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# Aker BP ASA (AKRBP.NO)

Q3 2022 Earnings Call

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# MANAGEMENT DISCUSSION SECTION

#### Kjetil Bakken

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

Good morning and welcome to this Aker BP webcast with the presentation of the company's financial results for the third quarter 2022. My name is Kjetil Bakken and I am heading Aker BP's Investor Relations team.

Today's presentation will be given by our CEO, Karl Hersvik; and our CFO, David Tønne. After the presentation, we will open for questions for those of you who are dialing in. The dial-in details are included in the press release that we released this morning.

Now, without further ado, and assuming you have all read the disclaimer text, I leave the floor to Karl.

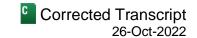
#### Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Thank you, Kjetil, and welcome to all of you who are listening in to this Q3 presentation. It is now four months since we completed the Lundin acquisition. And even though we do live in rather challenging times with war in our neighborhood, high inflation and volatile energy prices, it is good to see the resilience and the robustness of Aker BP. We are focusing on the things we can impact and improve and I do believe that the quarter we have now put behind us serves as a good demonstration of exactly that.

With the Lundin transaction now under our belt, we have made a step-change towards our ambition of delivering the lowest cost, lowest carbon oil and gas production in the industry. We also have a very attractive portfolio of growth projects which we are currently maturing towards PDO submission by the end of the year, and which will contribute to significant value creation in the years ahead. More on that, of course, shortly. And not least, we continued to build financial strength and flexibility. Maintaining a strong balance sheet is a prerequisite for being

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able to invest in profitable growth opportunities and to maintain an attractive dividend. So, in essence, I think we have made significant steps towards our vision of becoming the E&P company of the future.

Now, let's dive into some of the highlights for the third quarter. The operational performance in Q3 was excellent. Despite being a quarter with a lot of work related to the Lundin integration, we managed to keep full focus on the operations. We delivered record high production efficiency, high safety standards, low production cost just above \$7 a barrel, and industry leading CO2 emissions well below 4 kilograms per barrel. When it comes to our growth portfolio, the next milestone is the Johan Sverdrup Phase 2, which is now expected to start production in early December and which will be the main growth driver into next year.

Our portfolio of projects with PDO submissions scheduled by year-end is maturing and as planned. We have now brought all these project to a level of technical maturity where they are investment-ready and we are aiming to make the final investment decisions during the fourth quarter. We've also made two discoveries in the third quarter. One of these is located in Skarv and adds to the inventory of future tieback projects in this area.

On the financial side, we delivered a record high free cash flow of \$1.9 billion, of course, helped by high realized prices in addition to the strong operational performance. And as a result, our financial position continued to strengthen, with net debt down to \$2.2 billion. We paid \$332 million in dividends in Q3 and we will do the same in Q4.

All in all, I am very pleased with our first quarter as one team and extremely excited about the prospect of what lies ahead for this company. But before we look into that, let me start with priority number one in Aker BP, which is, of course, safety. Safety is our license to operate, and it's always and will always be our number one priority. I am pleased to see that the number of injuries are trending down. And as you can see from this chart, we are now back to levels seen two years ago, but against the backdrop of a much higher activity level.

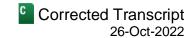
And it also pleasing to see that we've been able to continue the positive trend, also with the following – also following the completion of the Lundin transaction. That said, we did record three incidents this quarter, which we're not pleased with. And I can assure you that each injury, however insignificant, will be scrutinized and evaluated to make sure that we do everything we can to make sure our employees are at least as well off when they are at the end of the working day as they are when they started it. And even one incident is one too many, and we will never rest until we show zero incident on a consistent basis.

Now, a strong safety culture is also an integrated part of our operating model, and we believe that there's a high correlation between safety and efficiency in general. And I believe we saw this correlation clearly in the third quarter. With production of 412,000 barrels per day and a record-high production efficiency of 96%, it's safe to say that the combined company is running very well. Our fields are now back to producing at full capacity following the completion of the summer maintenance in Q2 and also actually in early Q3. Most of the increase compared to the previous quarter comes from the back of high production efficiency on Sverdrup, Alvheim, and Grieg and Aasen, of course, together with increased ownership in the same fields.

I'm especially impressed, I must say, by the operations on the combined Edvard Grieg/Ivar Aasen assets, which we are already seeing the power of the two companies combined resulting in 99% production efficiency in the first quarter as one team and producing almost 100,000 barrels per day. This is actually extremely impressive.

Now, before moving into the environmental aspects, I would like to zoom in on one of the many initiatives we have taken to improve our production efficiency over time. Maintenance activities impact the production efficiency in many ways. The most direct effect, of course, is planned downtime as caused by the actual maintenance work

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and we are working systematically to minimize this through better planning and bundling of the activities. But we also want to minimize the unplanned downtime. And one way of addressing this risk is by reducing the maintenance backlog and hence reduce the risk of equipment failures and other failures.

Now, this chart show how we've been working down the maintenance backlog by 30% – 40%, I'm sorry, over the last couple of years. This means that there are assets now that are in better tactical shape, the risk of unplanned shutdown is reduced, and we should have a positive effect on overall production efficiency going forward.

Now, talking about the improvement, let's move on to CO2. With the Lundin assets on board, we have significantly increased our share of low carbon production, particularly from Johan Sverdrup. In Q3, our CO2 emissions came in at an all-time low of 3.4 kilograms per barrel, well below our target of 4 kilograms per barrel, and only around a quarter of the global industry average. And we continue to drive our emissions down. So far this year, we have delivered almost 50,000 tonnes of reduction through operational improvements across all fields, roughly and a little more maybe than 3 times what we targeted.

When Johan Sverdrup Phase 2 comes on stream, we will also connect [ph] that to the grid (00:08:48) and, of course, then also Ivar Aasen to the grid, and hence remove most of our Scope 2 emissions. With this, more than 80% of the Aker BP production will come from fields that are electrified, further strengthening our position as an industry leader when it comes to low CO2.

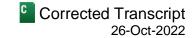
And speaking of Johan Sverdrup Phase 2, this project is now on its final stretch, and we expect production to start early in December. This will increase the field capacity to roughly 755,000 barrels per day, and with our 31.6% ownership, this means that Johan Sverdrup will represent around half of our total production with ultra-low production cost and CO2 emissions.

We are also making good progress on the rest of our project portfolio. The largest project in this portfolio is NOAKA, where we have completed the FEED and are aiming to submit the PDO by year-end. We will then also take over as operator for Krafla, and hence, be the operator for the entire area of development. With more than 600 million barrels of resources and with powerful shore, NOAKA will be a significant contributor to our low-cost, low-carbon strategy into the next decade.

The Valhall PWP and Fenris project is following the same timeline. This project involves a new platform at Valhall and an unmanned platform at Fenris. This Fenris is this gas discovery previously known as King Lear, and production is planned to start in 2027 as previously communicated. For a tiebacks project at Alvheim, Grieg and Aasen, as well as for the Equinor operated listing, the short version is that we are on track. Some of these project are already in execution. And for the rest of them, we are aiming a PDO by year-end. All of these project will be launched in a context of geopolitical instability: inflation, supply chain constraints and market volatility, so let me give a few comments on how we are approaching these topics.

In our work with the PDO projects, our focus have been to ensure technical and economic robustness. We have done more detailed engineering than what is normal in this phase and we have engaged alliance partners and other key suppliers at an early stage. We have established detailed execution plans that ensure a project can be delivered on time with the right quality and a right cost. Our industry is, of course, not immune to the inflationary pressures and the supply chain constraints seen across the global economy. And we've previously talked about how we are addressing this risk with close collaboration with our alliance partners for standardization and for strengthening our procurement strategy work.

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In an environment with high predicted inflation, it's not always a good idea to lock in the inflated prices. And as an oil company, we are better positioned to take on the inflation risk than most of our suppliers. We are, therefore, applying a pass-through principle for certain cost elements and over time, it will lead to a better outcome than the alternative. In addition to the uncertainties related to inflation and the supply chain, the Norwegian government recently proposed to reduce the uplift on investments under the temporary tax rules. And David will come back to this in his financial review.

As we are now moving into the decision phase for the PDO projects, we're taking all these factors into consideration and we will, of course, keep the market updated along the way as we make the final investment decision and submit the PDOs.

Now, before I leave the floor to David and the financial review, a few words on exploration. Because even though exploration has not been attracting the big headlines lately, it remains an important way for Aker BP to replace reserves and generate future growth options. And in the third quarter, we made two noteworthy discoveries, Storjo and Newt, adding more than 50 million barrels of resources net to Aker BP. Both these discoveries are likely to be tiebacks to Skarv in the future. We have five more exploration wells to go this year, which you can see on this slide, and we are well on the way to planning the 2022 program, which will probably consist of around 15 wells as well as this year.

Now, this concludes my operational review, and now, our CFO, David Tønne, will take us through the financial review for the quarter. David, the floor is yours.

#### **David Torvik Tønne**

Chief Financial Officer, Aker BP ASA

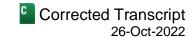
Thank you, Karl, and good morning, everyone. It is truly a great pleasure to present our third quarter results now with a full quarter behind us after closing the Lundin transaction and our income statements for the first time, including the activities acquired. The fantastic operational performance that Karl has walked you through, and the continued elevated price environment, in particular on gas, led also to a very strong financial performance in the quarter. Free cash flow was \$1.9 billion. During the quarter, we paid a dividend of \$0.525 per share. We then ended the quarter with a net debt of \$2.2 billion and a leverage ratio of 0.2 times net debt to EBITDAX.

As normal, I will start my presentation by walking you through our revenues and the key drivers behind it. Total income was \$4.9 billion in the quarter. We had a net production of 412,000 barrels of oil equivalents per day and an underlift of 5, which means that the sold volumes ended at 407 mboepd. The realized crude price was roughly \$103 per barrel. The price was positively impacted by strong differentials across our crude qualities, on average around \$4.5 per barrel. Adjusting for NGL, our average liquids price was \$101 per barrel.

If we then jump to the next slide, I will say a few more words on our gas sales and price realization. We saw record high production of gas in the quarter with almost 65,000 barrels of oil equivalents per day. The key driver of growth, of course, being the Lundin acquisition, but we also had increased gas production from, for example, the Skarv field in the quarter. As can be seen from the pie chart, almost all our gas is sold on contracts linked to day-ahead pricing with roughly two-thirds with exposure closely linked to TTF and one-thirds towards NBP.

Gas prices continued to be volatile in the quarter and have also varied significantly between the different hubs in Europe. The average realized price for our natural gas was \$281 per barrel of oil equivalent, up from \$153 last quarter, representing an increase of 84%. Combined, this gave us a realized average hydrocarbon price of \$130 per barrel of oil equivalents in the third quarter.

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Now, if we shift focus over to investments, total capital spend increased quarter-on-quarter as expected as the numbers now represent the combined entity. And if we look across the different spend categories, the increase in CapEx is mainly driven by the increased ownership in Johan Sverdrup and therefore also the Johan Sverdrup Phase 2 project, but also investments related to maturing listing and the Utsira High tiebacks towards a final investment decision.

In addition, we had an increase in spend on NOAKA and PWP/Fenris as we are now rapidly approaching FID. Although we see CapEx spend increase, we are still under-spending somewhat compared to the plan. This is both due to phasing, slightly revised cost estimates, and the weakening of the Norwegian kroner against the US dollar. Exploration spend in the third quarter was on the same level as in the second quarter and includes costs related to drilling of several wells, including discovery on the prospects Storjo, Newt, and Ophelia.

If we then move on to production costs, the absolute production cost for the oil and gas sold in the quarter amounted to \$236 million, while the costs related to the produced volumes were \$275 million. The increase quarter-on-quarter is, of course, due to the increased production volumes following the inclusion of the acquired activities from Lundin Energy. The average production cost per barrel produced was \$7.3 per barrel oil equivalent, down from \$12 or 40% down from the second quarter. The decrease reflects increased production and changes to the production mix following the completion of the Lundin transaction. Production cost in the quarter was negatively impacted by continued high electricity prices, and this was then partly offset by strong underlying performance and a weak Norwegian kroner.

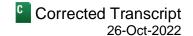
Now, with this as a backdrop, let's take a quick look at the P&L. When we subtract production cost of \$236 million and other operating expenses of \$9 million from total income, we get an EBITDAX of \$4.6 billion, a margin of roughly 95%. Exploration expenses amounted to \$85 million, of which \$52 million was dry well costs mainly related to the Barlindåsen, Lamba and Poseidon wells. Depreciation in the quarter was \$522 million or \$13.8 per barrel. This is slightly above the average rate for the last quarters and we generally expect a small increase in the rate versus historical averages based on amortization of the fair values recognized in the Lundin transaction.

In the quarter, we also recognized a non-cash impairment charge of \$55 million or approximately \$12 million after tax. This was related to the Ula area after further maturing the cost and production profiles following the acceleration of the expected shutdown from 2032 to 2028. Net financial cost was \$177 million compared to \$62 million in the second quarter. Financial costs were impacted by loss on currency hedges, mainly driven by the strengthening of the dollar against the Norwegian kroner. In addition, there is a negative currency element in the income statement resulting from consolidation of previous Lundin entities with another functional currency than dollar.

Profit before tax then ended at \$3.782 billion and tax expenses amounted to \$2.998 billion, with an effective tax rate for the quarter of 79.3%. Consequently, net profit ended at \$783 million or \$1.24 per share.

The legal entities acquired in the Lundin transaction include companies with other functional currency than dollar, mainly Norwegian kroner. The purchase price allocation carried out as of the 30th of June was allocated to the respective currencies accordingly. This gives rise to a currency translation element in the third quarter of \$1.013 billion, which is included in the statement of other comprehensive income. This essentially represents the net adjustment to the balance sheet, mainly as a result of the change in the dollar/NOK exchange rate between the 30th of June and the 30th of September 2022. And I'll revert back to this in a few minutes when taking you through the main changes in the balance sheet.

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As most other items in the financial statements, cash flow this quarter was also record high. Operating cash flow after working capital and taxes ended at almost \$2.8 billion – sorry, \$2.4 billion. Taxes paid in the quarter was \$1.241 billion and working capital and other adjustments was roughly \$950 million in the quarter. And approximately 80% of this can be explained by three reasons: First and most important, increased receivables for in particular gas sales late in the quarter as prices increased so significantly, but also several liftings late in the quarter. Secondly, significant unrealized currency gains on NOK-denominated payables, in particular driven by reevaluation of tax payables. And thirdly, reduced over-lift balances.

Investment activities excluding payments on lease debt amounted to roughly \$500 million in the quarter. And then, as mentioned, free cash flow ended at \$1.9 billion or \$2.9 per share. On July 1, we repaid a \$600 million bank facility that was part of the Lundin Energy capital structure, and then dividends paid in the quarter was \$332 million, as Karl has already mentioned. Interest paid, payments on lease debt, purchase of Treasury shares, and other finance items was \$109 million, and we then ended the quarter with a cash balance of \$3.042 billion, an increase of over \$800 million from the second quarter.

If we then take a look at the balance sheet, the main changes from the second to the third quarter worth noting are related to the currency translation also impacting other comprehensive income as already discussed. Some consolidated entities, in particular ABP Norway AS, formerly named Lundin Energy Norway AS, has NOK as functional currency, meaning that the statement of financial position is fixed in Norwegian kroner and that the equivalent dollar amount will vary depending on the currency rate.

The strengthening of the dollar against the Norwegian kroner in the third quarter generally, therefore, resulted in decreased balance sheet items. A good example is goodwill, which in all material respect is unchanged from the second quarter, while the balance measured in dollars at the end of the third quarter decreased by \$1.1 billion. This accounting technicality will remain until we have liquidated ABP Norway now expected to occur around yearend.

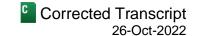
Similarly, around \$600 million of the decrease in property, plant and equipment is related to the reevaluation of balances recognized from the Lundin transaction. Net additions in the quarter are negatively affected by a decrease in estimated abandonment liabilities, which entirely relates to a higher discount rate compared to the second quarter. The CapEx incurred in the third quarter amounted to around \$400 million, with the main contributors being Johan Sverdrup Phase 2, Valhall and NOAKA.

On the right-hand side of the balance sheet, we've also seen an impact from the currency effect from the consolidation which is the reason for the decrease in equity despite of a net profit for the period of \$783 million. In addition, financial debt has decreased due to the repayment of the term loan of \$600 million in the beginning of the quarter.

Other long-term liabilities include provision for abandonment liabilities, which has decreased by \$450 million compared to the second quarter, due to the mentioned increased discount rates at the end of the third quarter. Tax payables has increased during the quarter because of the strong results and only one tax installment paid in the period. With such strong cash flow generation and only one tax installment in the quarter, our available liquidity increased with over \$800 million at the end of Q3 to a total of

\$6.4 billion.

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Net interest-bearing debt, as mentioned, excluding leases, ended at \$2.2 billion and the leverage ratio was 0.2 times net debt-to-EBITDAX. Maintaining a strong balance sheet and financial flexibility remains a key priority for Aker BP. This means low leverage, strong liquidity, and a conservative debt maturity profile.

If we then move on to tax, as mentioned at the second quarter presentation, in June, we fixed the first three tax installments for the fiscal year 2022 to be paid in the third and the fourth quarter this year. The first installment of \$1.241 billion was paid in the third quarter. This was below guidance of roughly \$1.3 billion due to the weakening of the Norwegian kroner. In the fourth quarter, we will pay the next two installments related to income year 2022.

In addition, on due date for the second installment in October, we took the opportunity to pay an extra installment in surplus to the fixed installment. This payment is made to better reflect higher profits for the full year as a result of the higher-than-expected realized prices since fixing the tax installments in June. This additional tax installment amounting to roughly \$550 million was voluntarily done and done to manage liquidity and avoid interest expenses on the old taxes.

The sensitivity for the three payments in the first half of 2023, here shown on the slide, are based on an average oil price for the fourth quarter 2022 and the fixed gas price of \$30 per mmbtu for all the scenarios.

As Karl has already commented on, on the 6th of October, the government presented the proposed national budget for 2023, including a proposed reduction in the temporary tax regime uplift from 17.69% to 12.4% applicable from 1st of January 2023 if enacted.

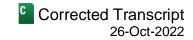
As illustrated here on the slides, the proposed reduction in uplift rate will reduce the tax deductions for investments under the temporary regime from 90.7% to 86.9% if it is carried through as proposed. Now, although this proposal represent a lower tax deduction than the original temporary regime, it is still higher than the ordinary tax system that has a 78% tax deduction.

Now, before leaving the word back to Karl to sum up, I will end my presentation with an update on the guidance for the second half of 2022 and our capital allocation priorities. With the closing of the Lundin acquisition on June 30, we updated our guiding for the second half of 2022 for the combined entity at our second quarter presentation in July. On production, we guided at 410,000 to 435,000 barrels of oil equivalents per day for the second half of the year with a very clear statement that all things equal, where in the range we would end up would be dependent on when in the fourth quarter Johan Sverdrup Phase 2 will start up. October start-up would take us to the high end of the range, and late December will take us to the low end. Now standing late-October, we expect that production will start up in the first half of December and consequently we narrowed the guiding range to 410,000 to 420,000 barrels of oil equivalents per day.

On total capital spend, we expect to spend – we expected to spend \$1.7 billion in the second half of the year, as CapEx is ramping up on many of the PDO projects. As also mentioned previously, we benefit from the weaker-than-expected Norwegian kroner, and in combination with a slightly lower cost on some of the ongoing projects, and a bit of phasing into next year, we reduced the guidance for the second half of 2022 with \$100 million down to \$1.6 billion.

On production cost per barrel, we guided at roughly \$7 per barrel for the second half of the year. Average cost was \$7.3 per barrel of oil equivalents in the third quarter. We continue to see pressure on this KPI, mainly due to the inflated power prices. However, this is then mitigated by the weaker-than-expected Norwegian kroner. Consequently, we keep the guidance at roughly \$7 per barrel, assuming a relatively stable foreign exchange rate for the remaining part of the year.

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So, to round off my presentation, I would like to reiterate our capital allocation priorities considering the current very strong financial performance, the volatile macro-environment impacting both prices of our products sold but also projected inflation, and lastly, the changes to the uplift in the temporary tax regime proposed by the government in the national budget. Aker BP's capital allocation priorities stand firm. We will maintain a robust balance sheet with financial flexibility and protect our investment-grade credit rating. We will also continue to invest in profitable growth. The technical maturities of our project portfolio is, as Karl has mentioned, high. And together with the board, we will now work to make well-thought-out investment decisions in the months to come. The objective will not be to invest in growth for the sake of growing, but to invest in robust projects that maximize value creation.

And lastly, the value will be distributed back to our shareholders through a resilient dividend growing in line with value creation. The Board of Directors has resolved to pay a dividend in the fourth quarter of \$0.525 per share, which brings the total dividend in 2022 up to \$2 per share, an increase of 48% from 2021.

And with that, I will conclude my part of the presentation and give the word back to you, Karl, for some concluding remarks. Thank you.

#### **Karl Johnny Hersvik**

Chief Executive Officer, Aker BP ASA

Thank you, David. As usual, a thorough walk through all the financials of the quarter. And now, before we open up for questions, let me at least quickly repeat the main points from today's presentation. But first of all, the financial performance was strong in Q3, obviously, driven by the high oil and gas prices, but probably, and at least to me, and more importantly, by higher production efficiency. And I can assure you that Aker BP will continue to focus on safe and efficient operations and to produce oil and gas with as low cost and low emission as we can possibly do.

Second, we do expect Johan Sverdrup to start up in December – early December, and this will contribute significant production and cash flow growth next year and further strengthen our cost and emission profile going forward. And thirdly, Aker BP has a unique resource base and by the end of this year, we are aiming to submit the PDOs for project with total resources of roughly 900 million barrels of oil equivalents net to Aker BP. These project will represent substantial value creation both for Aker BP and its shareholders, but I think it's also important to state that this will be significant value for the society at large through both ripple effects and, of course, as time goes by, taxes.

Now, this concludes our prepared remarks, and we are now ready for questions.

# QUESTION AND ANSWER SECTION

**Operator**: Thank you. [Operator Instructions] We'll now move to the first question. Please go ahead, your line is open.

#### Teodor Sveen-Nilsen

Analyst, SpareBank 1 Markets AS

avid. I have

Hello. This is Teodor Sveen-Nilsen from SpareBank 1 Markets, and then good morning to Karl and David. I have three questions. First, on the revised production guidance, so is that entirely explained by Sverdrup being pushed out a few weeks and also just wonder what to expect as its production rate from Sverdrup Phase 2 for 2022?

Second question is on the proposed tax change. I just wonder could you briefly discuss the impact on the breakeven and to the year for your project portfolio in light of that proposed tax change?

And third question is – probably it's around inflation and then lock-in prices, Karl, you mentioned that the – it's not necessarily a good strategy to lock-in oil prices when inflation is high, so just wonder if you just could briefly discuss your contract strategy for the [indiscernible] (00:35:29) project portfolio have in light of lock-in prices or not locking in prices. Thanks.

#### **Karl Johnny Hersvik**

Chief Executive Officer, Aker BP ASA



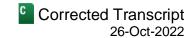
Thank you, Teodor, and good to hear from you. So on production and production guidance, I think it's actually quite easy to calculate the total production volume of 755,000 minus the Phase 1 volumes, and then multiply that by 12, and our stake on 31.6%. And by doing so, you will quite quickly come to the realization that the downwards adjustment to the midpoint in the guiding is entirely explained by the change in start-up date in Johan Sverdrup from early October to early December.

Now, on the impact of breakeven, of course, as David explained, the main change in this update to the tax system is a reduction in uplift. And that means that the effect on the breakeven will depend on capital intensity, production profiles and timing of this CapEx. And that means that there will be a different breakeven effect on the different projects. So we are in the middle of that assessment as we speak. And it will also, obviously, depend on a contract strategy as timing of CapEx will also be dependent on contract strategy. So, we'll come back to that when we have done the assessment.

On your last question, on inflation, what we have actually done is to break down inflation in about 16 categories. We have mapped those categories across all the investments in the portfolio, and we've tried to kind of find the areas where, yeah, it is sensible to today acquire services on a fixed price basis and where it's sensible to have a pass-through mechanisms.

And the reason is that if you look at global inflation indexes such as Eurostat or IHS, you will, of course, quickly come to the realization that the price increase from 2021 to 2022 is quite high. But if you start looking into the different categories, you will see that this inflation is actually – has a very large distribution, right, and also that prices on quite a lot of the macro trends, steel and quite a lot of the other commodities are actually trending downwards as we speak.

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So the way we will execute this in principle is that parts of the procurement will go through the standard contracts as prices are already set in the frame agreements. And then for some of this, mostly where we have high impact from energy prices or other commodities, we will offer a fixed uplift to the impactable prices and therefore take on board the price risk related to indexes, and on other packages which have more composite, yeah, you can say deliveries, we will choose somewhere in between those two strategies.

So it's actually quite complex. And I'll probably also add that, at least for the first time in my career, we are now talking to – down to Tier 2, Tier 3 vendors when we are assessing the procurement strategy and not just focusing on the direct package vendors to the projects.

Teodor Sveen-Nilsen

Analyst, SpareBank 1 Markets AS

Okay. Thank you. That's clear.

Operator: We'll now take the next question. Please go ahead, your line is now open.

**James Hosie** 

Analyst, Barclays Capital Securities Ltd.

Hi. Good morning. It's James Hosie from Barclays. A couple of questions from me, just you're mentioning the supply chain capacity challenges, are there particular projects where supply chain issues are seen as particularly acute? And then apologies if I've missed it, but I can't see any mention of your \$30 per barrel breakeven target in today's release or presentation, are you starting to relax that requirement in light of some of the supply chain and inflationary pressures you're now facing?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Yeah. So, on supply chain challenges, so let me be very clear. So far, we have not seen constraints or let's say unmitigatable issues related to supply chain. And as I also answered to Teodor, we've actually now down to Tier 2, Tier 3 package providers and equipment providers. So, I think we've got a – yeah, I think we've actually got a pretty fair understanding of how the supply chain will deliver. And so far, even though the market is tight on certain components and it's particular where we're overlapping with, let's say, yeah, the [indiscernible] (00:40:57) packages where we're overlapping directly with other industries are probably the tightest markets. But so far, we've been able to secure capacity for the Aker BP projects.

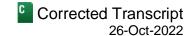
Now, when we're talking about a breakeven target, if you remember back to the summer of 2020 when we implemented the new temporary tax regime, we reduced the breakeven target from [ph] \$35 to \$30 (00:41:26) to account for the tax effect from the temporary package. And the proposed tax changes, if enacted, will, of course, have some impact on the breakeven of this project. And we still target our project to be as profitable as possible, and we'll evaluate all the aspects of these projects and, of course, the – with the addition of supply chain and probably corporate priorities before potential sanctioning.

Now, I must reiterate that our focus is firmly now on the things we can influence and the technical maturity which is now in place, and our focus is on maturing a decision towards the FID in the next two months.

James Hosie

Analyst, Barclays Capital Securities Ltd.

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[indiscernible] (00:42:21) working capital outflows this morning, to what extent should those unwind in the fourth

quarter or in 2023?

#### David Torvik Tønne

Chief Financial Officer, Aker BP ASA

So, the working capital changes as mentioned is in large driven by accrued income and driven by the high increase in gas prices, but also liftings late in the quarter. So, on an even basis, of course, if the prices change, then, of course, that will also impact working capital. In addition, there's also a impact of currency here where tax payables has been reevaluated. So, of course, when foreign exchange rates change and prices change and we have no liftings, less liftings late in the quarter, there could, of course, be an unwinding.

James Hosie

Analyst, Barclays Capital Securities Ltd.

Okay. Thanks very much.

Operator: We'll now move on to the next question. Please go ahead, your line is now open.

Christopher Wheaton

Analyst, Stifel Nicolaus Europe Ltd.

Thanks. Good morning, guys. It's Chris Wheaton from Stifel here, and congratulations on a fantastic quarter. I can't think any investor should have a problem with \$1.8 billion of equity free cash flow in the quarter. Two questions for me, please. Firstly, could you talk a bit - picking up on James' point on supply chain, and I would have thought the bigger issue for you would be not cost, but schedule because as the tax slide says, you've got such a huge contribution from CapEx into offsetting tax. The key thing is going to be delivering projects more on time than on budget I would have thought in terms of the impact on NPV. Could you talk about how you're trying to secure timing of projects, particularly when you've got so much to do along with everyone else in Norway? That's my first question. And then I had a question for David on tax, please.

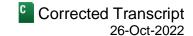
Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

So, I can start on the timing. So, as you are familiar with, Chris - and thank you for your comments - we have established firm alliances and about 95% of the CapEx in this project are actually running through these alliances. That means that we have for some time now known who will be the main equipment providers, who will be the construction companies, the engineering companies, the line pipe suppliers, et cetera, et cetera. And that means that we in the quarter have spent the most time actually securing that construction strategy and timeline and working, of course, also the key activity plans.

So, right now, the way we see this is that at least our projects are on a timeline that we do believe is not only executable, but at least to a certain extent – then if there's nothing, can I say, unpredicted happening, actually quite robust. But I would say that if I were to go to – in the market now and I issue an [ph] ITT (00:45:30), I would be actually concerned not only about timing, but also about cost increases, right? But the fact is we have secured both construction slots, procurement slots, and, yeah, pretty much all we need actually to execute and make the timeline robust. So, I'm actually feeling quite confident as to the timeline both on package deliveries, assemblies, preassemblies and final assembly in the current projects. And this is - and you're spot on, this is what we've spent the most time on in this quarter.

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#### **Christopher Wheaton**

Analyst, Stifel Nicolaus Europe Ltd.

Brilliant. That's really helpful. Thank you. And, David, a question on tax, please. I'm comparing your slide 22 on tax payments to your balance sheet. You've got \$5.4 billion of current liability for tax payable. And if I add up the numbers on slide 22 for the next three quarters alone, you've got something guidance - a guidance of around \$7.5 billion to \$8 billion of tax payable, if I'm reading that correctly. That's a much bigger difference than normal between those two numbers. Could you help understand what's driving that difference, please? And then perhaps if you can give any steer on the second half 2023, that would be very helpful. Thank you very much.

**David Torvik Tønne** Chief Financial Officer, Aker BP ASA

Yeah. So, we might have to follow up in detail on that question around the difference in what you see there on the net tax payable - receivable of \$5.4 billion versus the indications on slide 22. I think it's worth noting, of course, that we have paid already, as mentioned, \$1.241 billion in the third quarter. And now in the fourth quarter, we have already in October paid a second installment and also the extra installment as mentioned. And then, of course, the sensitivities depend on price realization also for the remaining of the year, which, of course, then gives quite a lot of uncertainties in these numbers in addition to the assumed foreign exchange rates. So, also we can definitely follow up on that in detail if you would like, Chris.

And then when it comes to sort of guidance for sort of second half 2023, that would, of course, depend on the price assumptions and the production volumes and investments in 2023, which, of course, is not something that we're ready to guide on yet.

**Christopher Wheaton** 

Analyst, Stifel Nicolaus Europe Ltd.

Okay. Okay [indiscernible] (00:48:31)...

Chief Financial Officer, Aker BP ASA And just to add one, Chris. Sorry for that. Just to add on. So, taxes for Q4 is not in the balance sheet yet, of

course.

**Christopher Wheaton** Analyst, Stifel Nicolaus Europe Ltd.

Okay. That's helpful. Brilliant. Thank you very much.

**Operator:** We will now move on to the next question. Please go ahead, your line is now open.

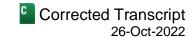
**Yoann Charenton** 

Analyst, Société Générale SA (UK)

David Torvik Tønne

Good morning, Karl and David. This is Yoann Charenton from Société Générale. Thank you again for the presentation. You already touched upon the impact of the tightening of the temporary tax rules on the breakeven target of below \$30 per barrel. At the same time, you [indiscernible] (00:49:15) on a range of other factors to take into account when making FIDs in the current environment. As such, can you please explain what such other factors mean for the company's breakeven target? And what are the implications of these factors and especially geopolitical instability [indiscernible] (00:49:40) for production cost? And still on this topic, I realize that you have

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removed quite a lot of content on CapEx projections from 2023 onwards, and it makes sense given the list of factors you have listed in your earnings report. With that said, are you able to tell us, as we are getting closer to the submission of PDOs of several projects, and are you able to provide more color on the provisional CapEx budget estimates for NOAKA and possibly for listing if that is possible?

**Karl Johnny Hersvik** 

Chief Executive Officer, Aker BP ASA



Yeah. I'm not sure I completely understood your question, but I'll have a go at it, Yoann, and if I'm off, I'm sure you will correct me. So, when we touched on the tax rules and the implication that has on breakeven, as previously stated, that will actually vary from project to project, because it will – the breakeven will depend on the CapEx intensity of this project, and it'll also depend on the timing of production profile and CapEx profiles. So, that's why we – and as I previously stated, we are in the middle of that assessment as we speak, and therefore, we have not gone out and updated the targets per se.

And when we reflect on geopolitical stability, I've previously in this Q&A session touched on the robustness of the execution strategy and the procurement strategy that's now been lined up. And the final topics that relate to CapEx assessment of the, let's say, non-frame agreement covered materials are ongoing as we speak. So, that means at the current stage, we will need to come back with the actual assessment of the CapEx to breakeven on this project when we've done that assessment.

And this is a little bit of a change to how we've evaluated the procurement previously. For example, a couple of quarters ago, we actually estimated that we would continue procurement as we have done previously, which would be largely via fixed price mechanisms. And that's, of course, introduced some more uncertainty into how we assess both direct procurement, but also contingency.

David Torvik Tønne

А

Chief Financial Officer, Aker BP ASA

And then if I may add, Yoann, as well, we typically update our longer-term profiles as part of the Capital Markets updates and when we have strategy updates. We typically don't update them on a quarterly basis, of course. So, I think that's worth noting.

And then I think you also had a question around sort of geopolitical instability on production costs. And I think that's worth reflecting on, right, because, of course, the two main risk factors at our – on our production cost in this quarter is electricity prices, which is high. That's, of course, closely linked to the instability in Europe at the moment, which also at the same time is weakening the Norwegian kroner. So, those are two effects sort of mitigating each other's a bit, and then, of course, electricity prices, which is high, is very correlated with high gas prices which we are significantly benefiting on the revenue side. So, underlying production cost is something that we can work on and to improve productivity, as Karl talked through in the presentation around, for example, how we're working on the maintenance backlog, and then the external effects and factors is something that we, of course, just need to take into effect.

Yoann	Charenton
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Analyst, Société Générale SA (UK)



Thank you both for the insight. Have a nice day.

Operator: [Operator Instructions] We will now take the next question. Please go ahead.

Q

Oh, hi. Good morning, Karl and David. Thank you very much for the answers so far. I guess, first question really, clearly the tax changes have reduced the incentive to kind of accelerate these projects. So, I got a picture that they were ready and mature, but I suppose reading the statement, it feels like not necessarily – although they're ready to go, not everything will necessarily be sanctioned. So – I mean, is that a fair assumption that obviously you do have a lot of projects, but maybe not everything goes ahead at this point in time, or perhaps to look at it another way, with the kind of cost inflation backdrop that we're sort of well aware of, do you think that it's maybe more preferable to allocate more capital to shareholder returns in the near term and, therefore, focus maybe on [ph] few of those projects that put an (00:55:00) increase dividend?

#### **Karl Johnny Hersvik**

Chief Executive Officer, Aker BP ASA

Δ

Yeah. So, thanks, [ph] James (00:55:02). I think it's too early to conclude that the projects would not go ahead. So, if that was your read, I'd like to correct you on that. What I stated is that we will spend some time now assessing these – the financials, both from the tax, but also the other implications and then make a decision. But I also stated that as the plan now sits, we are ready to execute these projects. They're mature from a technical perspective, procurement perspective and execution perspective. They're actually significantly more mature than I'm used to at this stage. And it's now boiling down to basically a discussion around how do we allocate capital in the future. But we'll come back to that when the assessment is done. But I think it's – I think it's a wrong assumption to at least assume as the base case that this would not be executed.

Q

Okay. Okay. Fair enough. And my second question would be, is there anything more to the rebrands on Valhall? Could you – or maybe just give us some more color there in terms of the change in description, should we say, or is it a very similar project that's just been rebranded?

#### **Karl Johnny Hersvik**

Chief Executive Officer, Aker BP ASA

Α

So, you're thinking about the PWP. Well, yeah, yeah, there's basically a rebranding. So, we previously called PVP or PWP, NCP which was new central platform, and now PWP wins production wellhead platform. So, that's basically just a rebranding. And [indiscernible] (00:56:45) Fenris was, of course, previously called King Lear. So, it's just getting into the nomenclature that we're using both on Valhall and also for new fields on the Norwegian Continental Shelf. Nothing else.

Q

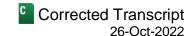
Okay. Very clear. Very clear. And then just finally for me, could you maybe just update us in terms of your strategy in terms of gas production? I mean, obviously, realizations have been very high. Do you tend to continue to maximize gas production in the short term?

#### Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Α

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I think we're currently running at roughly 12% gas production on a total produced basis. And as you correctly state, we have maximized gas production. Currently, I don't think there's a lot of capabilities to impact or increase this short term. And the current level is – yeah, you could look at the current level as our new development strategy and production strategy from an Aker BP perspective. Main change, of course, is what we did in Skarv, which was done in Q1 or at least decided in Q1 where we stopped the injection into segments and exported those gas volumes. That will continue.

Okay. Brilliant. Thank you very much, Karl. I'll hand over.

**Operator**: We'll now move on to the next question. Please go ahead, your line is open.

Hello. My name is [ph] Justine Nelson (00:58:26). I'm a journalist in EnergyWatch. We are a financial newspaper about [indiscernible] (00:58:32) newspaper about the energy industry. You talk a lot about – thank you for letting us at the presentation. You talk a lot about the volatility in the market and in the prices. How long do you expect this to last? And how do you work through this situation?

#### **Karl Johnny Hersvik**

Chief Executive Officer, Aker BP ASA

I think, it's a good question, how long the volatility and the prices will last and I'm not going to attempt to predict that at this stage. I have a pretty bad track record of actually predicting volatility. But what I would say is that it's always been Aker BP's strategy to be able to manage such volatility, both on the, yeah, let's say, macro side in terms of oil and gas prices, but also on the input side in terms of long-term relationship to service providers and partners. So, right now, I am not necessarily that concerned about the long activity of the volatility of the situation. I'm more concerned on how we actually do manage the situation. And that would require some new thinking compared to how oil and gas projects are usually executed in terms of procurement. So, I think I'll refrain from predicting long activity in these prices.

Excuse me. What did you say? You wanted to refrain?

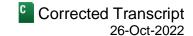
#### Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

I don't think I have a good record of predicting volatility and I don't think I should speculate on how long these prices will last. What I will say is that from an Aker BP perspective, we're well set up to manage that volatility and probably better set up to manage this volatility than other companies of a comparable size.

Okay. Thank you very much.

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**Operator**: As there are no further questions at this time, I would like to hand the call back over to your hosts.

#### Kjetil Bakken

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

Okay. Thank you then all for your good questions. And then, we close this session. If there are any follow-up questions, the IR department in Aker BP is ready to answer. And if you're all happy, we wish you a continued great day.

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