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Aker BP ASA (AKRBP.NO)

Q2 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

Good morning, everyone, and welcome to this presentation of Aker BP's Second Quarter Results in 2023, which will be given by CFO, David Tønne, and myself. After the presentation, there will, as usual, be a Q&A session.

It is a true pleasure to report a very strong quarter for Aker BP. We have produced more oil and gas at lower cost and with lower emissions than ever before in the company's history. I am also pleased to report that our field developments are on track. We're off to a good start for the project that we launched in December with important milestones achieved in the quarter, including government approval of all PDOs. We've also had recent exploration success with a significant oil discovery in the Yggdrasil area and also participation in the Carmen discovery. On the financial side, we've further optimized our capital structure through successful transactions in the bond market.

So, as I've said before, this was an eventful quarter. And what makes me most proud is the dedicated team with a company culture for operational excellence and continuous improvement that really makes Aker BP an E&P company for the future.

Aker BP delivered excellent operational quality this quarter. And once again, we set a new production record. We produced 481,000 barrels per day in Q2, which is 6% above last quarter and 17% above third quarter last year, which was the first quarter as a combined company with Lundin. The production increase is mainly driven by the

ramp up of the Johan Sverdrup field. And this strong performance has allowed us to increase our production guidance for 2023, which David will cover in more detail towards the end of our presentation.

Phase two of the Johan Sverdrup development was completed at the end of last year. And after a couple of months of ramp up, production stabilized at the design capacity of 720,000 barrels per day. In parallel, the operator, Equinor, worked on debottlenecking the facilities. And in May, we successfully tested the capacity at 755,000 barrels per day and we've been keeping it steady since. With our 31.6% interest in this world-class field, Johan Sverdrup is the main contributor to our Aker BP's new production record in the quarter, and the field now accounts for roughly half of our production. Johan Sverdrup is also an important driver of our record low unit cost and emission intensity.

Perhaps the most important performance indicator for operations in Aker BP is production efficiency, which in reality measures the capacity utilization across our operated assets. This performance metric has been consistently strong the last 12 months and was as high as 96% in the second quarter, up from 93% in the first quarter as we experienced no planned or unplanned interruptions. This high efficiency also translate to lower unit cost. And in Q2, we operated a record low unit cost per barrel of \$5.6 per barrel, down from \$7.2 per barrel in the previous quarters. This reduction is caused by a combination of factors, including high efficiency just mentioned, and also by lower well intervention activity and a weakening of the Norwegian krone, which is the base currency for the majority of our OpEx. And with such a strong first half of the year, we, today, announced a lowering of our full-year estimates by \$1 to a range of \$6 to \$7 per barrel.

It is, of course, a fundamental goal and a top priority for us to keep our people safe. And as I've said many times before, we do believe that high safety goes hand in hand with high operational efficiency in general. I am, therefore, not satisfied with our safety performance in the quarter where we've had an increase in the number of personal injuries, pulling the TRIF indicator to 1.6. Fortunately, none of these injuries were of high severity, but the bottom line is that they should not have happened. We are, as we always do, investigating each incident to learn and to prevent it from happening again.

Q2 was a record quarter, not only on production volumes and operational cost, but also in terms of greenhouse gas emissions. We continued our progress on decarbonization. And we, today, reported greenhouse gas emissions of 2.6 kilograms of CO2 equivalent per barrel, down from 2.9 kilograms in the first quarter. The main reason for this good result is that an increased share of our production came from fields that are powered from shore and especially, of course, the ramp-up of Solveig Phase II.

With this strong performance, we are fortifying our position as a global industry leader within greenhouse gas emissions, as we've shown in the recent quarters. Compared to the 300 largest upstream E&P companies, Aker BP is ranked number one on emission intensity per barrel produced.

In the previous couple of quarters, we have provided detailed information about a large project portfolio, which we will put into production over the coming years. We really look forward to delivering these great projects which will unlock above 700 million barrels of oil equivalent and increase our daily production to around 525,000 barrels. My message today, as also was the case the last time I stood here, is that we're off to a good start and that we are progressing according to plan.

Delivering these projects are obviously a very important value driver for Aker BP, and therefore, we have invested a lot of time and effort into developing a project execution model that delivers quality and efficiency. And this quarter we have, together with our alliance partners, continue to make progress and some important milestones have been achieved.

In June, the Norwegian Ministry of Petroleum and Energy approved all nine PDOs that we submitted in December. And although this was as expected, we are glad to receive this acknowledgement. Our largest project is Yggdrasil, here, we recently passed a common system design freeze with no critical issues. This means that the design of the major area development is regarded as mature. The Yggdrasil area consists, of course, of three independent platforms, tie-ins of subsea fields, onshore power from shore, and an onshore operations center, including a groundbreaking operations philosophy.

For the PWP-Fenris project, the system design freeze is on schedule for Q3 and a fabrication of the Fenris jacket and the pre-drill module has already started. We will now step up construction activities on all the projects. And to sum it up, we are on track and keep our total 2023 CapEx estimate of \$3 billion to \$3.5 billion, unchanged.

In the quarter, we made a significant oil discovery in the heart of the Aker BP operated Yggdrasil area with the well named Øst Frigg Beta/Epsilon. The volume is estimated to be between 53 million and 90 million barrels, about twice as large as the pre-drill estimate. We are now working at high speed to mature this discovery to become a part of the Yggdrasil development project, which would of course increase the gross resources of Yggdrasil by around 10% to more than 700 million barrels.

Yggdrasil is already designed, in fact, to take in such additional volumes. Hence, the additional investments will be low. This means further improved profitability, extended plateau production and increased value creation from Yggdrasil. The development concept for the Yggdrasil area includes significant flexibility and is designed to be a hub for future discoveries and fields just like this one. We see further upside and a potential around Yggdrasil and in collaboration with our partners, we will continue active exploration in the area in the years to come.

So as you can understand, we are very pleased with the results of Øst Frigg Beta/Epsilon well. But there are also other aspects of this well that are worth highlighting. The well had both a vertical main track and three horizontal sidetracks tracks. The first two sidetracks were drilled at a better structure to prove oil and appraise the discovery. The sidetrack to Epsilon was the last one and as we continued drilling through the structure, we saw an oil column that was consistently higher than expected. So we continue drilling all the way towards the gamma structure that you can see on the left of this illustration.

When the well reached its target, the team had drilled 8,168 meters and as it made its way horizontally through the reservoir, the value of Yggdrasil increased meter by meter in what is now Norway's longest exploration well ever. The operation was monitored 24/7 from a new drilling operation center in Trondheim. And by using so-called geo steering, primarily driven by ultra-deep e-resistivity measurements, the team could optimize well placement in the oil bearing layer as well as map the top of the structure. And this is what makes this exploration well unique. The team was able to utilize a combination of state of the art technologies to perform a safe and excellent drilling operation, delivering Norway's longest exploration well to-date. A truly value creative operation.

Encouraged by our success with the drill bit so far this year, we continue to execute on a busy exploration scheduled for 2023. In addition to the oil discovery at Øst Frigg, we are also partner in the recently announced discovery in the Carmen prospect operated by Wellesley.

We are currently drilling the Rondslottet well, which is a classic high-risk, high-reward opportunity and 20 years ago, a large oil discovery was made here. But the reservoir properties were poor, and the discoveries were classified as non-commercial. The purpose of this well is to test if the reservoir properties improve as we move up the flank of the structure.

In our exploration program for the rest of the year, two operated wells have been added and one have been moved into next year. Both the Surtsey well in the Yggdrasil area and the Rumpetroll South well in the Alvheim area will be drilled in the fourth quarter, while the drilling of the Kaldafjell prospect in the northern part of the North Sea is moved to 2024. We have also added a DNO operated Norma well to this year's program where we have formed in with a 10% stake.

And as always, the timing indications are only indications. So this is a historically active exploration year for Aker BP, and we very much look forward to executing on the plan.

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Thank you, Karl, and good morning to all of you. As we reflect on the end of the second quarter, it also marks the one-year anniversary of our combination with Lundin. Looking back, it's good to see that the integration has been successful. We have achieved new levels of excellence across all operational parameters, and this is also reflected in our financials. The second quarter is no exception, and we are pleased to report excellent operational performance, which has translated into strong financial results. We have successfully maintained our focus on cost control in an inflationary macro environment, resulting in both CapEx and OpEx that are in line or even better than the expectations we presented at our strategy update in February.

We also continue to proactively optimize our capital structure. And through bond transactions in the quarter, we have strengthened our financial capacity and extended our debt maturities, and thereby we have achieved a better alignment between investments and financing in the years ahead.

Now let's take a closer look at the actual results. And of course, we will start with the drivers behind our revenues. Total income ended at \$3.3 billion in line with the previous quarter. Lifted volumes increased by 27,000 barrels per day, mainly driven by the increased production level at Johan Sverdrup. However, this was offset by lower realized prices, which dropped by 8% from the first to the second quarter, mainly driven by natural gas, which dropped by 35%.

If we then zoom out to the full income statement, here, we can see that even with a significant increase in production volume, we managed to keep costs lower than in the previous quarter. This can be attributed to a combination of factors, including lower well maintenance activity, a continued weakening of the Norwegian kroner versus the US dollar, and lower power prices. This also had a noteworthy impact on the unit costs, resulting in a record low \$5.6 per barrel produced for the quarter, down from \$7.2. This significant reduction can also partly be attributed to the increased production from Johan Sverdrup, which has the lowest operational cost per barrel in our portfolio.

Exploration spend in the second quarter was \$91 million. However, as the majority of this was related to the discovery wells at Øst Frigg and Carmen and, therefore, has been capitalized, the exploration expenses in the P&L were only \$27 million. As a result, EBITDA came in at \$3 billion, slightly higher than the previous quarter. And then, after factoring in depreciation and impairments, our operating profit amounted to \$2.3 billion.

The impairment this quarter was mainly related to a technical goodwill on Edvard Grieg and mainly driven by lower forward prices. But, in addition, we also wrote down the Ve discovery from Q1, which we now consider as non-commercial.

The effective tax rate for the quarter was 82%, slightly up from the marginal tax rate of 78% and mainly due to the impairment, thus leaving us with a net profits of \$397 million.

If we then move on to the cash flow statement. Cash flow to investments increased to \$776 million as we are gradually increasing the activity in our field development projects. The activity level will continue to grow in the coming quarters and we maintain our full year guidance of \$3 billion to \$3.5 billion. Cash flow from financing was positive at \$66 million, driven by bond market transactions, which I will come back to shortly. But, before that, let me round off the cash tax discussion with some forward guidance.

As mentioned, we paid the final tax installment for the fiscal year 2022 in the second quarter and, as from the third quarter, we will start paying installments for 2023. And, since we don't know the actual tax until the year is over, the initial installments are determined based on an estimate of the 2023 results. The installments are made in Norwegian kroner and are equivalent to approximately \$825 million each. For the third and the fourth quarter 2023, these numbers have now been fixed. And when we enter into 2024, the size of the remaining installments will be revised to match the actual results. And this chart here shows how the tax installments may be adjusted under different oil price scenarios for the remainder of 2023.

Now, let's move on to the bond transactions. A key priority in our financial framework is to maintain a strong financial position and we are continuously working to optimize the balance sheet to ensure that we have the proper access to capital not only today, but also in the years ahead. So in June, we executed several transactions in the bond market. We issued \$500 million of senior notes with maturity in 2028 and \$1 billion with maturity in 2033. Then, we also bought back Aker BP bonds with maturities in 2025 and 2026 for \$1 billion. The effect is that we have strengthened our financial capacity by \$0.5 billion and we have extended the maturity of over \$1 billion in bond debt until after the startup of all ongoing field development projects, and hence, created a better alignment with our investment plans.

The bond offering was well-received in the market with a book that peaked with almost six times oversubscription and with credit spreads that reflect our investment-grade credit rating. We then ended the second quarter with \$3.1 billion in net debt and the leverage ratio of 0.22 times net debt to EBITDAX. The weighted average time to maturity increased from approximately 5.4 to 6.7 years. And our available liquidity at the end of the second quarter was \$6.1 billion, of which \$2.7 billion was cash.

Now, everything that we do on the financing side is part of a bigger picture where we're using a mix of equity and debt to finance our investments, which will create even more shareholder value over time. And here is one way to illustrate this bigger picture. The sources and uses graph on the left-hand side is the same as we presented at our strategy update in February, and it tells an important story, which I would like to reiterate.

On the bar to the left, we show the estimated cash flow from operations after tax from 2023 to 2028 at various oil prices. Here, you see the strong underlying cash flow generation from our low-cost asset base, which is then compared to the planned uses of this cash flow. Our pre-tax investment program has a significantly smaller after-tax impact. Around \$5.5 billion after-tax are spent on investments, exploration, abandonment, and financing over the next six years, which is covered by organic cash flow at an oil price around \$35 per barrel on average. Any cash flow above this is capacity for dividends and debt repayment. And this cash flow generation provides capacity for a resilient dividend growth in line with value creation while we invest in profitable growth into the next decade.

Now, to round off my part of the presentation, let me revisit our guidance for 2023. Today, we announced two adjustments to our 2023 guidance. First, we have increased our production guidance to a range of 445 mboepd to 470 mboepd, which incorporates the better-than-expected production in the first half with very high production efficiency across our portfolio and Johan Sverdrup successfully reaching its new plateau level. The production run

rate at the end of the second quarter was even higher than 470 mboepd, but we do expect a lower production in the third quarter due to planned maintenance.

The new range is comparable to a P90 to P10 range where the midpoint represents the most likely outcome. To reach the high end, we would need to see continued high production efficiency across the portfolio, including Johan Sverdrup, good contribution from new wells that we plan to put on stream, as well as an efficient execution of the maintenance program.

For production costs, we have lowered the guidance range to \$6 to \$7 per barrel, down \$1. Main drivers are here good cost control, higher production, weaker Norwegian krone versus the US dollar, and a more normalized power price. For CapEx, exploration, and abandonment spend, our forecast remains basically unchanged and hence we make no changes here.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Thank you, David, and thanks to all of you for watching. We will shortly open up for Q&A, but let me quickly summarize why I think this has been a remarkable quarter for Aker BP and put it into the context of our strategy. We delivered record-breaking performance on production, efficiency, and output as well as on cost. We fortify our position as the industry leader in greenhouse gas emissions. We are on track with our large project portfolio, which will create significant shareholder value in years to come. And we made new discoveries that add to our resource base and increase the value of our ongoing development projects.

We will now take a short break before we open for Q&A. And if you want to participate in this session, please enter via the Team (sic) [Teams] links provided on the webpage. And if you just want to listen in, stay right where you are, and we will be back in a couple of minutes.

Welcome back and thank you for your patience. We'll now start on the Q&A session. And for those of you who want to ask questions, please raise your digital hand and Kjetil from IR will help me conduct this Q&A session in what we hope will be an orderly manner. And I'm sure that we'll all appreciate if you could also add your camera on Teams, if you ask questions. So with that Kjetil, who is first?

QUESTION AND ANSWER SECTION

Kjetil Bakken

Vice President-Investor Relations, Aker BP ASA

A

The first question is from John Olaisen. So, John, if you can unmute, you are online.

John A. S. Olaisen

Analyst, ABG Sundal Collier Holding ASA

Q

Yeah. I had to take on a little bit nicer T-shirt being on holiday, but [audio gap] (00:26:50-00:26:56), it has been a couple of big or fairly big transactions in Norway in the first half. Vår acquired the Norwegian part of Neptune Energy and [indiscernible] (00:27:03) acquired parts of [indiscernible] (00:27:06). Just wonder, for curiosity and also just to understand your thinking, could you comment whether you consider these assets and also are there more significant transactions ongoing in Norway at the moment? Could you comment on those two things, please?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Yeah. Thanks, John. And, yeah, I love your T-shirt. I don't want to comment on other company's transactions. There are obviously always quite a few transactions being considered and process is ongoing. And, I think, I've been quoted previously as saying that there's never been a day that I've been employed in Aker BP, where we hadn't had an ongoing M&A process or bidding process, and that is still true.

Personally, I think that you'll see more consolidation, both in the industry in general, but also on the Norwegian continental shelf. But, from an Aker BP perspective, we will be disciplined and stick to the previous strategy and only execute transactions that we believe is value accretive for our shareholders, either in reducing cost, improving finances or reducing risk.

John A. S. Olaisen

Analyst, ABG Sundal Collier Holding ASA

Q

And do you have any assets that you potentially could be selling or stakes?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

It's a good question, and I'm not, of course, going to comment on specifics. But, I think, it's a part of what I'm saying that there's always discussions around bidding transactions that there are possibilities also for some sort of transactions involving also Aker BP assets.

John A. S. Olaisen

Analyst, ABG Sundal Collier Holding ASA

Q

My second and final question is regarding rig capacity. Rig rates seem to be increasing by the week and the rig availability is getting lower and we've seen rigs moving out to Norway now coming back to Norway with additional costs, strange move, by the way. But just wonder, in light of this, could you please update us on your secured rig capacity for the years to come, please?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Yeah. So, as I'm sure you're aware, we have a rig alliance with Noble and Odfjell. We've also secured rig with Saipem. So, as of right now, we have secured the capacity we need, both for the exploration program and for the production drilling in the PDO program. So, right now, there's no need for new rig capacity in the Aker BP work program. But I agree with your...

John A. S. Olaisen

Analyst, ABG Sundal Collier Holding ASA

Q

So, oil production...

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

...sentiment here.

John A. S. Olaisen

Analyst, ABG Sundal Collier Holding ASA

Q

Yeah. So, just to confirm, all production drilling for the PDO project has been secured?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Yes, we have rig capacity for all production.

John A. S. Olaisen

Analyst, ABG Sundal Collier Holding ASA

Q

At fixed prices as well, may I ask?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Well, the prices are – the prices and the alliance contracts are split between an OpEx element and a CapEx element. The CapEx element is set based on a certain formula that involves also the prices that they could achieve in the market. Because the whole idea around the alliance contract is not to minimize the cost of the rig, but to maximize performance, and thereby, minimize the number of days we spend and thereby reduce the well cost while keeping the earnings to the rig owner.

John A. S. Olaisen

Analyst, ABG Sundal Collier Holding ASA

Q

And does that mean that if rig rates continue to go up from here, it could potentially be some – lead to some higher CapEx on your projects?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Yeah, potentially, but very limited, because in reality, this actually contributes to a smoothing of the rates in the Aker BP portfolio. So I don't foresee any significant cost increase as a result of the recent market trends that you have seen on the rig side.

John A. S. Olaisen

Analyst, ABG Sundal Collier Holding ASA

Q

How about the other cost elements on your development projects? We saw Aker Solutions with very strong numbers today and it seems like most of your sub-suppliers are increasing margins. Could you elaborate just a little bit on the cost risk for the PDO project, please?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Yeah. So first of all, I'm actually quite happy that the suppliers are now reporting increased earnings because that means that they – as long as they earn money and are staying in positive numbers, it's actually positive because it means that they can invest in their own companies, they invest in more quality, et cetera, et cetera. So, I'm actually cheering for that. And then the numbers that are now being reported from [ph] Aker Solutions (00:31:48) are baked into our existing CapEx numbers. So, I would say the market is progressing pretty much as we planned and the latest POs is actually been set at somewhat lower prices than we assumed back in December.

John A. S. Olaisen

Analyst, ABG Sundal Collier Holding ASA

Q

Okay. Thank you. I'll let other analysts come with some questions as well. Thank you very much.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Thank you, John.

Kjetil Bakken

Vice President-Investor Relations, Aker BP ASA

A

All right. Then, the next question comes from Yoann Charenton. And after him, we have Teodor Sveen-Nilsen. So, Yoann, please go ahead.

Yoann Charenton

Analyst, Société Générale SA (UK)

Q

Good morning, team. Hopefully, you can hear me well. So, I have three questions...

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Absolutely. Good morning, Yoann.

Yoann Charenton

Analyst, Société Générale SA (UK)

Q

Thank you. Good morning, Karl. Just thinking about production, if you don't mind, can you please discuss what's your production levels at Edvard Grieg, as we speak? Has Edvard Grieg production already [ph] fall enough (00:32:45) plateau? And if not, when do you expect this to happen?

Second question will be for David on cash payments. So, he told us that they are no fixed for the second half of the year. Is that possible to know whether there is any, let's say, NOK-USD exposure hedge as we speak and, potentially, is that possible to know about the payment dates for these cash installments?

The last question is about basically variable remuneration for management. Can you confirm that production and production costs are among key performance indicators used to calculate these variable remuneration? And if so, can you please provide more color on the weighting of these metrics, so production and production cost, against performance indicators related to shareholder return? Thank you.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Okay. Excellent. Good question. So, let's start with Edvard Grieg. I'm not going to comment directly on how the water production is behaving at the moment, because that's a – we're continually optimizing the total processing capacity across the Ivar Aasen and Edvard Grieg field and of course, there're also the subsea tie-ins.

So, when it comes to plateau, the Edvard Grieg reservoir in itself went off plateau earlier this year, but that's largely been offset by the drilling of IOR wells into the same reservoir and also acceleration of Solveig rates, which is tieback, which have had been held back due to processing capacity at Edvard Grieg. So, we've done two out of three IOR wells with really good results, and we're almost back to full utilization of process capacity as we speak. And of course, no reservoir is infinite. So, at some point in time, we expect this to trend downwards as well. But right now, I think we have really good control. 3D seismic is working – or 4D seismic is working excellently. And the first two wells have actually produced above expected results.

Then, David.

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

A

I can do the cash tax payments, so how we typically do this is when we realize revenues we also do hedging on the NOK denominated amounts on a running basis to avoid having a FX exposure on the tax payments.

With regards to payments dates for the installments, this follows a normal process and you know the number of installments in the third and the fourth quarter. With regards to exact dates, I think I'll skip that one also due to commercial reasons.

Yoann Charenton

Analyst, Société Générale SA (UK)

Q

Fair enough.

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

A

And do you want me to take the remuneration as well?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

No, I can do that. So the variable remuneration or the bonus schema for the management is actually the same as for the entire company. So we're running one bonus schema for the entire company. It basically consists of three components. The first one is a set of KPIs all of which production, production cost, CapEx, shareholder return is a part of the KPIs. That's weighted by approximately a third.

Then we have execution of the project portfolio as the second component, weighted by approximately a third. And then we have a set of strategic objectives that are weighted approximately a third. So of course, quite a few of

these, including a few of the production KPIs, some of the strategic initiatives, but also the direct measurements of production and production costs are impacting the variable pay not only for the management but indeed for the entire company.

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

A

I can just add to that also for people who want to deep dive into this, we have a pretty extensive remuneration report also published on our web pages with all this information available.

Yoann Charenton

Analyst, Société Générale SA (UK)

Q

Thanks a lot. Have a nice day and nice summer.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Thank you.

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

A

Thank you.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Likewise.

Kjetil Bakken

Vice President-Investor Relations, Aker BP ASA

A

Yes, then Teodor is next and after Teodor, we have James Hosie Barclays. Teodor go ahead.

Teodor Sveen-Nilsen

Analyst, SpareBank 1 Markets AS

Q

Thank you. Good morning, and congrats also on performance in second quarter. First question is on Sverdrup. Obviously a strong performance on Sverdrup these days. I just wanted, could we discuss the potential for debottlenecking and increasing production further from the current level?

Second question is on the Carmen discovery. Definitely exciting discovery in the Norwegian Sea. I'm fully aware that you are not the operator and you have a small share there. But is it possible to speculate a little bit around potential development solution is slightly [indiscernible] (00:37:54) host platforms or will be any other host platforms?

And my final question that is on your updated guidance for production cost per barrel. I definitely understand that is partially driven by higher production guidance, but also driven by weak NOK and also some efficiency gains. Is it possible to quantify the split between the weak NOK efficiency and the higher production? That will be useful. Thanks.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Yeah. Excellent, Teodor. So when it comes to Johan Sverdrup, as you know, we are currently running at about the 755 mbbldpd, which is the – I would say the tested capacity. Right now, I don't believe that there will be addition – I don't think the market should expect additional debottlenecking activities at this stage. The primary focus now is to sustain production and keep on drilling tied back wells. So I think that it's a fair assumption to assume that we'll keep the current production potential as it now sits.

When it comes to Carmen, I think I'll refrain from discussing specific tie-back options. But I think it's worthwhile noticing that there are – there seems to be quite considerable exploration success on the Norwegian continental shelf. Not unexpected, I would say, from an Aker BP perspective. I think, I've been on these stages for many quarters now, talking about our belief in the Norwegian continental shelf and how we continue to, yeah, initiate and run a quite active exploration program, and it's actually quite encouraging to see that the discoveries like Lupa, and now Øst Frigg and, finally, Carmen, is finally coming to fruition. So, it reinforces at least our belief in the Norwegian continental shelf as still a prolific exploration basin.

Then, on the production cost, David...

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

A

Yeah.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

...do you want to shed some more light?

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

A

Yeah. I can definitely do that. So, I alluded a bit to it also in my presentation. I think, one way of looking at it is that underlying production costs is quite stable and in alignment with expectations. And then, we have a slightly less well maintenance activity, in particular, in the second quarter, that's also linked, of course, to the strong production efficiency in the quarter.

And then, when it comes to the Norwegian kroner, as you referred to, weak, but also we have seen lower power prices than what we originally expected going into the year. So, there's a mix of elements going into it, but I think the biggest drivers are the power prices and the weak Norwegian kroner.

Teodor Sveen-Nilsen

Analyst, SpareBank 1 Markets AS

Q

Okay. Okay. Thanks. So, just a follow-up on your exploration comments, Karl. Are there any reasons for that hit ratio, commercial hit ratio for NCS should increase over the next few years? Do you have any views on that?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Yeah. We actually do expect – I think, also in the last quarter, I said that this was going to be a very interesting exploration rig, both for Aker BP and also for the Norwegian continental shelf as a total. Right now, I would say

the same comment actually applies also for 2024. We see, on average, chances of [ph] successive (00:41:25) costs on these going up. We see volumes going up. And what's basically happening is that new technology, new techniques both in seismic processing, imaging, we're now seeing the emergence of what you would call digitally [indiscernible] (00:41:40) exploration model, which is where we use machine learning, AI, et cetera, to extract data that's otherwise been difficult to extract from humans.

So there are a lot of these, I would say, underlying factors that seem to be coming together and increase the chances of success on the Norwegian continental shelf. So at least from an Aker BP perspective, we're really optimistic when it comes to the Norwegian continental shelf, particularly I want to say, the scale below, let's say, 250 million barrels, which is basically tiebacks and that's also, of course, the reason that we're using 80% of our exploration budgets on tiebacks.

Teodor Sveen-Nilsen

Analyst, SpareBank 1 Markets AS

Q

Okay. Exciting. That's all for me. So thanks and have a great summer.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Excellent. Thank you.

Kjetil Bakken

Vice President-Investor Relations, Aker BP ASA

A

Yes. Then we have James Hosie next and after him, it's Victoria McCulloch. Please, James, go ahead.

James Hosie

Analyst, Barclays Capital Securities Ltd.

Q

Yeah. Hi. Good morning. Thank you. I was just wondering if you could say anything in realizations that you have at Sverdrup. I mean, I've seen reports that recent cargos have been getting a healthy premium to Brent. I'm just – that compares to a discount a few months ago. So just how persistent do you feel that premium could be for the remainder of the year, if not further?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Yeah. You want to do that, David?

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

A

Yeah. I can definitely do that. So we also talked a bit about this in our last quarterly presentation, saying that differentials on Sverdrup had improved towards the latter part of Q1. And we've also seen that strengthening into the second quarter as well. So if you go into Bloomberg and look at Platts data, you can see that Sverdrup is slightly in the positive, which is an improvement compared to what we saw in the start of the first quarter. So, that's positive. And, of course, there are many different things that influence the differentials over time, so we don't speculate how that will trend going forward, but we see a strong demand for Sverdrup crude as we speak.

James Hosie

Analyst, Barclays Capital Securities Ltd.

Q

Okay. And there's been no any significant change in the last couple of months in terms of drivers for what's causing that premium?

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

No, not specifically.

A

James Hosie

Analyst, Barclays Capital Securities Ltd.

Okay. Thank you.

Q

Kjetil Bakken

Vice President-Investor Relations, Aker BP ASA

Yes. Then Victoria is next. And after Victoria, we have Sasi Chilukuru from Morgan Stanley. So, Victoria, the floor is yours.

A

Victoria McCulloch

Analyst, RBC Europe Ltd.

Morning. Morning. Thanks, all. A couple of questions for me. Alvheim efficiency seemed particularly high this quarter. Could you give us – is there anything to underpin that? And how do you expect to see the production going forward for the remainder of the year? And also, could we get some color on where the maintenance is scheduled for Q3 or a reminder?

Q

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

I don't think I got the first part of your question. But were you asking about production efficiency?

A

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

On Alvheim specifically, yes.

A

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Yeah.

A

Victoria McCulloch

Analyst, RBC Europe Ltd.

Yeah. Alvheim specifically, thanks.

Q

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Yeah. So, actually, quite a few of our assets. I mean, we are reporting 96% average, including Ula and Valhall, and quite a few of our assets is actually really up there in 98%, 99% production efficiency in the quarter, which is actually quite stellar results. That means that we haven't had any planned or unplanned shut-ins on this installation. So, I think the two stars in our portfolio right this quarter is actually Alvheim and Skarv with close to 100%.

A

Now, of course, you can't run an offshore installation with a 100% production efficiency. There needs to be some maintenance and much of this maintenance this year is scheduled for September and August towards the back end of the year that allows us to stay within the, say, summer weather window, but also avoid July, which is a little bit of a complicated month to operate in Norway. So we expect that in Q3, we will have significantly more but planned shut-ins.

The other thing that's worth noting is that the production efficiency is kind of a lagging KPI. So, we have a tendency of looking at the leading KPIs, the number of backorder, maintenance hours, et cetera, et cetera. And all of those KPIs have been trending consistently downwards the last, I would say, couple of years. And since last summer, and up to now, we've seen the benefit of, I would say, increased operational discipline, less maintenance backlog, more proactive maintenance, which also allows us to keep the background production efficiency quite high and avoid the unplanned shut-ins. So that's the reason that you're seeing this trend. And of course then, in Q3, we will have to do planned turnarounds, which is basically planned inspections, but also inspections of inside of process modules and there are some pipeline inspection, et cetera, et cetera.

Victoria McCulloch

Analyst, RBC Europe Ltd.

Q

Thanks. That's very helpful. Just if I could ask one more. In terms of the timing on the exploration at Rondelottet this year with Vår, what is the rough timing in terms of expectations for that one?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

So right now, I would say, earliest end of this month, latest back end of next month.

Victoria McCulloch

Analyst, RBC Europe Ltd.

Q

You don't fancy giving me a pre-drill estimate?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

No, I think I'll refrain from that, because this is not really a proper exploration well, and as I said, this is the old Elida discovery. So there's – we know that there's oil. So what we're actually looking for is producibility. So that means that there's quite a wide range in what you call data gathering programs when we get to the [indiscernible] (00:47:31).

Victoria McCulloch

Analyst, RBC Europe Ltd.

Q

Okay. Thanks very much.

Kjetil Bakken

Vice President-Investor Relations, Aker BP ASA

A

Thank you, Victoria. Then Sasi from Morgan Stanley is next, followed by James Carmichael. So Sasi, please go ahead.

Sasikanth Chilukuru

Analyst, Morgan Stanley & Co. International Plc

Hi, I was just wondering if you could hear me.

Q

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Yeah, absolutely. Thank you, Sasi. Good morning.

A

Sasikanth Chilukuru

Analyst, Morgan Stanley & Co. International Plc

Yeah, lovely. Hi. No, most of my questions have been answered, but I had a couple related to your production guidance. For 2023, you've still left a wide range on this upgraded production guidance. I was just wondering if it was possible to highlight the scenarios of where you see reaching the bottom end or the top end of that range. You did highlight high maintenance activity in 2Q – in 3Q, but was that reflected in your top-end guidance as – [ph] it as well (00:48:23)? Just related to that, I was just wondering if there was any planned maintenance activity at Johan Sverdrup field, specifically in the second half of this year. Thanks.

Q

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Yeah. So the way to – I think probably the way to look at it is like a P90-P10 number. And then of course, in the P90 number, when you do the statistical simulation, there are certain breakdowns and certain events that we are not necessarily planning for but that we need to take into consideration when we're doing that kind of guidance.

A

And you will, of course, have noticed that we'll exit the Q2 significantly above the top end of our guidance. So that means that if we do continue the way we have done and I sincerely hope so, I can assure you that everybody in Aker BP is working really hard. Then, we assume that production will continue in that kind of manner and will be impacted by the planned maintenance that we've already baked in. And that planned maintenance haven't really changed from the original guidance we gave. So, the actual increase in guidance reflect the actual increase in performance throughout the year. And then, we'll come back in Q3 once we have done that maintenance and see how that actually impacted the production performance so far.

When it comes to Johan Sverdrup, there are a couple of smaller shut-ins planned, but we are still discussing whether or not to execute those in this year or move them to next year. So, that will depend on the expansion program that is currently ongoing, but nothing significant.

Sasikanth Chilukuru

Analyst, Morgan Stanley & Co. International Plc

It's great. Thanks a lot.

Q

Kjetil Bakken

Vice President-Investor Relations, Aker BP ASA

All right. Then, James Carmichael is next. James, go ahead.

A

James Carmichael

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Hi. Morning, guys. Just a couple of sort of quick last ones for me. Just on Sverdrup again, and I guess, great to see the performance that you've achieved to date with increasing the capacity there. Just wondering if you got a sense or if you could provide just sort of guidance on how long you expect that plateau to last at that field.

And then, we see this sort of technical goodwill running through the P&L again on the impairment. And I was just wondering if there's some sort of rule of thumb that we can use to maybe model that going forward or if there are just sort of too many moving parts within that calculation. Thanks.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Yeah. When it comes to Johan Sverdrup performance, I completely agree and deeply impressed by the job the operator is doing to keep Johan Sverdrup where they are. So, there, I think that's worthy of all the praise they're getting.

When it comes to plateau rate, I don't think I'll comment too specifically on that and refer that question to the operator, because it will depend on the activity program, the number of wells to be drilled, et cetera, et cetera.

And then, on the impairment, David?

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

A

I can take that. Yeah. So, you're spot on. So technical goodwill will be written down over the lifetime of the production of the field. So, you don't depreciate technical goodwill. So, yes, we will be impairing technical goodwill. Everything equal on a quarterly basis, but then there are many moving parts, right? So, of course, in particular, when forward prices move, then you get impairments on technical goodwill, which is typically higher than what they would have been if you were just depreciating over the production of the fields. And just to remind everybody, this is, of course, then linked to us including acquisitions at fair value in the accounts and you have to allocate technical goodwill onto the different assets.

James Carmichael

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Q

Okay. There's no sort of rule of thumb per barrel mentioned that we should be thinking about or anything like that?

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

A

It's difficult to give that estimate, given that there are so many moving pieces when it comes to how prices move. But, I think, one way of guesstimating it would, of course, be to try and just take the technical goodwill that's allocated and then depreciate it over the production. But, I think, that would be a difficult way of – to hit on a quarterly basis, it will be difficult anyway. But on a sort of a general rule of thumb, over time, in the end, when the production is ceased on the assets, technically goodwill will be zero.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

They'll be right towards the end of the field.

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Yeah. So, you'll know in 2040.

A

James Carmichael

Analyst, Joh. Berenberg, Gossler & Co. KG (United Kingdom)

Okay. Okay. I'll look forward to it. Thanks very much.

Q

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Thank you.

A

Kjetil Bakken

Vice President-Investor Relations, Aker BP ASA

All right. There seems to be no further questions. So, I guess, that means we can close the presentation.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Excellent. Then in that case, I would like to say thank you so much for attending this second quarter presentation here from Aker BP. And we do wish you all a very, very nice summer.

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