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Aker BP ASA (AKRBP.NO)

Q3 2025 Earnings Call

CORPORATE PARTICIPANTS

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

David Torvik Tønne
Chief Financial Officer, Aker BP ASA

Kjetil Bakken
Head-Investor Relations, Aker BP ASA

OTHER PARTICIPANTS

Tianhong Bi
Analyst, Citigroup Global Markets Ltd.

Anders Kirkhorn Rosenlund
Analyst, Skandinaviska Enskilda Banken AB (Norway)

Teodor Sveen-Nilsen
Analyst, SpareBank 1 Markets AS

John A. S. Olaisen
Analyst, ABG Sundal Collier Holding ASA

Naisheng Cui
Analyst, Barclays Capital Securities Ltd.

Victoria McCulloch
Analyst, RBC Europe Ltd.

Irene Himona
Analyst, Bernstein Autonomous LLP

Matthew Smith
Analyst, BofA Securities

Mark Wilson
Analyst, Jefferies International Ltd.

Christopher Wheaton
Analyst, Stifel Nicolaus Europe Ltd.

MANAGEMENT DISCUSSION SECTION

Karl Johnny Hersvik
Chief Executive Officer, Aker BP ASA

Good morning and welcome to Aker BP's presentation of our third quarter 2025 results. Today's agenda reflects a strong quarter with clear momentum in both operations and strategy. We will start with an update on the operational performance, which continues to deliver solid results then we'll move to our field development portfolio where we remain firmly on track. We're also very pleased with our exploration results.

So far this year, we've made two significant discoveries, Omega Alfa and Kjotkake and with several additional wells currently being drilled, we see the potential to reach 100 million barrels discovered in 2025 net to Aker BP. And as always, CFO David Tonne will take us through the financials later in the presentation.

In the third quarter, production averaged 414,000 barrels per day in line with previous quarters. This time, we had a planned maintenance shutdown at Grieg Aasen similar in impact to the maintenance shutdown at Valhall and Ula in Q2. Despite the shutdown, portfolio-wide production efficiencies stayed high at 96%. Other assets, including Johan Sverdrup, continued to perform very well with efficiencies ranging from 92% to nearly perfect 100%. Looking ahead, we expect our assets to maintain strong performance even as natural decline offset somewhat our strength. Based on the strong year-to-date production and updated forecasts for the remainder of 2025, we are raising our full-year production guidance to 410,000 to 425,000 barrels per day.

Now, let's have a quick look at our cost performance. Reported unit cost edged up to roughly \$7.6 per barrel this quarter. But as David will come back to, the underlying unit cost was essentially unchanged from the previous quarter, and we remain firmly on track to deliver on our full-year guidance of \$7 per barrel, a level that is highly competitive in the industry and underscores the strength of our assets and operations.

On CO2 emissions, the picture remained consistent. Our emission intensity held steady at 2.9 kilograms per barrel, as it's been throughout the year. This is an industry leading level that continues to set the benchmark. Simply put, we are the global leader in low emissions oil and gas production. Earlier this year, we outlined our ambition to sustain production above 500,000 barrels per day beyond 2030 and to pursue further growth. And I can assure you, we work every day to make this a reality.

On this illustration, the dark blue area shows the current business plan that is production from existing fields, ongoing field developments, and regular IR activities. Key growth drivers include the large scale industrial development, which contains now the East Frigg discovery, the Valhall PWP-Fenris project, and a series of tiebacks to Alvheim, Skarv, Grieg Aasen in addition to Johan Sverdrup Phase 3.

This outlook supports our target to produce around 525,000 barrels per day by 2028. Beyond 2028, the light blue wedges illustrate our potential to sustain production over 500,000 barrels per day for infill drilling and tieback from known discoveries across the portfolio. Progress this year, especially our exploration success, strengthened my confidence in this trajectory.

Now, looking further ahead, we see significant growth potential beyond our current outlook. Continued exploration success and targeted M&A provide a clear path to expand our production base well into the next decade. A recent example is our increased ownership in the Kjøttkake discovery when a partnership is already actively evaluating possible development scenarios.

So in total, this is our ambition and we are well equipped to deliver it. We have the people, the assets, the supplier, the digital ecosystem, the capital, the track record, and the project to make it happen.

[Video Presentation] (00:17:51-00:18:55)

A really impressive work by the Subsea Alliance indeed. The launch of the Yggdrasil bundle is spectacular and it's now been safely installed at the field. And as we heard in the video, because we all do all commissioning work before a sail-away, it is truly the fastest way of developing a field.

Our project continued to advance steadily with several key milestones achieved in the recent months. These include the successful offshore installation of four of the five jackets at the Yggdrasil and Valhall PWP-Fenris, installation of subsea templates, and the completion of the Fenris drilling campaign. These achievements reflect the scale, pace, and precision of our execution. They are the results of close collaboration across teams and partners, and they mark critical steps towards delivering on our long-term value creation.

We are now at the midway point of our execution phase with engineering and procurement nearly complete, we're also at the peak construction, and we have reached the point where modules are being assembled into complete platform units. This gives us clear operational visibility into the remaining work and resource needs. For the projects, they remain on schedule for planned start-ups in 2026 and 2027.

Let me now turn to exploration. When we last met in July, we had drilled the first sections of the Omega Alfa well, which confirmed commercial oil volumes in the range of 20 million to 40 million barrels at that point in time. Now,

over the summer, we completed this exploration campaign. The result was a significant oil discovery that adds substantial new resources to the Yggdrasil area. The recoverable volume is estimated at 96 million to 134 million barrels of oil equivalents. It is among the largest commercial discoveries in Norway in a decade.

Building on the momentum from the oil discovery at East Frigg in 2023, this marks a major step towards our ambition of producing more than 1 billion barrels from the Yggdrasil area. The success is also a result of strong collaboration between our own teams and our alliance partners, and a testament to how new exploration methods push the boundaries. And luckily for us, we equipped the team behind the discovery with a camera during the operation. Here is their report.

[Video Presentation] (00:21:40-00:24:47)

What's really making this well, remarkable isn't just the fact that we're finding a little boy. It's how we're finding it. We are drilling

Thank you, [ph] Ausburn, Thorsten, Hanna (00:24:48), and the rest of the team for the great work. And yes, [ph] Hanna (00:24:52), I agree, this is only the beginning. Omega Alfa is not just a big discovery. It represents a step change in how we explore. The methods proven here will shape the next chapter of exploration into Frigg area and beyond. And why does that matter? Because it gives us speed, precision, and confidence. It means in reality that we can shorten the time from discovery to development and thereby unlock value faster.

Frigg was once a giant gas field, de-commissioned after producing 700 million barrels oil equivalents of gas. Today, with new insight and new technology, we're seeing a significant oil potential in the same area. This is a major upside for Yggdrasil and for Aker BP's long-term growth. Our exploration team has also delivered other strong results this year. In the first quarter, we made a promising oil and gas discovery in the Kjotlkake in the northern North Sea.

The reservoir shows good quality and estimated gross recoverable volumes stand at around 50 million barrels. Located near existing infrastructure in the Troll area, this is clearly a commercial discovery, and we have after the discovery, increased our ownership in the license to 45% from 30%. The partnership is already evaluating development solutions. Together with Omega Alfa and the smaller E prospect of Skarv, we have added approximately 75 million barrels net to our resource base from exploration in 2025.

And the year is not over. We are currently drilling several exploration wells, including Natrudstilen in the Yggdrasil area, and the Equinor offer operated Lofn and Langemann west of Yggdrasil. With the risk potential in the remaining wells, [ph] total (00:26:49) net discoveries could reach 100 million barrels before year-end, and in that case making 2025 our most prolific exploration year since the Johan Sverdrup discovery in 2010.

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Good morning. As Karl highlighted, we delivered another solid quarter with strong operating cash flow driven by stable production, high efficiency, and good cost control. We also maintained good progress and remain on track with our development projects. In addition, we significantly strengthened our resource base through the Omega Alfa discovery and by increasing our interest in Kjotlkake. At quarter end, our financial position remains strong with ample liquidity and low leverage. This allows us to navigate market volatility while executing our investment program and maintaining a resilient dividend to shareholders. Altogether, this quarter marks another step forward on our value creation plan.

Let's now take a closer look at the main drivers behind the results. Net production was on par with the previous quarter, impacted by a planned shutdown at Grieg Aasen for maintenance. Production in Q3 was 414,000 barrels of oil equivalents per day, and underlift brought sold volumes down to 396. Operating costs increased to \$7.6 per barrel, slightly up from the last quarter due to the production mix and some one-off infrastructure costs.

Year to date, the unit cost is \$7.1, and we are on track to deliver on our full-year guidance of around \$7. Cash flow from operations reached \$2 billion in the quarter. The main drivers for good operational performance, low tax payments, and stable working capital. Investments were in line with the second quarter at \$1.9 billion, reflecting high activity across our project portfolio, and the slight weakening of the US dollar since the first quarter.

Within financing cash flow, the main item was the dividend payment of \$0.63 per share in the quarter.

Zooming in on a few items in the income statement. With slightly lower sales volumes but marginally higher realized prices, revenues were stable compared to the second quarter at around \$2.6 billion. As mentioned, the cost per barrel produced increased a bit, but total production cost in the P&L were actually down due to the underlift. Net financial items were impacted by currency losses from a weaker US dollar. But on the positive side, our NOK hedging program, which covers current tax liabilities and investment plans, generated \$11 million this quarter.

Impairments totaled \$173 million related to technical goodwill on Johan Sverdrup and Valhall. The main driver is that we produce from assets where technical goodwill has been allocated in previous M&A transactions. And since technical goodwill is not depreciated under IFRS, we must impair goodwill as we produce from the assets all other things equal.

Since goodwill impairment has no tax impact, this leads to a high reported tax rate of 80%. Adjusted for impairments, earnings per share was \$0.73 in the quarter and the effective tax rate was 71%. For more information on technical goodwill and impairments, I recommend as usual watching the explanatory video that we have published on our IR website.

Now, let me also briefly comment on cash flows. The third quarter marked the start of the new tax payment process for E&P companies in Norway. Tax for the year is now paid in 10 monthly installments with a final settlement in the fourth quarter of the following year. The first payment is in August, with no payments in January or July. So with only two installments this quarter and investments at peak level, taxes paid were relatively low at around \$300 million. As mentioned, cash flow from operations stand – ended at \$2 billion in the quarter and then free cash flow was around \$0.24 per share.

Turning to the balance sheet and liquidity. With strong operational performance flowing through to the financials, we exit the third quarter with a solid financial position. As shown in the chart to the left, net interest-bearing debt increased to \$5 billion. At the same time, tax payables decreased from almost \$1.8 billion to \$1.6 billion.

Our leverage ratio remains low, but as expected, ticked up slightly to 0.5 times net debt to EBITDAX. Total available liquidity stands at \$5.6 billion, providing ample flexibility. The quarter-on-quarter decrease reflects \$400 million lower cash and cash equivalents, of which almost \$200 million was used to reduce tax payables as mentioned.

We have also progressed the refinancing of our existing \$3 billion revolving credit facility, which was set to mature next year.

Last week, we secured commitments from a bank syndicate to establish a new facility of minimum \$3 billion. This is split into a liquidity facility of \$2 billion with a five-year tenor, including extension options that could take maturity out to 2032. And a working capital facility of minimum \$1 billion with a three-year tenor and an option to extend maturity to 2029. A strong balance sheet with financial flexibility remains important as we move into the final stretch of 2025, and we are now halfway into our 2023 to 2028 value creation plan.

Earlier this year, we completed a comprehensive project review where we also updated the investment estimates for 2025 to 2028. This was reported at our second quarter presentation and these estimates, as shown on this slide, remain firm. We continue to expect 2025 to be the peak investment year with capital expenditures reaching around \$6.5 billion before tapering off from 2026 and onwards. As more than half of our investments are denominated in Norwegian kroner, our estimates in US dollars are sensitive to FX fluctuations.

Over the last four years, we have benefited from a weakening of the Norwegian kroner versus the US dollar. And to lock in some of that benefit and to mitigate the financial exposure to a potential strengthening of the Norwegian kroner, we have hedged between 75% and 90% of our planned Norwegian kroner expenditures in 2025 to 2027 at an average dollar-NOK rate between NOK 10.5 and NOK 11. The financial effects of this FX hedging will not impact reported CapEx. They are recognized on another line in the financial accounts.

As shown in the notes to the balance sheet, our FX derivatives positions are valued at approximately \$150 million. 90% of this relates to hedging of our planned NOK expenditures, and the rest relates to tax payables. With a 22% tax rate on FX derivatives, the after-tax value of our spend-related hedges is \$107 million. And just for comparison, this corresponds to over \$800 million in pre-tax CapEx under the 2020 tax system, which applies to most of our investments.

As mentioned, we are now halfway into our 2023 to 2028 value creation plan. By the end of 2028, we estimate to have generated between \$9 billion and \$13.5 billion in cumulative free cash flow, depending, of course, on how oil and gas prices develop over the period.

In turbulent and volatile times, resilience matters, and we have built the financial resilience to withstand oil price volatility. Consequently, our financial metrics remain robust across most plausible oil price scenarios. Assuming a continued 5% annual increase in dividends, our leverage ratio remains comfortably below the internal threshold of 1.5 times and well within the bank covenant limit of 3.5 times.

And even in a prolonged \$50 oil price environment, conservatively assumed from the beginning of 2025, our modeling indicates that leverage only temporarily exceeds 1.5 times in 2026 before declining again in 2027. And given that our average realized oil price is around \$70 per barrel for the first three quarters and approximately 40% of our estimated oil exposure for the fourth quarter is hedged at \$65 per barrel this downside case is conservative.

In summary, our value creation plan is on track and we have the capacity and resilience to fund investments and deliver attractive shareholder distributions in the years to come.

Then turning quickly to shareholder distributions. Our guiding principle is to maintain a resilient dividend that reflects our financial strength and outlook. Our ambition to grow the dividend by at least 5% annually through this investment cycle remains firm. And for 2025, we are delivering on that commitment with a total dividend of \$2.52 per share. We have already paid three of the four quarterly installments and the Board of Directors has resolved to pay the fourth installment of \$0.63 in early November.

Let me round off with a review of our guidance for 2025. Production averaged 423,000 barrels per day in the first nine months above the top end of our full-year range and slightly above our expectations. We still expect some natural decline and minor planned maintenance in the fourth quarter. But with three quarters behind us, we are raising the full-year estimate range to 410,000 to 425,000 barrels per day. Production cost is \$7.1 per barrel year-to-date. And although the recent strengthening of the Norwegian kroner adds some risks to the full-year estimate, we maintain strong cost control and still expect to end the year at approximately \$7 per barrel. Investment activity remains at peak levels with construction and drilling operations running at full speed. We've invested \$4.9 billion year-to-date and maintain our full-year guidance at approximately \$6.5 billion. The year-end outcome will depend on progress, phasing effects, and currency levels. And again, note that the benefits of FX hedging do not reduce reported CapEx but are recognized elsewhere in the accounts.

Exploration results have been strong in 2025. We now expect to drill 18 wells in total, and the full-year estimate has been raised to around \$500 million pre-tax, driven by the high activity level, and the extended scope of the discovery wells. Abandonment activity are also on track. We revised the estimates down in the second quarter to around \$100 million and we now expect to end slightly below that level.

And with that, I'll hand it back to Karl for some concluding remarks.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Thank you, David. And while I do appreciate that David's presentation might be the highlight for some of you. Let me wrap up with a few key messages before we move to Q&A. We have delivered a solid third quarter operationally, strategically, and financially. Production was stable at 414,000 barrels per day, costs remained competitive, and our emissions intensity is at industry leading levels of 2.9 kilograms per barrel.

Based on our strong performance so far this year, we are raising our full-year production guidance to 410,000 to 425,000 barrels per day. We are executing on our strategy and we continue to invest in safe and efficient operations, digital transformation, and low-emission solutions. Our major projects are on schedule, supporting our goal to reach production above 500,000 barrels per day in 2028, and to sustain that level well into 2030s.

Discoveries like Omega Alfa and Kjotkake are clear examples of how we are building our resource base that underpins our long-term production profile. Our robust financial position and resilient cash flow enable us to deliver attractive, reliable dividends even as we continue to invest in profitable growth.

We will now take a short pause before opening the Q&A session. To participate, please use the Teams link on our webcast page. And if you prefer to listen only, please stay tuned and we will resume in one minute.

So welcome back, and we will as announced now do the Q&A. And as usual, Kjetil Bakken, our IR champion, I would say, AI champion actually, will serve as our quizmaster, also during this Q&A round. So I'll hand over to you, Kjetil.

QUESTION AND ANSWER SECTION

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

Thank you, Karl. We will go straight to the first question, which comes from Tianhong Bi from Citi. Please go ahead. The line should be open.

Tianhong Bi

Analyst, Citigroup Global Markets Ltd.

Hi. Morning, guys. I've got two questions, please, if I may. The first one is on production cost guidance. Based on the midpoint of your new production guidance volumes in fourth quarter looks to come in around 400,000 barrels per day and that's 3% below this quarter. And linked to that, with a year-to-date average at \$7.1 per barrel, a figure roughly \$6.6 per barrel in fourth quarter to hit your \$7 target for the full year and that's 13% down from this quarter that feels quite tight and doesn't quite add up given the lower production. And you just talked about the Norwegian kroner strength adding some extra risk. So I'm just wondering what's driving that step-down and why you're seeing the main cost reduction coming from.

And the second question is on Omega Alfa and the broader exploration potential around Yggdrasil. Should we think about these discoveries being developed as a series of subsea tiebacks through Hugin A? And assuming those FIDs come after Yggdrasil is on stream, and we're essentially talking about the incremental volumes coming a bit later, say around 2030, rather than immediately extending the 2028 production peak, if you could just confirm that, please. Thank you.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Yeah. Production cost, David, do you want to talk about that?

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Yeah. I can do that. So the guidance for the full year is approximately \$7 per barrel. And as I mentioned in my presentation, we had some one-off costs related to infrastructure in the in the third quarter. So when we look at the best estimate that we have for the fourth quarter, we expect to end up roughly at \$7 per barrel for the full year. So there's no magic to it. It's just underlying costs are stable and we had maintenance on a few assets over the past two quarters and now we're back to a more stable production in the fourth quarter.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Thank you. Then turning to Omega Alfa and development concepts, it's of course, quite early. So I would say there are two possibilities there, depending on what the final one or two exploration wells in the area will show. You can either have a series of subsea tiebacks or you will have some sort of unmanned installation in the area trying to capture all of the volume to the west of the Yggdrasil area, regardless of how these solutions are, will be developed. This will be a plateau extender on the current Yggdrasil plateau simply because with the current volumes and the inclusion of East Frigg, we don't have processing capacity at Hugin A to take in more volumes. So in that case, you can see this as a plateau extend on the Yggdrasil plateau. And, of course, then coming on

the back of the curve that you saw on this strategy slide. So it's adding volumes to the curve and it's reinforcing the message of 500,000 barrels well into the 2030s.

Tianhong Bi

Analyst, Citigroup Global Markets Ltd.

Thanks. Thanks very much.

Q

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

The next question comes from Anders Rosenlund from SEB. Go ahead, Anders.

A

Anders Kirkhorn Rosenlund

Analyst, Skandinaviska Enskilda Banken AB (Norway)

Thank you. Could you talk a bit about commodity hedging? You have a comment in the report indicating 40% oil price exposure coverage for fourth quarter, but how is your exposure for the first quarter and maybe for the first half of 2026? And what's really the purpose of hedging at \$65.

Q

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Actually dollars. I think this is your domain again, David.

A

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Yeah, I can do that. You're correct, Anders. So we currently have 40% of our oil price exposure hedged at \$65 using put option. When it comes to in 2026, we don't have any commodity hedges in place. Our strategy is to be opportunistic. And when we see that the cost benefit of putting in place hedges to both protect downside risk, but also lock in value where we do that. So that's the current positions and how we think about it also going forward into 2026.

A

Anders Kirkhorn Rosenlund

Analyst, Skandinaviska Enskilda Banken AB (Norway)

Okay. Thank you.

Q

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

All right.

A

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Next one.

A

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

Next question is from Teodor Sveen-Nilsen from SpareBank 1 Markets.

A

Teodor Sveen-Nilsen

Analyst, SpareBank 1 Markets AS

Q

Good morning and congrats on our strong quarter. A couple of questions from me. First of all, on exploration, you talked a lot about the strong exploration results there. This [ph] far (00:46:41) in year, which obviously is impressive. I was just wondering – looking into next year, is it tempting to increase exploration activities and also increase the exploration spending?

Second question, that is, on Yggdrasil the North Sea. And last quarter, we talked a lot about the increased cost on the Yggdrasil. And you say that is – that if project remains on schedule but also we see that the increase costs also impact schedule. So I just want to know, have you seen any changes to the schedule in some parts of the Yggdrasil project at all, or is it only costs that you have seen increased or changed compared to the PDO?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Excellent. Thank you, Teodor. So when we talk about exploration, we've been rather active on the upper rounds or the annual acquisition rounds of licenses on the Norwegian Continental Shelf in the last four years where the overarching objective has been to build a portfolio of interesting exploration possibilities, prospects and targets in areas where we feel that we could actually aggregate volumes sufficient to make interesting field developments. I think this is now starting to play out. The Omega Alfa story is certainly a part of it with East Frigg and now Omega Alfa and then the follow-up wells coming in 2026 and 2027. But there will also be other prospects. So for us, it's a long-term strategy.

Then the other part of the same strategy is to maximize the volumes that we can create based on the number of dollars we spend on exploration. So at this point in time, there is no – we don't intend to increase the exploration spend, but we intend to prioritize harder on the targets that we do drill in order to increase the yield of those exploration spends. We don't really see the exploration spend as a limiting factor at this point in time, to be quite frank.

Then on Yggdrasil cost, I mean, the cost increase that we talked about in Q2 and I don't think we've talked about it a lot, but the cost we discussed in Q2 was mainly related to changes in FX additions of the East Frigg into Yggdrasil, and then some added resources that was necessary to drive the different acquisitions of parts and, yeah, procurement elements, in essence.

And then, of course, some additional transportation costs, et cetera, et cetera. So the answer is very simple. We are on schedule when it comes to the Yggdrasil development. We have met all the milestones necessary in the quarter and there is no slippage on schedule. So this is not your classical time-related cost. This is about us deploying capital to minimize risk.

Teodor Sveen-Nilsen

Analyst, SpareBank 1 Markets AS

Q

Okay, understood. Thank you.

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

A

All right. Then the next question is from John Olaisen from ABG.

John A. S. Olaisen

Analyst, ABG Sundal Collier Holding ASA

Yeah. Good morning, everybody. I love the videos of the Yggdrasil related work and also the detailed comments on the progress. However, from the outside, it's difficult to assess the progress when we do not know the milestones that we should expect. So I wonder if it's possible to give us some milestones. So what we should look out for going forward, for instance, like key sail-away dates for the last jackets and the topsides. What kind of subsea work should we be looking for you to report that this is installed and the drilling progress, for instance? So some milestones to look out for, for the Yggdrasil development would be fantastic.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Yeah. Thank you, John. So quite a few of those milestones that we actually report has actually been achieved. So we have installed all the subsea templates that is necessary. We are actually in the progress of drilling first the top holes and then the transport sections down to the reservoir as we speak. As you point out, we have installed the Munin jacket and the Hugin A jacket. The Hugin B jacket will be installed next summer. And the key sail-away dates will also be next summer where both Munin, Hugin A and Hugin B will be transported from shore and installed on the field. And then, of course, the last milestone and the most important milestones of all will be the start-up of Hugin in the first half of 2027. So this is what I'm saying that we're well into the execution program.

John A. S. Olaisen

Analyst, ABG Sundal Collier Holding ASA

And is it possible to give some more dates on that, what kind of the key sail-away dates? I presume the jacket is going to be earlier than the topsides. It makes sense [indiscernible] (00:52:06) I guess. It's coming from a common base. It comes from a common base.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

If we install the Hugin B topside before the jacket, somebody has made an error. That's correct. I don't want to give dates at this point of time because we are in the process of finalizing the installing program. This is always a discussion between us and the T&I contractor. In this case, it's both Allseas with Pioneering Spirit, and Heerema, and there are – we are in the process of closing those windows. So the normal way of doing this is you enter into a discussion where you reserve slots on a schedule, and then in January, we will – possibly February we will try to lock down those slots to make sure that we have a very firm date.

John A. S. Olaisen

Analyst, ABG Sundal Collier Holding ASA

Okay. Fair enough. Thank you. Good luck to the progress. Thank you.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Thank you so much, John.

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

Thank you. And the next question comes from Nash Cui from Barclays. Please go ahead, Nash.

[indiscernible] (00:53:11)

Naisheng Cui

Analyst, Barclays Capital Securities Ltd.

Sorry. Can you guys hear me?

Q

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Yeah, there's some noise on the line.

A

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

There's some noise. But now I think we're clear. Go ahead, Nash. Go ahead.

A

Naisheng Cui

Analyst, Barclays Capital Securities Ltd.

Okay. I think someone else opened his line. Yeah. I also have two questions, if that's okay. So the first – yeah, the first one is on your production guidance. You had a very strong operational quarter, your Q3, you increased your production guidance twice in the year. Shall we think your new guidance quite conservative as well? Will we be able to see any upside potential or what there? So my second question, probably for modeling purpose, how should we think about the impairment into Q4? Because I noticed we had quite a bit of volume impairment in the last two quarters. Do you expect more or what there for the next quarter? Can you provide a bit of color there? Thank you.

Q

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Excellent. And one, you're absolutely right. We have now increased the production guidance slightly over two quarters. We've previously discussed this and one of these quarterly earnings calls where I've been very frank saying that what we put in in our production guidance is what we expect as a P50 number. So the fact that we have slightly increased our guidance now, first in the second half and now in the third quarter, that means that we are performing slightly better than our own P50 guidance.

A

What you should expect is that we also follow this P50 rule when we now update the guidance. So we are trying to be as transparent as we possibly can in the market and wouldn't a bad assumption to assume that the midpoint is quite close to our existing P50. And from that you can easily deduct the expected production in Q4. Then on impairment, David, this is your favorite topic in addition to taxes, isn't it?

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Yeah, indeed, indeed. So quick on impairments, right? So I'm sure everybody is aware now that we do have quite a lot of information on our investor web pages with regards to what technical goodwill is and the how you should think about impairment related to technical goodwill. And I mean this quarter, we also had impairments of technical goodwill. And technical goodwill has risen on the balance sheet through the acquisitions that we have done previously and it's allocated to the various assets that we have acquired.

A

What you should expect is that we will have impairments of technical goodwill, all things equal, as we produce volumes out of the assets that have technical goodwill allocated. And the reason for this is that we are not able to depreciate the technical goodwill. So we test every quarter to see if there is a need to impair it. And the variables, of course, are the underlying business. It's the, call it, assumptions related to the commodity price and then the FX, and actually also the forward curves. And then, of course, the production from the fields. So all things equal, you should expect impairments. And then if there is significant changes in the forward curves of commodity prices, that, of course, has an additional impact.

Naisheng Cui

Analyst, Barclays Capital Securities Ltd.

Excellent. Very clear. Thank you so much.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Thank you. Next one.

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

Next one is Victoria McCulloch from RBC.

Victoria McCulloch

Analyst, RBC Europe Ltd.

Thanks very much. Good morning, all. Firstly on Omega Alfa, you highlight again the use of high-speed horizontal drilling. In the current, I guess, the list of wells you gave for the remainder of this year and into 2026, are any other wells using this method? And then looking at Grieg Aasen area, firstly, you had – did IOR drilling at Edvard Grieg this quarter I think. Have you seen any results from that yet? And what are your expectations? And I guess, in turn, what do you expect from Ivar Aasen where production has been a bit weaker this year versus last year? And is there any guidance you can give us on when Symra and Solveig will be coming on stream next year? That'd be helpful. Thank you very much.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Okay. Let's first talk about Omega Alfa. So Omega Alfa for us is a test bed for basically two technologies or three technologies, really. So it's, of course, wired pipe, which we really tried to see what the operational envelope for our technology is, and I think during Omega Alfa and these extremely long horizontals, we've discovered that.

Wired pipe will now be used on all Aker BP rigs, both in exploration drilling and in production drilling as we made a strategic decision to move as fast as we possibly can into wired pipe technology. So I think that will be basically the standard now across all our drilling operations. And then the other test case was basically to see how downhole drilling tools and logging while drilling tools were interacting with these technologies and trying to optimize the drilling sequence, as [ph] Hanna (00:59:01) talked about in her video. I think there are more debottlenecking to be done before we before we attempt that again. But there is quite a strong force – a task force working these topics both from the supplier side and from us as an oil company side. So I'm expecting that in a few months we'll have debottleneck also that process.

And then the last one is the whole kind of data ecosystem, right? Because this is basically about understanding the drilling processes and being able to model and use machine learning to optimize the process. Also here, we

have discovered some bottlenecks and are in the process of modifying those. But as I said, you should expect that these technologies and these ways of drilling these wells are not only going to be a part of our exploration program going forward, they are going to be a part of our production drilling program going forward. This is one of the reasons why we test the barriers that [ph] Hanna (01:00:00) talked about in the video.

On the specific question on this, I don't think a lot of these wells that are currently on the program, with the exception of inclusion of all the wired pipe will basically lend itself to this kind of exploration method. But what you could say is that it gives us an optionality if we make a discovery to very, very rapidly do appraisal drilling and acquire a sufficient amount of data to rapidly move from exploration and into a feasibility phase and from there to a development phase. So it basically opens up the toolkit. Omega Alfa, in itself, was in my way, a way of basically testing what a current technological barrier was, and I can assure you that we found it on many levels.

Grieg Aasen, yes, we have drilled a few infill wells, too, if memory serves me right. There are either just set on stream or about to come on stream. So I think the results are pretty much as expected and the net results will, of course, be a part or a part of our production guidance going forward. And then your discussions around Aasen and I agree that this has been a bit weaker this year. This is partly because of lesser performance than we expected from Aasen, but also because we have higher performance from Grieg. And as we are optimizing the area, that means that we are a bit lower production from the Ivar Aasen area into that totality. And then your last question was...

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

I think it was Ivar Aasen IOR campaign next year.

A

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Was that right, Victoria? Was that the last question?

A

Victoria McCulloch

Analyst, RBC Europe Ltd.

It was just on the tieback timings for [indiscernible] (01:01:56).

Q

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Yeah. Well, we haven't been very specific, but you're absolutely right. They will come on stream in 2026.

A

Victoria McCulloch

Analyst, RBC Europe Ltd.

Appreciate that. Thanks very much.

Q

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Thank you.

A

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

A

Thank you. Next question is from Irene Himona from Bernstein.

Irene Himona

Analyst, Bernstein Autonomous LLP

Thank you. Good morning and congratulations on the numbers and the exploration success. I have only one question on distributions. For 2026, your guidance is for production to dip and for leverage to move up. In your stress scenario of \$50, leverage would move above your 1.5 times ceiling. Currently, of course, commodity prices are weakening. You told us you are not hedged into 2026. I just wanted to understand whether you would consider a, let's say, one year holiday to the aspiration to grow the dividend at 5% in the event that we approach your stress case in order to protect the balance sheet. Thank you.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Do you want to talk about distribution, David, and the holidays?

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Yeah. I can do that. I can definitely do that. So, the current value creation plan that we are in the middle of, that's something that we have planned for since end of 2022. And we came into this period with a lot of financial flexibility and low leverage. And through the investment cycle, we have been increasing leverage to invest in growth. When you look at the, call it, stress test scenario or the \$50 scenario that I presented today and which is similar to what we also showed in the last quarterly presentation, that's assuming a \$50 oil price from the start of 2025. So I mentioned that that is probably too conservative of a case when you think about 2025 in isolation, at least.

Who knows what the oil price will be in 2026. We're currently trading at around \$62. We have the financial flexibility to withstand volatility. And we've been very clear on the ambition of the company to grow the dividend by a minimum of 5% if oil prices above \$40. When it comes to leverage ratio targets, what we have said is that we don't want the leverage ratio to exceed 1.5 times for extended periods of time. So we are comfortable to exceed that for a shorter period of time. When we know that when production of the new assets comes on stream, we will be de-leveraging back down again. So that's how we think about it holistically.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

And then, if I may, David. I think when thinking about low oil price scenarios in Aker BP, it's worthwhile looking at the history where we've been quite good in utilizing these periods of low oil price and being countercyclical. That will also be the case if we end up in a situation where the oil price dips down to \$50 a barrel. I think there are many companies who will struggle significantly more financially than Aker BP will in that scenario, simply because the strength of our balance sheet, the low cost, and therefore the high cash flow that we have in that period. So while all things equal, we, of course, like high oil scenarios better than low oil price scenarios. I think it's fair to say that I'm also a bit ambivalent on these low oil price scenarios because they do create a lot of opportunity for companies like Aker BP.

Irene Himona

Analyst, Bernstein Autonomous LLP

Thank you.

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

Next question is from Chris Wheaton from Stifel. Chris's [ph] on (01:06:00) silent. We can't hear you, Chris. I think we'll move to the next caller.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Let's move to the next one and come back to Chris.

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

And then come back to Chris once he fixes his audio. Next question will then be from Matt Smith from Bank of America.

Matthew Smith

Analyst, BofA Securities

Hi there. Good morning, guys. Hope you can hear me well.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Good morning, Matt. Absolutely.

Matthew Smith

Analyst, BofA Securities

Perfect. A couple of questions for me. The first was on Johan Sverdrup. I mean, given the strong performance year-to-date and now what you're seeing from the multilateral performance. Just wondered if that's changed your expectations at all around how and when the project will come off plateau. So that'd be the first one.

And then second one on back onto the dividend. Rather than ask you about dividend holidays, I really wanted to ask what would give you the confidence to raise the dividend beyond the 5% per annum? It seems like you're very happy to do that in a \$60 oil price environment, although correct me if I'm wrong. So it seems to me that this relates a lot to de-risking your growth projects. So, are we there yet or do we need to get much closer to first oil to unlock upside to that 5%, please?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Yeah. So first on Johan Sverdrup, I can do that because it's relatively easy. And then, David, you can answer the hard questions around dividend. So when it comes to Johan Sverdrup, we are pretty much spot on our internal expectations on the Johan Sverdrup performance. So in short, that makes the answer to your the second part of your question quite simple. There are no reason to make any changes to our expectations to Johan Sverdrup. There's been previously communicated to the market. So we're pretty much spot on. David, dividends, this time, increase on dividends.

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Yeah. Exactly. Well, I think when you look at Aker BP, the dividend capacity that we have is large and we have, call it, a fundamental philosophy that all the value that we create in Aker BP will be distributed back to shareholders. The policy is a minimum of 5% per year increase through this investment cycle. And if you look at the history, we have exceeded that, call it, minimum threshold on multiple occasions. With regards to giving you of a yardsticks with regards to what would we need to see in order for that to be more than, call it, 5%? I don't think I will go into that discussion. That's obviously, a board discussion following also for guidance for next year. So what I'll say here is that the base case for Aker BP is a minimum of 5% and then I'll stop there.

Matthew Smith

Analyst, BofA Securities

Okay. Thank you very much, guys.

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

Okay. All right. Now, let's make another attempt with the Chris Wheaton from Stifel. And we are still not hearing you, Chris, so we'll circle back to you later, but we'll take Mark Wilson in the meantime from Jefferies. Please go ahead, Mark.

Mark Wilson

Analyst, Jefferies International Ltd.

Okay. Thank you, gentlemen. Matt beat me to the question on Johan Sverdrup. You say it's pretty much spot on internal expectations. That was, I believe, for the plateau to last well into 2025 and that's where we are. So I guess, the assumption is then that this starts to come off plateau into 2026. But added to that, I think most important thing you said to me this [indiscernible] (01:10:01) making wired pipe standard on both development and exploration. You're seeing the advantages and the benefits coming through. My question, therefore, is that a standard that Equinor would be using on Johan Sverdrup. And more to the point, even if it isn't, could you explain how that would benefit, let's say, for any forward production expectations for, for instance, major developments like Johan Sverdrup, and indeed the whole Edvard Grieg area? Thanks, Karl.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Okay. So the three key benefits of wired pipe are basically a lot better. Yeah. The basic underlying principle is that you now have an ability to communicate with the downhole tools on a megabit bandwidth and not on a single-digit bit bandwidth. So it's a fundamental step in your ability to transport information into well. Then it also gives you information on the pressure temperature and the, call it, fluid movement throughout the well from the very end of the drilling bit all the way up to the rotary. So that's the basic technology.

That gives you three advantages. One, total control of the well at all stages. So you are much better at anticipating what's happening. Two, you can actually drill significantly faster because you're not limited by empirically model but by actual restrictions as measured in the well. And then three, it gives you an ability to move from manual control to autonomous control because you now have a data stream that goes all the way from the bit all the way to the rig equipment.

Those two are basically are basically transforming the way we drill and basically means that we can increase ROP in almost all sections. The upper sections will of course be limited by the total volume of rock moved from the ground and therefore they've got a solid handling on the rig whereas the lower sections and particularly the

reservoir sections, they are basically limited by our ability to steer. And this is one of the reason we're interested in this.

So think if this as a fundamental step up in performance but also a fundamental step up in our ability to place the well inside a reservoir and therefore increase ultimate recovery. I think those two are basically universal truths for pretty much all production drilling. While they might be more valuable for highly complicated reservoirs then for reservoirs like Johan Sverdrup where the drilling is actually quite simple.

Mark Wilson

Analyst, Jefferies International Ltd.

Okay. So therefore the reservoir model for larger reservoirs like Johan Sverdrup is not necessarily going to be affected by this to your point outside of East Frigg or the Alvheim or which are the producing fields that you use – do you think would be benefited therefore?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

With the exemption of Alvheim pretty much all of them simply because you are increasing your drilling speed and you have better control over the reservoir. So Frigg Gamma Delta which is a prior and dominant case in the...

David Torvik Tønne

Chief Financial Officer, Aker BP ASA

Yggdrasil.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

...Yggdrasil development is obviously an interesting one. But also drilling in Alvheim, we're following thin oil layers and in the [indiscernible] (01:13:46) is things that are ahead of us at the moment. We just entered into the license in Kjotlkake after the discovery. That's also an inject type where you could see the same benefits as in Alvheim. So quite a few of this call it more challenging reservoirs, it will be highly beneficial to utilize this technology and that goes for also all infill drilling in IOR drilling.

Mark Wilson

Analyst, Jefferies International Ltd.

Okay. Thank you very much. I'll hand it over.

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

Thank you, Mark. Let's make one last attempt to bring in Chris Wheaton who had a question and obviously had some trouble with the audio. So, Chris, go ahead.

Christopher Wheaton

Analyst, Stifel Nicolaus Europe Ltd.

I hope you can hear me now.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Absolutely, Chris. Good to hear you.

Christopher Wheaton

Analyst, Stifel Nicolaus Europe Ltd.

Q

Thank you so much. I'm sorry. This is – I'm sorry to be last question and keeping you from your day jobs. Two if I may. Firstly, could you talk about the risk mitigation you're looking at about the offshore construction phase of the major projects because this is the point of which your construction process starts to interact with everyone else that's also going offshore in the next two years because of the Norwegian tax changes of 2022 which means that it feels like a lot less of the construction process from here is in your control than a lot more is down to other factors like weather and what other people are doing. And I'm assuming other people aren't going to be as good as you. So could you talk about those mitigation factors? Then I had a follow-up on another question about the exploration?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Yeah, sure. So first of all, in terms of the conventional field development, you usually have quite a bit of hook-up and in that kind of construction work offshore. That is not going to be the case for these fields. These are going to be installed pretty much complete and the only remaining work of volume will be commissioning work. And then when it comes to risk mitigation we now had behind us two very, very active offshore seasons where we have produced in excess of 1,400 offshore days of installation of pipe, templates, jackets, et cetera, et cetera, and then in many ways the majority of the offshore construction in terms of complexity is actually behind us. What is ahead of us is the topside installation which will rely on weather essentially but where the capacity is actually quite good in the 2026 season.

And then we have two remaining pipe lays in the next season and then is basically standard I would call surf work where we hook up subsea templates and pipelines and that kind of things. So it's the risk in the offshore construction if there was a big risk in offshore construction probably more in the 2025 season than in the 2026 season even though the kind of volumes installed in terms of tonnage will obviously be higher in 2026 than in 2025. But the complexity is actually lower.

Christopher Wheaton

Analyst, Stifel Nicolaus Europe Ltd.

Q

Okay. That's very clear. Thank you. Second question I have was on exploration. If you include your success with Omega Alfa this year, total discovered volumes is on the NCS since 2011 for the year after the Johan Sverdrup was discovered, adds up to just a bit less than 1 billion BOE. Norway is producing 1.4 billion BOE a year. What does that exploration – lack of exploration success mean for the way Norway has to do exploration in the future? Is there a strategic breeze in here that actually you need more consolidation of exploration processes to get better resource recovery which is ultimately what the government is going to want out of this whole and what the industry to deliver out of the whole exploration process?

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

A

Well, it's a good catch, Chris. So the simple answer is that we need to get a lot better. So even though we end up with let's call it 100 million barrels in 2025 production is probably ending up more like the 180 million or slightly lower than 180 million. So even with that kind of successful program, you want to reach to our several placement rate of one. That means that there needs to be some sort of either step change in exploration success and/or some sort of consolidation in order to reach those targets.

When it comes to exploration success, this is one of the reasons we're so focused on use of artificial intelligence, digital tools, and match that to our rather active program into the upper round in the last four years. So it'll be a balance between our ability technically to prioritize the right targets and then drill them out with speeds and efficiency and then go very quickly from exploration success to field development and initial production. So we're trying to compress that old time schedule.

The second one is of course understanding the reservoirs and understanding the Norwegian Continental Shelf. So we are deploying significant amounts of capital and resources to develop agents and technologies that allow us to access every day at the point that's ever been amassed on the Norwegian Continental Shelf. Currently, we are in a situation where we can investigate everything that's been publicly publicized and also we've gotten through different processes inside Aker BP where at the structured information unstructured information using artificial intelligence and agents and that's basically allowing us a much better view on where we believe the call it the secondary migration routes and the remaining potential is on the Norwegian Continental Shelf.

So you're absolutely right. There needs to be a step change in order to deliver this. And then kind of going back to what I think we discussed in the second quarter and I don't think it was you asked the question but I basically boxed these remaining resources on the Norwegian Continental Shelf down to three boxes. It's what I will call subsea tiebacks IOR, also smaller volumes. Then you have tight reservoirs which where we have large volumes of discovered oil in plays but currently very few developments. And second, there are HPHT which haven't really been developed to the extent that it has been on the UK Continental Shelf for example.

So if you look at take that checklist and you look at our current and past project execution, you will see that we have for a long time trying to become the master of IOR targets and field developments and subsea tiebacks I think we're pretty good, trying to get better. Fenris was our test case or exam so to speak on HPHT and we're now past the drilling campaign on Fenris, discovered more volumes than we assume, so there might be one additional well in 2027 on Fenris, and then we are in the process of dipping our toes into tight reservoirs. So both becoming significantly more productive in exploration but also amassing and assessing and ultimately producing the resources that exists in those categories. Those are our two basic lines of thought when it comes to the organic side. And then as you know, we are always up for a good deal if that happens.

Christopher Wheaton

Analyst, Stifel Nicolaus Europe Ltd.

That's great, Karl. That's a great answer. Thanks very much indeed, and apologies for delaying the Q&A with my tech this morning.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

No worries, Chris. Then back to the quizmaster.

Kjetil Bakken

Head-Investor Relations, Aker BP ASA

Yes. There seems to be no further questions. So I'll leave it back to you.

Karl Johnny Hersvik

Chief Executive Officer, Aker BP ASA

Cool. Thank you. Then I'll say thank you for following us this morning. We will continue to do what we do best here at Aker BP and that is to produce, develop and discover oil and gas also in the next quarter, and I'll see you in about three months.

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