Neptune Energy
H1 2022 Results

Thursday, 11th August 2022

Introduction

Sam Laidlaw

Executive Chairman, Neptune Energy

Welcome

Good morning, everyone. Thank you for joining us today for our earnings call for the first half ended 30th June 2022.

Disclaimer

Before moving on, I would like to draw your attention to the disclaimer on slide two of the presentation regarding forward-looking statements.

Q2 2022 overview

Delivery on plan, strong financial performance

Neptune delivered a good operational and financial performance in the first half of 2022, supported by higher year-on-year production, and continued strength in the commodity price.

Our HSE performance remains good and we are focused on delivering further improvement through our personal and process safety programmes.

Production in the first half of 2022 was supported by our new projects brought on stream in 2021, higher production efficiency and the safe restart at Snøhvit, which all contributed to us exiting the period at materially higher production rates.

With energy supplies remaining tight, we continue to focus investment on delivering our projects on schedule, whilst also working with authorities to deliver incremental production, where possible, to support energy security priorities in the UK and Europe.

Our Njord, Fenja and Seagull projects continue to progress and are expected to add around 47,000 barrels of oil equivalent per day of net new production in 2023.

We are also maturing our existing lower carbon projects at L10, CCS and H_2opZee in the Netherlands, and the Gudrun electrification project in Norway.

In addition, we are pursuing further opportunities in the UK and Norway in our low carbon arena.

Our continued improvement in ESG performance and disclosure has been recognised by EcoVadis, which awarded us a gold medal in July, ranking us in the top 5% of all companies it rates globally. And as part of our commitment to working with industry to improve environmental performance, we joined the World Economic Forum's Ocean 100 dialogue in May, and the Aiming for Zero Methane Emissions initiative in July.

Turning now to our financial performance. In the first half of the year, we delivered strong earnings and cash flow, delivered by higher production, good cost control and strong commodity prices.

Cash flow in the period funded investment in our growth projects and a material reduction in net debt. Our strong operational and financial track record has been recognised by Moody's, which upgraded our credit rating in July to Ba2 from Ba3.

The upgrade was supported by our gas-weighted portfolio, near-term production growth outlook, strong free cash flow generation, favourable cost structure and disciplined financial policy.

In May, the UK Government announced the energy profits levy. Whilst our existing committed investments means that the levy will only have a limited near-term impact, the tax does create uncertainty and undermines the UK as a destination for future investment at such a critical time for energy security.

Neptune has an important role to play investing to secure supplies of energy for European and Asian customers and delivering the low carbon projects essential for the energy transition. And our geographically diverse, gas-weighted portfolio positions us well to maximise growth opportunities through the commodity cycle.

With that, I will hand it over to Pete, who will take you through the operational details before Armand takes you through the financial highlights.

Operational Update

Pete Jones

CEO, Neptune Energy

Q2 2022 performance

Good operational performance

Thank you, Sam, and good morning, everyone. Turning first to our first half 2022 highlights on slide six.

Neptune delivered a good operational performance in the first half of the year. Health and safety remains our highest priority and we maintained a good performance during the period. Our 12-month rolling total recordable injury rate remained stable at 2.1 per million hours worked and our process safety event rate improved further down to 0.3 per million hours worked, well below our year-end target.

Our process safety event rate in the Netherlands continues to improve, reflecting implementation of a strong inspection programme.

As the majority of recordable personnel safety events are related to slips and trips, we are focusing on enhancing hazard awareness across our company, and in particular, our drilling operations.

Production in the first half of the year averaged 132,300 barrels of oil equivalent per day, compared to the 119,600 barrels per day in the first half of 2021. This reflected contributions from the Duva and Merakes fields brought on stream in 2021 along with improved production efficiency.

In the second quarter of 2022, production averaged 131,000 barrels of oil equivalent per day, exceeding quarterly guidance. Business interruption insurance income averaged the equivalent of 2,600 barrels per day production in the period, reflecting the outages at Snøhvit, and increasing total economic production to 133,600 barrels per day.

In June, repairs were completed at the Hammerfest LNG facility, enabling LNG exports to recommence, and returning Snøhvit to full production of around 16,000 barrels of oil equivalent per day net to Neptune.

The Touat gas processing plant remains shut throughout the first half of the year, as repairs and clean-up operations continued to ensure plant integrity is restored. We are working with Sonatrach to finalise restart plans to enable exports to recommend very shortly.

In the UK, we started up gas compression at Cygnus in May. We also began a two-well development programme, which will help lift production towards the end of the year.

Production efficiency at our operated assets improved to 87% in the first half of 2022, reflecting planned shutdowns in Norway and the Netherlands, as compared to 76% in the first half of 2021.

The carbon intensity of our operated production improved to 6.1 kilograms of CO_2 per barrel in the first half of 2022 compared to 7.2 kilograms of CO_2 per barrel in the first half of 2021. This is reflecting lower carbon production from Norway.

We expect our carbon intensity to increase slightly in the second half of 2022 due to the start of gas compression at Cygnus. Despite this, the carbon intensity of our operated production remains significantly lower than industry average of 17 kilograms of CO_2 per barrel.

Finally, we made a gas discovery at the Clover exploration well drilled in the Netherlands, as discoveries were located close to Neptune operated infrastructure and has follow on exploration potential. We are evaluating the results before determining the next steps.

In Norway, we have commenced drilling the Ofelia prospect. Both Ofelia and our recent Hamlet discovery are located within tie-back distance to Gjøa, with additional upside potential identified in the area.

In September, we expect to spud the Isabella well, which, together with the Geng North well due to be drilled in Indonesia in 2023, have the potential to add significant new reserves and resources.

Near-term outlook

Higher near-term production supported by Snøhvit restart; FY guidance unchanged

Now turning to slide seven for a review of our production performance and outlook.

While our operational performance was good, production volumes in the second quarter reflected planned maintenance shutdowns in Norway and the Netherlands. This was offset partially by higher gas sales from Duva and the restart of production from Snøhvit towards the end of the period.

Output was also impacted by the completion of our disposal of minority interest in Norway, and the cessation of gas sales to third parties at the Altmark field in Germany, where we are now producing electricity directly. Production in Egypt declined slightly due to the delay of the start of the 2022 work programme and lower gas production from the new Karam-11 well.

We expect production in Egypt to increase again as we step up workover and infill activity in the second half of the year. Output in Indonesia was also lower as we continue to monitor the performance of the Merakes 6 and 7 wells and produce at controlled rates. A sidetrack programme is expected to increase production in the second half of the year and ensure continued high utilisation of the Jangkrik FPU.

Technical adjustments to the Bontang LNG facility are expected to reduce requirements for C3/C4 blending going forward, lowering the operating costs in Indonesia.

Group production in the third quarter of 2022 is expected to increase due to a full quarter's production from Snøhvit, along with the start-up of the K2b-A8 sidetrack in the Netherlands, and higher production availability from fields shut in for maintenance during the second quarter.

These gains are expected to be offset partially by planned maintenance shutdowns in the UK and the Netherlands, and temporary export constraints in Germany, which will impact the Adorf and Ringe fields.

Due to outages at Touat, we now expect full year production to average towards the lower end of guidance.

Increasing energy production

Projects on schedule, aligned with energy security priorities

Turning now to an update on our three upstream developments on slide eight. The non-operated Njord redevelopment project is now close to completion, with the Njord A FPU on location and the risers pulled in. The Njord Bravo FSO has also been toured out into the field out, ahead of scheduled start-up in the fourth quarter of this year.

An infill drilling programme is expected to increase production from Njord. And the Hyme and Bauge tie-backs to around 20,000 barrels of oil equivalent per day net to Neptune. Njord is a long-life field and is expected to produce until 2040, with output supported by further drilling in the area.

In the fourth quarter, we plan to drill the Calypso exploration well, which in the event of a discovery, could be tied back to Njord.

The Fenja development, which Neptune is the operator of, is a 36-kilometre tie-back to Njord and includes the world's longest subsea electrically traced heated pipeline, which will provide flow assurance in the event of a shutdown.

In July, we completed the second development drilling campaign and well clean-up is showing strong rates. The project is now complete and ready for production start-up. Fenja is expected to add around 10,000 barrels of oil equivalent per day net to Neptune.

Our third development is the Neptune-operated Seagull project. The first development well at Seagull has now been perforated with clean-up operations due to be completed in August. Operations will then start on the second well. Both wells have shown good correlation with pre-drill models.

A subsea campaign was completed in May with a further campaign scheduled to commence in September for subsea facilities hook-up. At the BP-operated ETAP host facility, modifications are progressing.

Seagull is due on stream in mid-2023 and is expected to add around 17,000 barrels of oil equivalent per day net to Neptune.

Elsewhere in our portfolio, discussions are ongoing with the Indonesian government to support development plans for the Maha and Merakes East fields, with the aim of bringing on stream additional production volumes through the Jangkrik FPU from 2024.

At the Turkoois discovery, key permits have been granted by the German authorities to progress the development. And in Algeria, FEED for the debottlenecking project and the Phase 2 development is expected to start in the fourth quarter of 2022.

Lower carbon developments

Maturing longer-term, large-scale projects

Now, turning now to slide nine for an update on our lower carbon strategy, which aims to reduce operating emissions largely through electrification and establish integrated energy hubs for carbon capture and storage, and hydrogen production.

Our existing Gudrun electrification project continues to progress well, with the start-up anticipated in early 2023, saving around 60,000 tonnes of CO_2 emissions annually. On completion, we will have electrified around 35,000 barrels per day of our net production. We are evaluating further electrification opportunities in the UK, Norway, and Netherlands., however, high costs and remaining asset life remains significant challenges.

At our planned integrated energy hubs, we have signed a cooperation agreement with our L10 partners for the CCS project, adding further technical and commercial capabilities. The partners have committed to progress the project to concept selection and FEED-readiness by the end of this year to enable a storage licence application to be submitted early next year.

For H_2opZee, we have commenced a feasibility study in partnership with RWE and are leveraging our experience from the Poseidon project. To support our CCS plans, we have initiated a reservoir study covering the UK, Norway, and Netherlands to assess suitability for CCS. This study will support future storage licence applications.

With that, I will pass you on to Armand, who will run through our financial results.

Financial Results

Armand Lumens

CFO, Neptune Energy

Financial highlights

Strong H1 2022 results, with higher earnings and cash flow and lower net debt

Thank you, Pete, and good morning, everyone. Turning first to our financial highlights on slide 11.

Our financial performance in the first half of 2022 was strong, supported by higher production, tight cost control; and strong commodity prices.

EBITDAX in the first half of 2022 increased to $1.7 billion, compared with $670 million in the first half of 2021. After a strong first quarter, EBITDAX declined to $761 million in Q2 2022, reflecting lower average gas realisations in the period and market volatility.

Post-tax operating cash flows after working capital in the first half of 2022 increased to $1.2 billion, compared with $530 million in the first half of 2021. While remaining strong, post-tax operating cash flow after working capital in the second quarter of 2022 was impacted negatively by significant increase in cash taxes and working capital outflows.

Operating costs in the first half of 2022 increased to $12.1 a barrel due to higher industry costs, CO_2 taxes and royalties. Opex in the second quarter of 2022 was $12.7 a barrel and is expected to stay around this level for the remainder of the year.

Adjusted cash development capex, including expenditure at Touat, was $264 million in the first half of 2022, which was $72 million lower than in 2021, due to the completion of several projects.

Development capex in the second quarter was broadly stable at $135 million, reflecting our project schedules.

Net debt under our RBL definition declined to $1.4 billion at the end of the first half of 2022 and is now $650 million lower than at the start of the year.

Leverage fell to 0.4 times at the end of the first half of 2022, compared with 2 times in mid-2021, reflecting both lower net debt and higher 12-month rolling EBITDAX.

Income statement

Continued strong earnings, despite higher taxation

Moving on to our income statement on slide 12 now.

We delivered a strong earnings performance in the first half of 2022, with revenues up more than 100% and underlying operating profits increased to $1.4 billion from $319 million in the first half of 2021.

Second quarter revenues, including other operating income, declined due to lower average gas realisations, but remained strong at $917 million. Revenues included $7 million of other income related to business interruption insurance for a loss of revenues at Snøhvit in Norway.

In the second quarter, we recognised $300 million of hedging losses as part of a long-term hedging programme, significantly lower than in the first quarter.

Equity accounted entities included $29 million of other income from a settlement of a performance guarantee for Touat project delays.

Net finance income of $76 million included $117 million of net foreign exchange gains related to the revaluation of loans and working capital balances for internal funding purposes.

In the first half of 2022, our tax charge was $678 million, including $418 million in the second quarter. In comparison, our tax charge in the first half of 2021 was $260 million. Our effective tax rate in the second quarter of 2022 was 61%.

Cash flow and balance sheet

Strong free cash flow driving further deleveraging

Turning now to slide 13 for an update on our cash flow and balance sheet.

In the first half of 2022, we generated post-tax operating cash flow after working capital of $1.2 billion. Net cash taxes paid were $348 million and there was a negative working capital movement of $137 million.

Cash taxes in the second quarter of 2022 increased to $266 million from $122 million in the first quarter, and we expect further increases in the second half of the year.

In the first half of 2022, we invested $257 million in development capex, including $1 million for acquisitions, and capitalised the further $47 million for exploration and predevelopment activities.

We also invested $10 million in our equity accounted entities, net of dividends, and received $22 million from the disposal of non-core interest in Norway and Denmark.

Net of payments for lease obligations, we generated $819 million of free cash flow in the first half of this year.

Net debt decreased in the second quarter to $1.4 billion and at the end of June 2022, we had $1.5 billion of undrawn facilities and total available liquidity of $1.7 billion.

We expect to refinance our existing credit facilities by the end of 2022.

Hedging activity

Increasing upside exposure to higher prices

Moving now to our quarterly realisations and hedging positions on slide 14.

Oil prices remain strong in the second quarter of the year, reflecting geopolitical risks and tight supplies, as markets adjusted to the disruption caused by the war in Ukraine. At the end of the period, prices weakened as increased risks to demand from slowing economies began to weigh on market sentiment.

Our average post-hedge oil realisation increased to $114 per barrel in the second quarter of 2022, compared with $96 per barrel in the first quarter.

LNG realisations, which are largely linked to oil prices, increased to $13.2 per MMBtu from $11.9 per MMBtu in the first quarter.

Gas prices were weaker through much of the second quarter, but strengthened again at the end of the period, due to increasing risk of supply disruptions in European gas markets. Gas prices are likely to remain highly volatile through the remainder of 2022.

Our average post-hedge gas realisation was $12.5 per MMBtu in the second quarter of 2022, compared with $15.5 per MMBtu in the first quarter.

In the second quarter of 2022, our average post-hedge realised price per barrel of oil equivalent was $80.9 per barrel, compared with $90.1 per barrel in the first quarter of this year.

We have continued to add further hedges to protect cash flows in 2022 and 2023 from downside risks, while maintaining good exposure to the upside. As new hedges have been added, we have progressively increased weighted average floor prices and raised caps. The majority of our oil hedges remain uncapped or are three-way collars, enabling us to participate at higher prices.

Our post-tax hedge ratio for the second half of 2022 is 65% and 40% for 2023.

2022 guidance update

Operational and financial performance on track

Now moving on to our guidance for 2022 on slide 15.

Our operational and financial performance in the first half of 2022 leaves us on track to meet our full year guidance. Near-term production is supported by the restart of Snøhvit. However, delayed to the re-start of Touat is likely to result in full year production being towards the lower end of 135,000 to 145,000 barrels of oil equivalent per day guidance.

The start of gas compression at Cygnus is expected to increase the carbon intensity of operated production marginally in the second half of the year, to around eight kilograms of CO_2 per barrel for the full year.

Inflationary pressure on our supply chain contributed to the increased operating costs in the second quarter. For the full year, we expect operating costs to average towards the upper end of our $11.5 to $12.5 a barrel guidance.

Our full year guidance for the development capex and exploration and predevelopment spend is unchanged, with investment weighted towards the second half of the year, reflecting our project schedules.

Guidance for decommissioning spend is reduced to around $45 million due to a deferral of activity as we optimise our programme. With commodity prices remaining supportive, full year post-tax operating cash flow before working capital is expected to exceed $2 billion, with cash taxes of around $1.3 billion.

With current leverage of 0.4 times, we are well below our target of 1.5 times through the cycle.

In summary, Neptune has had a strong first half of 2022 and we maintain a positive financial outlook for the remainder of the year.

With that, I will hand you back to Sam for the closing remarks.

Overview

Sam Laidlaw

Executive Chairman, Neptune Energy

Summary and outlook

Delivery on plan, strong H1 results support investment in growth and lower carbon projects

Well, thank you, Armand. As you all have seen, Neptune delivered a good operational and financial performance in the first half of the year, supported by higher production, tight cost control and strong commodity prices, all underpinning our recent credit upgrade.

Our HSE performance remains good but we are never complacent, which is why we continue to raise awareness of risks across our organisation and implement new processes, where necessary.

We are on track to deliver our full year production guidance supported by the safe restart of operations at Snøhvit. And we continue our focused investment on our growth projects to support energy security priorities in the UK, Europe, and Asia.

We are also maturing lower carbon projects to deliver on our commitment to store more carbon than is emitted from our operations and also the use of our sold products by 2030.

Our financial performance through the first half of 2022 was good, enabling us to fund our growth projects and also reduce leverage.

Despite inflationary pressures, we maintained a disciplined approach to investment and a tight control on operating costs, leaving our full-year financial guidance largely unchanged.

With further exploration success, we have an increasing number of growth opportunities and will target new investments in projects offering the highest returns and in supportive and fiscally stable countries.

With that, I will hand back to the operator and open the lines for questions.

If there are no questions on the phone and no questions on the webcast, let me just take the opportunity to thank you all for your continued interest and support. As you will see that the Neptune story continues to go from strength to strength and we look forward to updating you further at the third quarter.

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