Cairn Energy

Half-Year Results

7th September 2021

Transcript

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Simon Thomson: Good morning, everyone, and welcome to Cairn's results presentation. I'm Simon Thomson, Chief Executive, with me are James Smith, CFO, Paul Mayland, COO, and Eric Hathon Exploration Director. So as in the usual way, we've got a presentation to run through with you this morning, and we'd be happy to take questions at the end.

Cairn's consistent strategy has been to actively manage the portfolio to ensure we have maximum financial flexibility. That allows us to continue our differentiated business model of creating, adding, and realising value for shareholders against the backdrop of sustainable cashflow generation and growth. So, the expected near-term resolution of the Indian tax issue alongside significant recent portfolio changes ensure that we remain well positioned to continue the successful delivery of that strategy. And looking at India first of all, following their enacted legislation, we are in the process of agreeing documentation with the government of India to affect a return to us of just over $1 billion. So, assuming agreement of all the documentation, we anticipate resolution and return of proceeds shortly. On receipt of the funds, it's our intention to return $500 million to shareholders by way of a special dividend, seek shareholder approval to buy back up to $200 million of shares, and utilise the remainder for planned acquisitions of cashflow generating growth assets.

And standing back and looking at overall returns, assuming receipt of funds and disbursement, as I have just stated, it's worth highlighting that over the last 14 years, we will have returned an excess of $5 billion from monetisation of exploration successes through a combination of multiple special dividends and buyback programmes, with $750 million being returned in the last 12 months alone. We intend to continue with this differentiated strategy of creating, adding, and ultimately realising value for shareholders through a combination of share buybacks and further potential returns with contingent payments from recent asset sales providing the potential for near-term capital allocation decisions.

And in terms of the underlying business, as you know, we've been very active portfolio managers over the last year, transforming the asset portfolio to ensure that we have line of sight on long-term cash flow generation and growth potential. The first step in that transformation is the acquisition of Shell's Western Desert portfolio in Egypt, which we anticipate completing on schedule at the start of October.

The Egyptian assets provide a material production base from a gas weighted portfolio that also benefits from attractive liquids production. The assets offer near-term, low-cost upside, significant medium and longer-term exploration potential, owned transportation infrastructure, and a stable fiscal environment, and that's all within a region of strong demand growth. So, as Paul and Eric will outline in more detail, we believe this acquisition provides us with an ideal platform for long-term sustainable cash flow generation and growth, and we look forward to commencing operating activity shortly.

As I've stated, the Egypt transaction is the first step, and we plan to add to the production portfolio in the near term as we build additional scale. Our financial flexibility leaves us well positioned to take advantage of further asset disposals that have the ability to deliver a combination of existing cashflow generation and growth potential. As Eric will highlight, we've also been busy, refining and high grading our exploration portfolio. Our exploration focus will primarily be on Egypt, which, alongside the UK, offers potential for rapid tie-back of infrastructure led opportunities. In addition, though, we look forward to further appraisal of our exploration success off Mexico. And whilst we retain exposure to transformational potential, principally in Suriname and Mauritania, we do not have material capital or well-commitments in either asset.

We continue to offer top quartile performance from both an HSE and ESG perspective and remain focused on delivering value responsibly across all our operations. So, with final resolution of the Indian tax issue in sight, we're excited to move forward with a renewed portfolio, balance sheet strength, near-term value growth opportunities, and the potential for acquisitions of scale all against a backdrop of ongoing returns. James.

James Smith: Thank you, Simon, and good morning, everyone. So over the next few slides, I'll take you through our current financial position, a brief review of the cash flows from the first half, and our guidance for the full year, and then I'll touch on the three main moving parts in the balance sheet for the second half, the Egypt acquisition, the proposed UK sale, and the resolution of our India tax dispute.

Looking at the current funding position, cash at 30th June was $341 million, and our full year capex is expected to be $105 million excluding the UK assets held for sale. So if we take that position and adjust for the expected considerations payable on Egypt completion and receivable and completion of the UK sale, both of which I'll come onto in more detail in a moment, then we project finishing the year in a strongly net cash position, and that's before we take into account India.

As Simon made clear, we continue to see a commitment to shareholder returns as being a strong differentiator in our investor offering. We made a special dividend of $257 million in the first half of this year following completion of the sale of our Senegal assets, and there are catalysts to enable continued returns to shareholders, most notably as we resolve the Indian tax dispute. Execution of our strategy has clearly been focused on portfolio reshaping over the last 18 months to two years. We sold out of development heavy portfolios in Norway and in

Senegal, we've agreed the sale of UK assets as they start to fall into production decline, and we've taken a significant step in rebuilding a longer life, full cycle, low break-even portfolio with the acquisition of onshore Egypt. We have capacity to do more and the focus will remain on expanding the producing asset base, but with portfolio moves that offer existing production from large resource bases, ideally with material expiration upside, and also where there's the opportunity to drive down production costs as well as the carbon intensity of that production.

The next slide just shows an overview of the cash flows in the first half. As you can see, capital expenditure in the period was relatively modest with activity focused more at the back end of this year and into next year as we complete the Egypt acquisition and prepare for exploration drilling activity in the UK and Mexico. The major cash flows in the first half, therefore, relate to operating cashflow from Catcher and Kraken as well as the payment of the special dividend in January following Senegal completion.

Looking again at our full year CapEx guidance. This remains broadly in line with the previous guidance, but with the addition of Egypt, which I've included here for the fourth quarter. On the exploration front, we have drilling commencing in the UK on the Jaws well, and in Mexico on the appraisal of the Saasken discovery, both scheduled for the back end of this calendar year. In Egypt, we've been working closely with Shell, with the Government of Egypt, and with the joint operating company Bapetco to ensure that we're well positioned to ramp up drilling activity as soon as possible following completion, and therefore to be able to deliver production growth into 2022. And looking forward to 2022, we'll provide detailed CapEx guidance for the year and the usual way in due course, but the focus of capital activity will be principally on drilling the Egypt producing assets to enhance production levels as well as infrastructure-led exploration opportunities in Egypt and in the UK North Sea.

Paul will come on to talk more specifically about our objectives in Egypt. But just to comment on the transaction status at this point, the conditions precedent to completion of the acquisition have now all been met, including all regulatory approvals, other than the final signature of the deeds of assignment for which the licenses will effectively transfer to us at that point. We're therefore in the process of posting consideration into escrow and readiness for completion. And as you can see on the slide, that consideration of completion is $302 million, of which $121 is being funded from cash on the balance sheet and the remainder from the debt facilities that we've arranged jointly with our partner Cheiron

As I've mentioned, the portfolio has a large inventory of investment opportunities to enhance production with attractive low break-even economics. IRR 10 full cycle break-even is at around $30 Brent and we're targeting production OPEX around $5 of BOE, an annual CapEx in the range of three to $7 of BOE. There's a significant contingent resource base for near-term conversion into producing barrels and a very significant prospective resource base in the new positions that can support longer-term low-cost reserves replacement.

Turning now to the proposed sale of our UK producing assets, just to remind you of the transaction terms, the firm consideration is $460 million at the effective date of 1st January 2020, and the interim period adjustment for the 18 months to 30th June this year stood at $273 million. Then there's the contingent consideration payable when Brent is about $52 a barrel over the five years 2021 to 2025. This contingent consideration is uncapped, but to illustrate, it would pay out around an additional $175 million at $70 Brent. And that payment profile is front-loaded. So, if current oil prices continue for the remainder of this calendar year, the payment for 2021 would be around about $75 million.

UK regulatory consent for the sale has already been granted, but the buyer is still working through the process of obtaining certain other third-party consents. And once those consents have been obtained, then the transaction will be conditional on shareholder vote in the usual way for a class one disposal under the UK Listing Rules.

And finally turning to developments in India. As we previously announced, the Government of India had introduced an act of parliament to amend the 2012 Retrospective Taxation Measures under which Cairn have been taxed. This amendment has now been brought into law and it sees the previously retrospective taxation measures made to prospective only. Therefore, if successfully applied to Cairn, this would result in a refund payable to us of approximately $1.06 billion being the amount collected in tax from us through asset seizures. The key condition for Cairn benefiting from the terms of this bill would be the withdrawal of all related legal claims by us against India, including the enforcement actions taken in respect to the international arbitration award of $1.2 billion plus interest.

We've had excellent and constructive engagement with the Ministry of Finance in Delhi regarding the precise details and documentation involved, and we are now very optimistic that this can be successfully concluded in the coming weeks. The Government of India has confirmed to us at multiple levels that now the legislation has been put in place, it is aligned with us in wanting to see this long running matter resolved, and tax refund to be paid swiftly. And we are, of course, therefore working closely with them towards that aim. Assuming such resolution, as Simon mentioned in his opening, we intend to make a one-off cash return to shareholders of $500 million as well as to seek shareholder authority for a buyback program of up to $200 million. That will result in us having returned or committed to return nearly a billion dollars during this year, which adds to the over $4 billion that we've returned to shareholders since 2007. And it still leaves us with a strong balance sheet to continue to deliver further portfolio growth and indeed the right platform to enable future shareholder returns. And on that note, I'll hand over to Paul.

Paul Mayland: Thanks, James. Good morning, everyone. There are three main themes that I want to focus on today. So, delivering production within guidance, integrating and ramping up our investment in the Western Desert in Egypt, and accelerating our net zero plans.

So firstly, production guidance. North Sea production for the first half of 2021 averaged just over 19,200 barrels of oil per day net to Cairn from our interest in the two fields, Kraken and Catcher. And as we stated in March, the fields are in natural decline, but performance has been slightly better than expected in the period, particularly on the Kraken asset where overall uptime has reached almost 90%. The production chemistry challenges associated with calcium naphthenate at the Catcher field are now being managed more effectively, and the increase in field water cut development has been suppressed, aided by the gas injection trails and well management. And consequently, we're able to revise our North Sea full-year guidance to 17 to 19,000 barrels of oil per day net to Cairn.

In Egypt, as both Simon and James have mentioned, we expect to complete the transaction shortly, and we have already had good engagement with Cheiron and Bapetco, the joint operating company. First half working interest production for our to be acquired 50% interest in Shell's equity is approximately 35,500 barrels of oil equivalent per day. And full year 2021 guidance remains 33 to 38,000 barrels of oil equivalent per day. The current two rig drilling programme ongoing under Shell's ownership is drilling fewer deeper wells, including an exploration commitment well which will be spudded in the fourth quarter that Eric will cover.

As part of the excellent and ongoing engagement with Bapetco and Cheiron, we're assessing the overall opportunity set for 2022 and beyond. There are a number of factors that will influence our production in 2022, not least the speed of ramp up, our current focus on the liquid rich opportunities and other joint ventures partners' calls on capital, and we will give guidance post-completion in our usual manner.

The opportunity set is likely to include reactivation and work over of existing wells to gain quick wins. New well drilling, with the likelihood of a doubling of the current rig capacity and a short-term focus on production 'quick wins' through workovers. There are also a couple of developments we are reviewing and some further optimisation possibilities of the facilities. Additionally, beyond the capital programme, there are OPEX reduction opportunities, which we will be pursuing, including electrification of the facilities. And the recruitment and transfer of secondees into Bapecto to steward this new investment is also progressing well.

This leads me on to our net zero plans, as part of our overall corporate social responsibility programme. We are accelerating our net zero ambitions from 2050 to 2040, after reviewing the progress and advancement of opportunities available to us, with a clear focus on reducing emissions to achieve that net zero goal. We anticipate there will be progress across the upstream and wider industrial sectors this decade, followed by a rapid acceleration in the 2030s. Consequently, we brought our target forward a decade.

: We were, of course, the first UK independent to commit to the World Bank Zero Routine Flaring target. We're encouraged, that both the UK and Egypt governments are co-signatories to this global initiative. It is an area that we will devote significant effort in Egypt, over the next three to five years, to bring to fruition. Alongside electrification of the facilities as mentioned earlier.

And in the UK, energy efficiency benchmarking is now very much integrated as part of our contracted evaluation and selection for service vessels, drilling rigs and support vessels. Again, with the goal of reducing our emissions associated with these activities under our control.

And as part of our longer de-carbonisation plans, we have appointed an Energy Transition Director, to progress our overall net zero plans in line with this framework, including to continue to evaluate engineered and natural forms of offsetting.

Finally, we've all suffered during the last 18 months from this pandemic, in so many different and terrible ways. But we hope that our donations in various jurisdictions will have helped to make a positive difference to the communities and the people where we operate. We'd also like to take this opportunity to thank all our staff and contractors, who have worked immeasurably throughout this period, including helping to establish our presence in Egypt, where we are very excited about the forward investment plans. And at this point I'll hand over to Eric to discuss our focused and flexible exploration.

Eric Hathon: Thank you, Paul. Good morning everyone.

As Simon said, we have high graded our portfolio in line with current conditions, and are focused on high quality investments in infrastructure led exploration, both in the UK and Egypt, where we focus on near term value creation, by moving quickly to production with success, and on select emerging and frontier opportunities, which can create significant value, all done against the backdrop of our advantaged barrels exploration criteria, moving quickly from discovery to production, flexible commitments which can react to the market and a clear focus on aligning to our stringent ESG priorities, as Paul outlined.

Today, I wish to focus on three elements of our exploration activity, providing more colour on our Egypt exploration programme, our recent find offshore Mexico and our UK programme, including farming- in to an exciting emerging play, in the Mid North Sea High.

So now, first to the Western Desert of Egypt, as seen on slide 18. The joint venture has a near term exploration programme of 10 Wells and three 3D seismic surveys over the next three years. This 10 well programme is targeting a portfolio of opportunities, of over 100 million barrels of oil equivalent, gross unrisked. And the focus of the seismic acquisition, will be using the latest technology to improve imaging, particularly in the deeper, less explored intervals. And as Paul said, in the North Um Baraka concession to the north, the Num West One well is due to spud in November. Now, this well's targeting a mean 16 million barrels, in Jurassic Sands and a faulted closure, and has an upside greater than 30 million barrels of oil equivalent. And, it is offsetting a well, which also tested over 2,700 barrels of oil per day in the past, in the same interval.

Also, preparatory work for new 3D seismic acquisition in North Um Baraka is progressing, and we anticipate this to start before year end. In our three Cairn operated concessions, work is also continuing at pace. Work has already begun on the various permitting requirements for 3D seismic, in both South East Horus and West El Fayum, with the plan to begin acquisition in Q2-Q3 2022. Our first two wells are expected in the South Abu Sennan concession in Q4 2022, followed by our first well in West El Fayum, around year end.

Our focus is, creating value in an advantaged way, by as expeditiously as possible, to reserve replacement and rapid time to first production.

Now let's move to Mexico, where we've had our second find in Block 10 with Eni as operator. The Sayulita-1 well found 55 meters of net oil pay of good quality and excellent reservoir sands, of upper Miocene age.

A case hole, mini well test showed flow rate potential of 3000 barrels of oil per day. And as you can see on the slide, it is only 15 km from our Saasken discovery, which demonstrated similar reservoir and fluid properties, and had a flow test in excess of 10,000 barrels of oil per day. Now these two discoveries have a combined in place volume between 350 and 500 million barrels of oil per the operator’s estimate. And as the map shows, there are other similar targets remaining, in both block 10 and block 9, which Cairn operates. The potential for a hub production development has increased and options are being discussed.

And as James noted, we anticipate an appraisal well on the Saasken discovery, to spud by year end. Now, it's also worth noting that the operator of block 29, just to the North, is also discussing near term hub developments for their discoveries.

Now finally, let's move on to the UK, where our ILX programme continues to build momentum. Shell planned to spud the Jaws well, in the Jurassic Fulmar sand play in Q4 this year. And this will be followed up by our Operated Diadem well in the same play, in Q2 next year. Together, they're targeting up to 60 million barrels of oil equivalent, and as we have discussed before, with this being in such proximity to the Shell-operated Nelson Platform, they represent very rapid paths to commercialisation, in line with our advantaged barrel criteria. We're discussing development plan options already, given success at one or both.

And last month, we announced our entry into an exciting emerging play, on the Northern margin, the Southern gas basin, an area called the Mid North Sea High. We have farmed into five concessions with Deltic Energy, and Cairn will operate all five licenses. The key opportunity is the emerging Zechstein carbonate buildup play, with recent discoveries in the vicinity, including the Crosgan and Resolution Gas discoveries, and the West Newton and Ossian oil discoveries.

Shell plans to drill the Pensacola Zechstein prospect, just to the west, in the coming months. The result there will reduce uncertainty on our licenses. And in addition to the Zechstein play, there's also potential on our blocks in the established Rotliegendes and Carboniferous sandstone plays. The initial work programme includes acquiring 3D seismic over the area. And in fact, the seismic vessel is due to begin acquisition this month, which will allow us to significantly accelerate our activity. That is advantaged barrels exploration, in action.

In summary then, in exploration, we're focused on our ILX activity, modest volumes, but with success short cycle time to first production and our discoveries in the emerging Sureste Basin in offshore Mexico, all whilst maturing our frontier plays in Mauritania, Suriname, and Israel, ahead of drilling decisions, as Simon noted. This portfolio has the potential for material reserve addition and value creation, all whilst remaining advantaged. Now back to you Simon.

Simon Thomson: Thank you, Eric.

So, in conclusion, near term resolution of the Indian Tax Issue, alongside ongoing active portfolio management ensures that we have the balance sheet flexibility to deliver and grow a sustainable cashflow base and a refined and high graded exploration programme, focused on fast track value creation.

As Paul's highlighted, all of this will be continued to be delivered responsibly, in line with our high HSE and ESG standards. We have the capacity and the desire to add sustainable production to our cashflow generating base, that will be assessed against stringent internal hurdles and set against our desire to continue a successful track record of differentiated shareholder returns from value creation events.

Thank you. That concludes the presentation and I'll now hand back to the operator for questions.

Operator: We will take our first question today from Nathan Piper, from Investec. Please go ahead.

Nathan Piper: Thank you everyone. I have a few questions, please.

First, on the Indian tax refund, can you give a bit more detail on the mechanism, on the process and indeed the timing of receiving tax refund from India. And will you announce when the agreement has been reached and what's the timing of the payment, of any special dividends, is the first question.

Second one, you signaled strongly that there's more deals to be done by Cairn to build out the scale of your portfolio. And could you give it a bit of an assessment of the M&A market at the moment? I mean, yes, there's lots of divestment going on, but do you see still lots of competition for the best quality assets?

And then lastly, on Egypt, is there an opportunity like some others have done in Egypt, to renegotiate the terms of your licensees. I guess I'm thinking around the, with the tax regime, but also the gas price. Thank You.

Simon Thomson: Thanks Nathan, let me maybe touch on the first two and then I'll hand over on Egypt to James.

On India, the Indian government have indicated very strongly that they want to have this resolved within the next few weeks. And by that, they mean for everything to be documented and for the funds to be paid to us. So, we're anticipating on that timescale, we should have a receipt of funds within a matter of weeks. And then obviously, there are specific timescales attached to shareholder approvals for consolidations and buyback approvals and so on. But that should ensure that we have, let's say, four to six weeks after that, the funds being returned to shareholders. So, certainly during this year.

In terms of the M&A market, there's a large number of asset packages, around the world, of varying quality, obviously. In terms of competition, I think it still remains the case that for those who have some financial flexibility as we do, there is the ability to be differentiated from a seller's perspective, in terms of certainty to completion, which tends to be one of the main drivers in relation to quality asset packages, as we've seen.

So, I think, we remain pretty well placed, competition obviously varies from asset to asset. But, in a number of areas, majors obviously are selling rather than buying, and there's perhaps a more limited pool of buyers as other people look to balance sheets and so on. I think we're pretty well positioned to take advantage. It's about finding the right quality and the right value, but, as you say, we're very actively looking in that respect. And James Egypt

James Smith: On Egypt, our near-term focus is going to be on ramping up investment activity, which has obviously declined during the interim period, where Shell has been holding these assets for sale. So, as was detailed in the circular to shareholders, this is a supportive fiscal environment for that kind of investment under the PSC terms.

James Smith: So, we've planned and we're comfortable with the basis of supporting that development plan to ramp up production back to levels gross, over a hundred thousand barrels of oil equivalent a day as they have been historically.

As you note, Egypt has been open to some reform, some consolidation of licenses and so on in the cases of others. And obviously that's something we can review over time, but we're happy where we are for the time being. Gas prices, particularly for those of us in the UK, are obviously an area of focus at the moment. The gas prices for the pre-existing production in Egypt are under effectively fixed price. There's some Brent linkage off-take agreements, gas sales agreements currently. Clearly, it's a strong growth market, gas is an incredibly important part of economic development in Egypt. Ours remains very competitive in the overall Egypt price mix, certainly offshore gas coming in from Egypt, or imported gas from Israel and elsewhere as much more expensive than ours. And so, we have seen an upward trend as incremental gas sales agreements are implemented on shore Egypt. And obviously that's a trend that we would hope to benefit from, but in terms of existing production, those are under fixed contracts.

James Thompson: Great. Good morning chaps, thanks very much for the presentation. Just wanted to talk a little bit, obviously it's great to see that India's finally nearing a conclusion. I guess many of us have been invested in that outcome for several years, but can you just talk us a little bit through the process in terms of the $700 million cash return really around the buyback? I mean, if you look at the current share price, post dividend, $200 million you're buying back over 20% of the stock, or nearer 25%. That's an awful lot. What's really the driver behind that? Why not just return $700 million as a dividend, and consolidate the shares, if you're thinking about the share price? So just if you could maybe talk around your thought process, why that split, and buying back so many shares is attractive for you.

Simon Thomson: I guess there's two points to make. I might hand over to James on the detail of the buyback. For us, it's about providing certainty of return, number one. In relation to, to that $500 million element, just as we did with Senegal. So, it was always our intention, and I think we've signaled that loud and clear, to make a significant return once the Indian issue was resolved. But over and above that, importantly, I think for us, it's about flexibility in terms of value, and that's why we've booked the $200 million towards the buyback. But maybe talk about the detail, James.

James Smith: I think the other thing to say is that different shareholders have different preferences, and quite a number of shareholders like buyback programmes, obviously dependent on where the share price is relative to asset value, but as a means of enhancing asset value per share. And, for some, in terms of the tax efficiency and so on. So, quite a few shareholders like to see buyback programmes, but equally this was obviously a return, the scale of which we couldn't deliver quickly and certainly in its totality by a buyback programme. Hence the split between a certain one-off return and a buyback programme.

And that buyback programme, I mean, obviously it's pretty significant as a percentage of the market cap, and in terms of the daily liquidity. So, it will take some time to deliver that, obviously slightly dependent on where the share price is, but it'll be a rolling programme. We'll need shareholder consent for a buyback programme of that scale, given the percentage of market cap, which, as we alluded to in the previous question, we'll seek very, very quickly after India being resolved.

James Thompson: I mean, shares have been trading at a pretty sticky discount, so I guess as a consideration trying to close that discount.

James Smith: Well, it's partly about trying to close that discount, but it's also, as you say, if it's trading at a discount to asset value, then clearly buying back shares and canceling them is accretive to asset value per share.

James Thompson: Thanks James. And finally, just in terms of the dues, or the proceeds from India, are there any frictional costs to get the cash out of country? I mean, you talk about $1.06 billion, do you expect to get this in full, in dollars, as you convert the rupees and bring it back to the UK.

James Smith: The friction and the risk obviously is around the FX conversion. So, the payment, it's a tax refund to be processed by the Indian tax department in the usual way. So, it'll be a rupee payment in India. The repatriation process, we've been planning carefully obviously, but ought to be straightforward with no significant costs. But obviously there is the FX there.

James Thompson: Okay, so not material legal costs, or anything like that. Just in your slide you talk about $300 million of additional net cash, on slide 11, on top of the $700 million, which was only a billion. So, I wondered whether there was increased cost, but it sounds like that's going to be $360 million effectively, subject to FX.

James Smith: Yes, that's right. No, we're not losing $60 million. You're quite right. I guess we're just talking about numbers, but no. And of course, we don't want to be too specific because it's subject to FX. I mean, the number we're certain of is around about 79 billion rupees, the dollar amount will depend at the FX at the time. But no, there's no material frictional cost of repatriating that, or tax impact, or anything like that.

James Thompson: Okay. Thanks. Final one from me. The Waldorf third party consent, are they taking longer than you expected, and could there be risk of further delay there, or still confident in 4Q?

James Smith: I would say they have taken a bit longer than we envisaged, but I think we're in a good place now. There were a couple of additional conditions that were imposed by third parties that required some amendments to the financing that the purchaser would put in place, and obviously making those kinds of amendments over the summer is sometimes a bit slow, but I think we're in a good place now.

Operator: Our next question will come from Matthew Smith from Bank of America. Please go ahead.

Matthew Smith: Morning, everyone. Could I just pick up on one question around future plans then to grow with the business and the production base with that residual net cash, that of course you'll have. Would you be able to characterise the sort of assets that you're after? I know clearly production is the key, but I'm thinking more, I think in the past, you suggested that you're relatively agnostic to hydrocarbon types and geographies, to some extent, and this value is ultimately what you're looking for. But I'm just wondering whether there has been some sort of shift in that with the interest in gas assets, or whether your strategy around future M and A is unchanged. Just be interested to hear your thoughts there, please.

Simon Thomson: Our strategy hasn't changed from the point of view, you're right, the number one focus is on value. And the hydrocarbon type, as you know, there are some aged gas assets, which are perhaps less attractive than some more modern oil assets and vice versa. So, I think we look at each individual portfolio that we're assessing on its own merits.

We're not geographically constrained as such. Obviously, there's some logic, and synergies in relation to having a more regional focus, especially for a company of our scale. So, that does come into play in our decision-making process. But at the end of the day, it's about assessing the above and below ground risks, the longevity of the asset base, certainly it needs to be existing cashflow generation. What upside that we can see, what value do we add to the package and what do we think we can do? What kind of opportunities does it throw up, whether from a production uplift or exploration upside potential?

So, I think, number one, it just comes back to that value equation, with all those risk factors considered alongside it. But number two, as I said to Nathan, I think we're in a pretty good position, given the flexibility that we have, to be able to transact. What we've got to do is find the right thing. We're working very hard on it. And, if we don't, then of course we'll look at capital discipline in relation to the use of the cash on the balance sheet. But I think we're in a good position to access some interesting opportunities.

Matthew Smith: Great. Thanks. Very good. And perhaps, sorry, just one follow up, picking up on one of the earlier questions as well. And I guess that's just how you see the current market at the moment. And I guess more specifically the question being, do you feel as though asset sales are being held back at the moment whilst the commodity environment is so good, some people are perhaps holding onto assets a bit longer than they initially planned, or do you still see a lot up for sale given a lot of the strategy disposals that are out there at the moment?

Simon Thomson: Very much the latter. I think obviously when you think about majors' decisions that are taken over a fairly lengthy period of time as strategic decisions, and when that decision is made, it's made, and it's not really so much oil price dependent upon what that major is doing with its portfolio. So, we do see a large number of assets either on the market or coming to market. As I said earlier, there are varying degrees of quality, obviously, and there are varying degrees of attractiveness in terms of their fit, or relative fit for our portfolio. So, it's about assessing all of that, and we don't have to do anything, but our desire is to add scale and we think we will be able to do that in the near term.

Operator: Our next question will come from Chris Wheaton, of Stifel, please go ahead

Chris Wheaton: Brilliant, good morning guys. Thank you very much, indeed. Can I ask about, two questions if I may, firstly in the interaction between the return of capital and your net zero targets, particularly I'm interested bringing that forward to 2040. I'm slightly surprised, Simon, you reiterated several times about wanting to buy producing cash flowing assets today. Whereas I would have thought a lot of potential assets that might help you achieve that net zero target by 2040, aren't going to be cash flowing today. They are going to need investment to mature them. I'm just interested in your decision around capital allocation there, between assets that do flow cash today, and then those that might not, but are going to help you hit that 2040 target.

Chris Wheaton: My second question is to James. With oil prices, could you help us understand what you expect the cash balance, if they need to be out in the Shell Western desert assets at the time of deal close at the beginning of October please? Thank you.

Simon Thomson: Let me hand over to Paul, Chris to answer your first question.

Paul Mayland: So, Chris, the net zero, obviously we are a member of Neccus. We've obviously been doing quite a lot of work in terms of just understanding the opportunities to drive to lower emissions. And obviously within our existing Egypt opportunity, we've got plans in place that we want to pursue there over the coming years to drive those emissions down. And what's also encouraging is obviously both in the UK and in Egypt, they are cosignatories to the zero flaring World Bank initiative, which I think is excellent. And I think interestingly, the WoodMac decarbonisation paper that was issued recently, what they suggest is that countries with government supported initiatives are achieving far more on the net zero journey than those led purely by corporate strategies. And that's where we will be working with governments, wherever we operate, in whatever asset we either hold in the portfolio or acquire in terms of just working with them, in terms of helping them to meet their national determined contributions towards the Paris treaty.

So, in terms of the acquisitions, I think there's obviously going to be a carbon factor to consider in any opportunity, but I think it would be wrong to suggest that that would be the sole factor. We'll obviously look for improvements, but as Simon and James have already alluded to, growth, sustainable cashflow, and resilient in terms of low break-evens are obviously going to be other important factors, and we will consider them, whether it's a new development project, as you say, a greenfield, or whether it's more brownfield existing production that we can obviously grow and hopefully improve going forward.

James Smith: And Chris, sorry. So, just what exactly is the question on Egypt completion? What would be the cash balances in the business?

Chris Wheaton: Yes, that's right James, basically given where oil prices are, given the working capital flows, whether there's any other adjustments, like, for example, any repayment of the recapitalisation sale, put into the business back in 2020, all that added up what the closing date is likely to be on the cash balance.

James Smith: Well, it's an asset acquisition effectively. Their operating cash balance is small, sort of $5 million in and around the assets as acquired. But, it's not a corporate acquisition, so it's effectively an interim period adjustment to the completion consideration for an asset acquisition. So, the cash balances will be minimal at the point of acquisition.

Operator: Our next question will come from Rachel Fletcher of Morgan Stanley. Please go ahead.

Rachel Fletcher: Good morning. Thanks for taking my question. It's on the Obaiyed licence. My understanding that under Egyptian law, you can't extend the licence for longer than 35 years, which would mean that a new concession agreement would need to be put in place in, I think, 2029. So is there anything that would... and that seems an existing licence, the existing licence would be extended from 2024 for another five years. And is there anything that would prevent an extension to 2029 in 2024? And then also anything that would prevent a new concession agreement in 2029? Thanks.

Paul Mayland: Yeah, I think probably the best thing on, as a very specific question about one particular concession, and maybe rather than answer it over here, maybe we just follow up with you, if that's okay, Rachel.

Operator: Our next question will come from Mark Wilson of Jefferies. Please go ahead.

Mark Wilson: Good morning, gentlemen. I'd just like to ask if in the M&A assets that you're looking at, or possibly corporates out there, that a return to UK production assets could be a possibility given that you've added exploration licences and you retain some UK tax losses. So that's the first question. And then second one I'd like to ask Eric, actually, I'd be interested in any progress towards a farm out, or what should we be thinking of such a thing in Suriname now, given that that country has had a sequence of discoveries now, and also, Eric, just give us an update on the plans for the Israel exploration licenses. Thank you.

Simon Thomson: On the first one, the short answer is yes. You know, we would look at it. It again, marks back down to our assessment of any particular opportunity, the risks around it, longevity, upside, and so on. As you say, there are some advantages in terms of our tax loss position, and it's just worth reiterating the exit from Kraken and Catcher is driven by the fact that they are entering into decline and we're about renewal and longevity, so that doesn't rule out the North Sea per se. It does make it... it means that you need to be pretty selective in the stuff that you're looking at, which is why geographically, we're not constrained, but it wouldn't rule out the North Sea. Eric.

Eric Hathon: Good morning. Relative to Suriname. In fact, we have discussions ongoing with companies right now on our block there, as well as with the government and plans for their activities, with seismic acquisition, et cetera. So, that's very much a live process as we speak. And then as far as, what was your other one, was Israel? We've got in all the seismic reprocessing over our eight blocks, and the team is working through that with our partners right now. And so, we have a series of technical review meetings upcoming to look at that and we'll make a decision in due course.

Mark Wilson: All right. Thank you very much. And well done staying the course, and good luck in seeing you through to the final resolution.

Operator: Our next question will come from Al Stanton or RBC. Please, go ahead.

Al Stanton: Yes. All right. Good morning folks. You've probably used the word grow and growth much more often than many people in the last hour or so. And, for many stakeholders, grow is a four-letter word. So, anything to do with growth in the current era, has to be offset with some emissions reduction. So, going back to the whole net zero slide, can we just use Egypt as an example and just see what plans you already have in place?

So simple things like, are you going to go from an operated reporting basis for your carbon intensity to a net equity basis, that shows the full scope of your portfolio, not just your operated basis. Where are you today with respect to a baseline? You're giving a net zero target, but where is the baseline on Egypt to the moment? Have you worked it up? Can you give us an idea of what the carbon intensity is for Egypt? And then you talk about offsetting and electrification. I mean, what is there behind that commentary? Have you looked at any options of doing some organic electrification? Would you diversify into any renewables or are you depending on the Egyptian grid for your decarbonisation? Thank you.

Paul Mayland: Good question. So, for the first part of it is yes, we are going to move to equity reporting. That's planned for next year. So, our annual report for capturing this year will be on an equity basis. In terms of the emissions reductions, we've worked quite closely with Cheiron who are obviously going to be the operator, and we've had some preliminary discussions with Bapetco, just about what is the opportunity set, and the changes that we could make in terms of the sort of carbon removal hierarchy of avoid, substitute sequester, offset. And, we've got a number of initiatives that we can consider. One of them is obviously reducing the number of diesel generators in the field, that may be by changing to gas engines. But it may also be an expansion and utilisation of renewables.

Obviously, the assets are brownfield, so there is flaring in the field, which we will look at, in terms of the next couple of years, what process modifications could we introduced to reduce that flaring to a much lower level. So, I think we've got a pretty clear sort of five-year plan. One of the things in terms of obviously the starting point is I think we've previously said total gross emissions from the Bapetco assets, is somewhere between 1.2 to 1.4 million tonnes. We will obviously want to ensure that in terms of boundaries, which is an important consideration in terms of reporting and transparency, and obviously measurement systems that whatever's adopted by the joint venture and ourselves is something that we then continue. So, that's how we will approach it going forward from 2022. So hopefully that gives you the clarity you need, Al.

Operator: We will take our last question today from Werner Riding of Peel Hunt. Please go ahead.

Werner Riding: Good morning guys. Just on production. And I know you won't be drawn on guidance until after completion. But, given that it's due to occur in the coming weeks, can we expect more detail on the 2022 production also in the coming weeks? That's the first question. And the initial growth, as you've talked about earlier will come from reactivation workovers of existing wells and a few new wells being drilled. Can you confirm that the bulk of that production growth will come from the BED area and AESW, and how long will it take you once you start reinvesting to return to 50,000 barrels a day? Thank you.

Paul Mayland: Thanks. I think there was three questions there. So, the first one's a simple one. We won't be giving guidance in the next few weeks. Our normal process is to give guidance in the early part or the end of the year, really because we would've then gone through the cycle of normal work program and budget meetings with joint venture partners and finalised the overall investment that's scheduled for the following year. So, that's where we will be probably on timing. So somewhat related to that is the investment will probably be directed across most of the assets. So, the four big concession areas, and our current priority is obviously assessing and ranking the economic attractiveness of those opportunities, with a potential preference at this stage for liquid rich opportunities and those that can be brought on relatively quickly.

So, that's probably the second question. And then the timing of returning, I think we've probably given some previous guidance back in March, and at this point in time, which I think should really take for the majority of next year to get up to well into the 40,000s and above. And I think we'd probably just stand by that until we've completed the transaction and gone through the sort of investment opportunity set in more detail. And again, we're likely to give, I would imagine guidance either later in the year or right at the start of next year.

Operator: As there are no further questions in the queue, I would like to hand the conference back to our hosts for any additional or closing remarks.

Simon Thomson: Okay, look, thanks everybody for making the time to listen to us today. Obviously happy to take any follow up questions. And in the meantime, as I hope we've got across, we're in a good place. We're looking forward to returning capital consistent with our long-term strategy. We're looking forward to growing the business, and we're looking forward to accessing some near-term value growth opportunities. So, thanks for your time. And hopefully we'll catch up soon. Goodbye.