from 2021. Most of the spend is planned in the summer months with removal of old facilities at Valhall and we make no changes to the guiding.

Now, that concludes my presentation and I will leave the word back to you, Karl, for some concluding remarks. Thank you.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Thank you, David. And I'm actually quite sad we don't have video now because you would have been a very happy CFO indeed. Now, let me round off the presentation with a few words on our priorities ahead. So first of all and the first priority and probably goes without saying, but I'll say it nevertheless, safe and efficient operations is the key to convert resources to cash flow with high reliability and high value creation.

Secondly, we are already among the global leaders in our industry when it comes to low CO2 emissions and we want to maintain this leadership position. We will, therefore, continue to change emissions both inside our own operations and upstream in our value chain. We will make sure that all new field developments are designed to minimize the CO2 footprint and we are also working on plans to eliminate the residual emissions for a net zero – and be a net zero company by 2030.

Thirdly, we are extremely serious about our digital transformation. Through our collaboration with partners like Cognite and Aize and others, we are targeting real transformation of the way we run an E&P business. And the number one priority right now is the work we're doing on digital project execution, which brings me to our next point, number four, project execution.

And let me reiterate, in the midst of significant turbulence in the markets, all our projects in execution and early phase are on time. These projects will contribute to substantial, robust growth in the coming periods, and we continue to work relentlessly with our alliance partners towards delivery of these projects.

And last but not least, we are finalizing the merger with Lundin and plan to close towards the end of the current quarter.

And with that, we have come to the end of the presentation and we'll now take questions. Thank you.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will now take our first question from [ph] Teodor Nilsen from HB Markets (00:40:41). Please go ahead. Your line is open.

Teodor Sveen-Nilsen

Analyst, SpareBank 1 Markets AS

Good morning. So, this is Teodor Nilsen from SpareBank 1 Markets. Thanks for taking my questions and three questions from me. First on the Skarv blowdown, how should we think around the production potential, the potential for increase of gas production and how will that impact or reduce the total oil reserves? And second question on the Sverdrup, of course, that will ramp up in second half. How should we expect the ramp profile to look like? When will Sverdrup 755,000 barrels per day? Third question on cost inflation, of course, Karl, you discussed the cost inflation point quite a bit. I just wonder which of your current projects do you think are most exposed to potential cost increases going forward?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

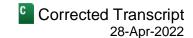
Yeah. So thanks, Teodor. It was hard to understand the name initially, but thanks to you, very clear. Skarv blowdown, so the way we think about this is that the impact on the oil reserves are relatively modest and certainly less than, let's say, 5 million or 6 million barrels, which is inside the uncertainty of the remaining reserve range. So, this is one of the reasons we believe that this is a timely response when it comes to converting injection to production. And, of course, this blowdown is new to us. We have just recently initiated it. I think you can look at this from a 2022 perspective in the range of 2.5 to 3 bcm increase in gas production on a gross basis. And then we'll come back with updated estimates going forward and that will, of course, be included in our guidance.

And then when it comes to the ramp up of Johan Sverdrup, as I said, we are very early in the drilling phase. So, we started off in January. We expect installation and then production increase in, let's say, start up in fourth quarter and we expect a relatively rapid ramp up until we meet the new plateau rate. I'm not going to speculate to the exact date that will occur. But as I said, we expect a relatively rapid ramp up.

And then cost inflation and this is a little bit more of a complicated issue. So cost inflation in itself is, of course, important, but most of the cost inflation that we're seeing now is impacting raw materials. On an average basis, you could think about raw materials that's contributing a roughly – yeah, I would say, a 15% but in the range of 10% to 20% on a project, depending on nature, of course. And that means that even with a tripling of steel prices, you only will see a gross cost increase of about 5% on a project or major topside project, subsea a bit less, which will be, I don't know, somewhere in the range of \$0.20 to \$0.25 on the breakeven.

So the big issue is not necessarily cost inflation. It's availability, quality and timely delivery of all the goods and necessary services that we need to develop our projects. And I think the crucial point here is actually time. And we spent significant amount of energy, which I also tried to underline in my statement, to make this value chain robust and early, and we're about 6 to 12 months earlier than we would have been on a normal project execution. And with the alliance model, this actually gives us high visibility, what we call an open book transparency and a good idea of where the bottlenecks are and we're working to mitigate all of those. And right now, I don't see any bottlenecks that will hinder the project execution.

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Teodor Sveen-Nilsen

Analyst, SpareBank 1 Markets AS

Okay. Thank you. That's usual. And just to clarify, the 2 to 3 bcm gross that you talked about [indiscernible] (00:45:17), is that a 2022 year effect?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Yeah. We started in April, so it's starting, of course, in 2022 and then continuing in 2023. And I'm guessing that the gas production will be pretty flat actually from 2022 to 2023. So I don't think we will be far off.

Teodor Sveen-Nilsen

Analyst, SpareBank 1 Markets AS

Okay. Thank you.

Operator: We will now take the next question from Chris Wheaton from Stifel. The line is open. Please go ahead.

Christopher Wheaton

Analyst, Stifel

Thanks very much. Good morning, guys, and well done on another safe and extremely profitable quarter. Well done. And a number of questions, if I may. Can I pick up on the previous question about Skarv? Are you able to talk about the changes you've made to your longer term gas price assumptions, which I assume is what's driving your recalculation of the NAV of the field and therefore, your decision to enter blowdown now rather than wait a couple of years, as I think was your original intention?

And then secondly, two questions on the balance sheet, if I may. What would trigger additional payouts to shareholders given how strong your liquidity position is? As you've said, David, a great balance sheet to have, and also, I know that [indiscernible] (00:46:47) has just increased its dividend by another \$200 million or so. And then last question again to David on the tax. You talked at the last quarterly results about, basically, \$2.3 billion of tax payable over the rest of 2022, i.e. 2Q, 3Q, 4Q. Is that still valid at current prices? Thank you.

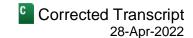
Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

So let me talk a little bit more about the gas blowdown and then I'll hand you over to David to talk about the balance sheet and tax issues. So, when we think about the blowdown and you're of course correct, we had in our prognosis to push gas blowdown a couple of years, but of course, depending a bit on the effects of the gas injection. Right now and this is driven essentially by maximization of resources. But at that point in time, the gas prices which, I don't know, 10%, 12% of the oil prices in pro rata terms and now, of course, we're seeing significantly different gas prices.

So while I would say that the gas blowdown economics was pretty much on the balance as the previous, let's say, estimation of gas prices [indiscernible] (00:48:13). And then I'm not going to comment specifically on our assumptions on long-term gas prices, but I'll say this, the value distribution or the value change both relating to increased capacity of gas production across Skarv and, of course, increased gas prices essentially makes this a very simple decision.

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David Torvik Tønne

Chief Financial Officer, Aker BP ASA

A

Okay. And then on the dividends, what will trigger additional dividends? I guess, the starting point, Chris, is of course our dividend policy and how we view this in the longer term. So our ambition is to pay a sustainable growing dividend over time and we increased our dividend with 40% at the announcement back in December of the Lundin transaction for 2022 compared to the 2021 level. And then our policy opens up for additional extraordinary distributions if oil prices are sustained above \$65 per barrel for a sustained period. We've now one quarter into 2022 and I think it's a bit too early to start talking about extraordinary distributions, but it's an option that's part of our policy.

In terms of taxes, so we didn't include a slide in the pack this quarter on sort of cash tax payments, which, I guess, is an indication that the estimates that we provided at our fourth quarter presentation is still valid. So we still expect to pay \$800 million in the second quarter, which is for the fiscal year 2021. And then the scenario analysis that's provided for the third quarter 2022 and the fourth quarter 2022 is still valid on Aker BP as only basis. And then of course, in the second half of the year, we will be a much larger company combined with Lundin, and we will provide new estimates once we have [ph] that credit (00:50:22).

Christopher Wheaton

Analyst, Stifel

That's understood on the perimeter. Brilliant. Thank you very much indeed. Guys, thank you.

Operator: Thank you. We will take the next question from Yoann from Société Générale. Your line is open. Please go ahead.

Yoann Charenton

Analyst, Société Générale SA (UK)

Good morning. Thank you for the presentation. Just a few questions, if I may. First looking at the Alvheim and Valhall production gaps, we are seeing quite a gap in terms of production efficiency rate. I'm just trying to wonder if you could provide some color basically on your expectation for the trend for the rest of the year. Can Alvheim already maintain such high efficiency rate? And what about Valhall, do you expect efficiency to recover back above 90% from 2Q onwards?

Then maybe if you can comment on this, I appreciate, it might not be possible. But I believe you have estimated the cost for the merger with Lundin Energy E&P portfolio to be close to \$145.5 million on a pre-tax basis. Is this estimate still valid as we speak? And I will like to know how much basically of these costs has been incurred so far? And maybe just to come back on to this gas blowdown that, of course, I appreciate you have already provided some color on this, but any chance you could give us a bit more granularity in terms of gas to oil ratio to expect in the mid-term from [indiscernible] (00:52:17) overall?

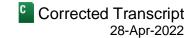
Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA



Okay. Thank you. So, let me comment on the production efficiency issues and the two different issues. On Alvheim, they are related to equipment that have been changed out in the quarter and that is a planned activity, which we assume will not be impacting the production efficiency on Alvheim going forward.

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When it comes to Valhall, this is related to well intervention work, which is also commented when we talked about the OpEx, which is where we're going into the wells, stimulating these wells but as we're stimulating these wells, we need to shut down this and other close-by wells. This work will continue throughout the spring and into the summer. But of course, the effect of this work is that while the production efficiency is slightly lower, total production will go up as we're putting more wells on stream. So that's the explanation to this. And then we'll move to – onwards to Hod and its activity at Valhall will cease over the summer. When it comes to the merger costs, David?

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

A

Yeah. So, the merger cost estimate close to \$145 million that you referred to, Yoann, is still valid. So it's a combination of both companies and it's directly linked to sort of transaction costs triggered at closing. So most of that is not incurred yet.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

When it comes to the gas blowdown, as I said, there is a series of reservoir segments at Skarv. So this relates to a couple of the segments. And of course, as you're moving into a blowdown phase, you're moving more into a pure gas production over time. We do not intend to provide granularity on gas-oil ratios across the different reservoirs at Skarv.

Yoann Charenton

Analyst, Société Générale SA (UK)



That's very clear. Thank you.

Operator: Thank you. We will now take the next question from James Thompson from JPMorgan.

James Thompson

Analyst, JPMorgan Securities Plc



Great. Good morning, gentlemen. Thank very much for the presentation. Yes. So, also, I'd like to say congratulations, a very strong set of results. Karl, we've had a number of conversations with companies, and you've obviously flagged it today in terms of inflationary factors and trying to keep that under control. Post the Lundin deal, you're going to have very, very high equity across a number of your assets. Obviously, you've got some very large CapEx programs. I appreciate that you've been successful at buying assets on the NCS over the years. But I just wondered whether you had any kind of ambition here to actually try to trim some of your equity. I appreciate there's no real balance sheet need to do it. But just in terms of risk profile, taking advantage of the strong commodity price backdrop and probably higher industry appetite for assets here, I mean, could you give us some indication about whether that's something you're thinking about or maybe sort of in many ways de-risking maybe part of the portfolio, particularly where you've got very, very high asset concentration?

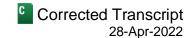
Karl Johnny Hersvik

A

Chief Executive Officer, Aker BP ASA

Yeah. Well, we never really comment on what we intend to do, either on acquisition or on sales. But as you probably have understood, as a result of the Lundin transaction, we do end up with 100% equity in quite a few of these licenses and that is a situation we need to resolve and which will be resolved. Apart from that, I'm not really going to comment on what other portfolio dispositions we may or may not consider. But I will say this that there is

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no strategic link, at least in my head, and not in Aker BP strategy between the inflation, let's say, a balance of equity across the portfolio.

James Thompson

Analyst, JPMorgan Securities Plc

Okay. That's very helpful. And actually just in terms of technical, I mean, I had a number of questions over the last few days. When it comes to kind of 2Q reporting, will you report Lundin as well, assuming the transaction closes on the 30th of June and do you have an update on when you expect to kind of give us that forward guidance on the combined company?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Yeah. You can do that, David.

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Yeah. With regards to second quarter reporting, since closing is expected on the 30th of June and if we achieve that, we will incorporate Lundin's balance sheet into our accounts, but not the P&L for the quarter. And then when it comes to sort of more broader strategy upstate post-closing, that will be some time, most likely, in the second half of the year, but we'll have to come back to a more specific date.

James Thompson

Analyst, JPMorgan Securities Plc

Okay. Okay. Thank you. Just final one for me. And I appreciate the number of questions about Skarv and the blowdown process, but is there any kind of material CapEx associated with it in terms of debottlenecking the facilities and things like that that we should be aware of?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

We actually did that last year.

James Thompson

Analyst, JPMorgan Securities Plc

Okay.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

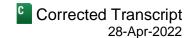
So you might recall that we talked about the upgrade of the Skarv gas treatment capacity over a couple of quarters in 2021. So that's the capacity upgrade, including dry and gas treatment, et cetera, is already done. So we actually did that as a part of the Ærfugl phase in and production startup. So we're utilizing the same capacity, which means that there are no additional CapEx included.

James Thompson

Analyst, JPMorgan Securities Plc

Very good. Thank you...

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David Torvik Tønne

Chief Financial Officer, Aker BP ASA

And then just to – sorry, James, just to add, just for your information, for those of you who are not dialing in potentially from the US, we do have a small presentation on our webpage just behind a disclaimer wall which is providing some input on the combined company, if you haven't seen that already. So hopefully, that satisfies some of the needs to get a better view of the preferred combined entity in – while you wait for the Capital Markets Day.

James Thompson

Analyst, JPMorgan Securities Plc

Thanks, David. Thanks, Karl. [indiscernible] (00:59:17)

Operator: Thank you. We'll now take our next question from Mark Wilson from Jefferies. Your line is open. Please go ahead.

Mark Wilson

Analyst, Jefferies International Ltd.

Hi. Good morning, gentlemen. My question is regarding the sanctioning of projects by the end of the year, a huge amount of work has been done, obviously, to get to this stage. And you spoke, Karl, to the amount of work you've got going on to balance the risk of execution of these projects, but 700 million barrels of reserves, four projects, Lille Prinsen, NOAKA, Skarv, and Valhall. Could you see any risk of any of those slipping beyond the end of the year? And maybe to quantify that as a second part, what would you consider to be the dollar per barrel NPV impact of a project that didn't sanction by year end 2020 and slipped into the following year? Thank you.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

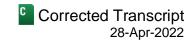
Yeah. Okay. Excellent question, Mark, and I'm really happy to answer. So this is what we're probably – at least I am spending about 70%, 80% of my time on. So in terms of PDO and PDO deliverable, right now, I don't actually see any risk on the PDO slipping. Quite the contrary, we are in a very good position when it comes FEED engineering, procurement work and all the other necessary work to make sure that we're in a position to deliver PDOs.

I would actually go as far as to say that some of the FEED work that we're now doing is significantly more robust and more mature than what I've seen in the startup of detailed engineering of projects in the past. So I'm actually quite confident that the PDOs will be delivered on time.

What we're spending time on is to make sure that as we are delivering the PDO and sanctioning this project, we have an as robust project execution strategy as we possibly can and that, of course, includes procurement, availability of resources, raw material goods, services, et cetera. And as I stated, we are working with our alliance partners to do that and this work has also significant – and it's a lot more mature now than I've seen in the past. So we're probably 6 to 8 to 12 months ahead on where we used to be, if this had been a conventional project development portfolio.

So, PDOs I don't think they will slip. When it comes to the effect and the barrel effect, that depends on the projects. But if you think about this in a typical [indiscernible] (01:02:08) \$10 per barrel range, if you come outside the temporary tax system and then slightly offset with the new tax system that's coming on stream. So if you

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calculate and that's across the portfolio in the range of \$5 to \$10, that will, of course, depend on size of CapEx and time between CapEx exposure and production and such issues. And remember, we're doing NPV \$10 right, so time is actually quite critical here.

Mark Wilson

Analyst, Jefferies International Ltd.

Got it. Okay. Thank you. Very clear. And maybe just as a related point, where do we stand with the new tax regime being implemented in parliament or in government?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

David loves to talk about tax and I'll leave it that to him.

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Yeah. So the new government came out with a white paper just very recently, which is very much in line with the original proposal from the former government and that is expected to go through parliament sometime before summer. And, yeah, as mentioned, it's very similar to what was originally proposed. And as mentioned, we are supportive of that proposal and expect it to go through.

Mark Wilson

Analyst, Jefferies International Ltd.

Okay. Thank you very much. Good luck with those PDOs and the completion and operations. I'll hand it over.

Operator: Thank you. We will now take the last question from Anish Kapadia from Palissy Advisors. Your line is open. Please go ahead.

Anish Kapadia

Analyst, Palissy Advisors Ltd.

Good morning. Hi there. A couple of questions. Firstly just following up on the current environment, a high oil price environment and inflationary pressures, now, I know you've talked a lot about mitigating of the cost inflation. But I think one of the things that we've seen historically in high oil price cycles is that companies have underestimated the impacts in terms of production efficiency falling, availability of services, lead times increasing. So just wondering as well as the kind of cost inflation impacts, how much of that have you factored in to your production guidance and in terms of your CapEx plans over the course of this year and going forwards?

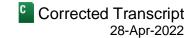
And then the second question is relating to shareholder returns to some extent. Post the Lundin deal, you're going to have a number of shareholders that are tied up – locked up and then coming off lock up over the following period. Is there any intention to maybe look at share buybacks or a tender offer with a view to it absorbing some of that potential equity that could come to market? Thank you.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Yeah. Again, a really good question, Anish. So when it comes to production efficiency and let's say the quality impact of cost inflation, which is what you're essentially talking about. So this is, of course, I would say, an issue of concern to just about everybody in the industry. And I do believe that there are, let's say, quality issues in parts

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of the value chain at the moment. And some of these quality issues have had impacts on our production and also, let's call it, quality of operations, which have had less performance than you would ideally have desired.

So our response to this is, of course, through the alliance to put task forces together to improve quality, improve checklists, et cetera, et cetera, which I think is a quite conventional industry approach, what I would say is the fact that we do have these alliances in place allows us to work much more openly with our vendors, which means that we much more rapidly than I'm used to is getting to the root cause of these quality incidents and are implementing compensating measures.

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

To me, you're also talking about probably the most important topic when it comes to these projects. So while we're not immune to inflationary pressures, I think the key issue for us is to make sure that what is delivered is delivered with the right quality at the right time and to avoid rework and other, let's say, complications in the execution. And right now, I feel actually quite confident that through the use of these alliances, we are putting in place a much more robust process and organization than normally would have been in place.

When it comes to whether or not we've factored that into the guidance. For the guidance for 2022 and also guidance onwards includes our best estimates, which of course will be impacted by our evaluations on availability, quality interventions, drilling and so on. So we have, of course, taken some of these issues into account, and others, we plan to rectify.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Now, your question on shareholder return, I think I'll restrain myself to say that will come back with our view on this at the time when we feel that this is sufficiently processed or sufficiently discussed, and of course, ultimately shareholder is a matter for the board.

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

What I can add to that is that buybacks is part of the dividend policy already today. So as I mentioned and to reiterate myself, sustainable growing dividends, that's the ambition. And then we do have a policy which opens up for extraordinary distributions, both in terms of cash distributions, but also buybacks, if oil prices are sustained above \$65 per barrel.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

So in short, we'll come back to this issue in a timely manner.

Anish Kapadia

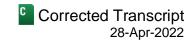
Analyst, Palissy Advisors Ltd.

Right. Thanks very much.

Operator: Thank you. It appears there is no further questions at this time. I'd like to turn the conference back to you for any additional or closing remarks. Thank you.



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Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Kjetil, would you like to close?

Kjetil Bakken

Vice President-Corporate Finance & Investor Relations, Aker BP ASA

Yes. Thank you, Karl. Thank you, David, for – and thank you, everyone, who have asked questions and participated on this call. If there are any follow-up questions, please contact us at the Investor Relations Department in Aker BP, we can be reached on e-mail, ir@akerbp.com.

And with that, we wish you all a continued great day and see you again in three months' time.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Thank you, guys.

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Thank you.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.

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