Cairn Energy PLC

Half Year Results 2019

10 September 2019

Transcript

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Simon Thomson: Okay. Morning everybody and welcome to Cairn's results presentation. I'm Simon Thompson, Chief Executive, with me, 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. It is being webcast as usual, so there'll be microphones available. If you have a question, please state your name before asking it. I think everybody's been in this room before. But in the event of a fire alarm, you can see the exit sign there and the muster point is outside in the square. Okay. Turning to the first slide. We believe that Cairn today can create and realise value for shareholders on a sustainable basis through a combination of these three things. The full cycle E&P business that we have built, our continued focus on capital discipline and active portfolio management and the offering of multiple catalysts for shareholder value.

And looking at each of those in turn. The full cycle business has the financial flexibility to deliver all of our strategic objectives. So, we have significant headroom available through a combination of cash and a largely undrawn RBL facility. As you know, we have strong cashflow through improved production. You've seen improvements at Kraken and also continued excellent performance at Catcher. We've got reduced production costs and we have an accretive hedging program. In terms of the next point, capital discipline and active portfolio management. You've seen the Nova farm down, the Chimera farm down and also the asset swap with ENI in Mexico and all of those, I think evidence our strong desire to realise and redeploy value within the portfolio and it's something we will keep on doing. And in terms of the last point there, the multiple catalysts for shareholder value, that's through the remainder of this year into 2020 and beyond.

So we said in the statement today, SNE, FID will be later this year and we're about to enter a very exciting period of exploration activity. So, we'll shortly spud the 150-million-barrel Chimera well, which I mentioned earlier in terms of something that we've recently farmed down a little bit of, that's a Cairn operated well, and it should spud towards the end of this month. Soon after that we will commence a four well program for 2019 in Mexico targeting over half a billion barrels, and there'll be further wells in Mexico already planned for 2020 so a very active exploration program. And in addition, in terms of catalysts, we obviously await the decision, the outcome from the panel in terms of the Indian arbitration. There's no update other than to say we remain just as confident in terms of the merits of our case.

Before I hand over to James, a few words on core values, I guess we have probably been presenting here at Lincoln's Inn fields for over 15 years, certainly that I can remember. And each time when you come in, you see posters and videos like today and they're always focused around our core values, the three R's, give and earn Respect, build Relationships and behave Responsibly towards the environment. And on that latter point we obviously recognise the requirement for energy transition and we also recognise the important role that companies like Cairn will play in terms of continued energy security. We all need to do that in a way that is safe, that is transparent, that is compliant and that is efficient. But it is something that we continue to need to do, so looking at a little bit more detail on that.

We obviously don't operate our production today in terms of Kraken and Catcher and also Nova when it comes on. But all of those fall under the EU emissions trading scheme which reduces emissions year on year, and it is worth noting that membership of that scheme will result in a 43% overall reduction in emissions by 2030 over the 2005 numbers. So significant reductions. We're aligned with the the task force on climate change and financial disclosures and indeed working closely with Brindex in relation to a coordinated response on that. We're committed to the UN global compact EITI and also the performance standards of the IFC. But I think the important thing to emphasise is that that's not something new, it's something that we've always done. So, when the board and when we look at making decisions, we always come back to the core values, all of those core values in terms of anything that we try and do to create further shareholder value. And on that value point I'll hand over to James.

James Smith: Thank you Simon. And good morning everyone. What I'd like to do over the next few slides is firstly to look at our performance during the first half. Secondly have a review of what that means for our guidance for the full year. And thirdly, to set out the strong position that puts us in to take the business forward and to deliver key value catalysts.

So, let's start with operating performance during the first half of the year. Net production as you will have seen is strong relative to guidance averaging 23,700 barrels a day. That's up 15% on the previous six months and 65% on the same period last year. Our average crude realised price was $68 a barrel and that resulted in first half sales revenue of $257 million. It's worth noticing that Brent prices averaged $66 in the first half, so that's obviously a very strong story. In terms of crude marketing for both Kraken and Catcher, average production cost was just a little below $17 a barrel and that's significantly below our original guidance of $20 a barrel for the year, and that together with the realisations has resulted in a strong operating cashflow result of $200 million for the first half. From that we reported an operating profit for the period of $60 million reflecting the successful delivery of our balanced portfolio model.

So if we look now at how that's influenced our guidance for the full year, production has continued to remain strong through Q3. And as a consequence, today we're upgrading our full year production guidance to 21,000 to 23,000 barrels of oil a day and we're reducing our expected production cost guidance from $20 down to $18 a barrel. In terms of hedging, as you can see, we've hedged about 40% of our expected second half production this year with a floor price of $67 a barrel. And so far, we've hedged about 6,000 barrels a day of next year's production with a floor price of just over $62 a barrel Brent. I'll move on now to a reconciliation of cash flows during the first half. And as you've seen from today's financial statements, drawn debt reduced from $85 million to $60 million during the first half and therefore our net debt position reduced effectively to zero as at the 30th of June.

The large blue bar on the left shows operating cash inflows received during the period from Catcher and Kraken of $177 and there was a working capital increase during the period of just over $20 million. So that reconciles to the reported $200 million operating cashflow from hydrocarbons produced in the first half. The first three orange bars there, show cash capex outflow during the period by category, totalling $135m or that's $121m net of the Norwegian tax effect, which is effectively the drawing on the exploration financing facility of $13 million, which you can see at the top of the chart.

So, as you can see within that exploration capex net of tax in the first half was about $56 million. And around $7 million net related to the three well Norwegian drilling programme, which is now completed. So overall full year capex guidance remains in line with previous guidance at the beginning of the year. And I'll come onto that in the next slide. And then just to finish off here to the period close, other cash outflows related to new ventures, admin financing, other costs, and a repayment of debt of $25 million, which took us to the midyear cash position of $58 million.

So, the updated capex estimates for the full year remain in line with our previous guidance and in fact come in slightly lower despite including a broader exploration program. Capital activity on capturing Kraken is relatively limited this year; $25 million and the bulk of that relates to completion of the DC 4 drilling on Kraken earlier in the year, now completed.

On the development assets. As we previously noted, we sold half of our interest in Nova to ONE-Dyas with an effective sale date of the 1st January 2019. So that results in a proportionate reduction for the full year capex down to $35 million. Then on SNE, project definition and engineering work continues prior to FID expected later this half, we submitted an updated development plan to the government on completion of FEED a couple of months ago and significant progress has been made with contract awards which Paul will come on to talk about. And so our full year forecast cost in relation to this activity for 2019 is $70 million. On the exploration side, the capital program for the year remains in line with guidance. The key activity in the second half being the Chimera well in the UK and what is now a four well program in Mexico following our licence swaps with ENI into block 10, so that's effectively an expanded drilling program whilst expected capital costs have remained the same.

And then finally we also have earlier stage work and data acquisition in preparation for potential future Wells in Nicaragua, Cote d'Ivoire and Suriname. So total capital program for the year $295m against previous guidance of $300m. So, before I hand over to Paul, just to reiterate some of those main points, production levels and cashflow realisations for the North Sea was strong during the first half and we expect them to continue as such at similar levels for the balance of the year. With that performance and at prevailing oil prices would expect to end the year again with minimal leverage putting us in a strong position to continue to deliver our active capital program. Obviously, the key focus for the second half of this year will be on Senegal. Significant progress has been made on project definition and we're now working with the joint venture, with the government, and with the lending group we have appointed to finalise financing and take FID later this half.

We're always considering active portfolio management in order to allow us to optimise our capital allocation decisions. On the exploration side, we farmed down our paying interest in the upcoming Chimera well to very low levels whilst maintaining a material equity position in the well. We've swapped licences in Mexico in order to gain exposure to additional attractive drilling opportunities. And then on the development side, selling down half of our interest in Nova into an attractive asset market has materially enhanced our liquidity position for reinvestment elsewhere in the portfolio.

And in that same vein, we'll continue to assess our equity positions across the portfolio as we make investment decisions in the future. So overall the balance sheet and the asset base is strong and that allows us to deliver a series of material value catalysts as we move forward, and we'll continue to actively manage both of those in order to allocate capital to the highest potential return and to maintain a balanced asset portfolio. And on that I'll hand over to Paul.

Paul Mayland: Thanks James. Good morning everyone. I aim to talk through the UK production results in more detail, and I'll update you on progress on our developments in Norway, but particularly SNE in Senegal. I'll start with some additional details on our UK production where we're pleased to upgrade our full year 2019 guidance from 19,000 to 22,000 barrels of oil per day as outlined in March to a revised position of 21,000 to 23,000 barrels of oil per day.

This incorporates a recent planned shutdown in August on Catcher for gas treatment upgrades and this revised production guidance has been driven by three factors. Firstly, the Catcher FPSO has performed fantastically well in its second full year of operation with production efficiency in excess of a design basis of 95%. Secondly, in May 2019 the Catcher Joint Venture was able to agree with the Catcher FPSO provider a commercial basis that allows a framework for sustained production above the nameplate FPSO capacity and therefore we can consistently produce at the levels that we've seen recently of 66,000 barrels of oil per day. And finally, we've seen a step change in production efficiency on the Kraken FPSO such that it's been much improved in 2019 versus 2018, and in the latter part of the first half, with both process trains on stream production efficiency on that asset exceeded 80%. So, we'll now move on and discuss the individual progress and plans for both fields

Catcher averaged oil production of approximately 13,300 barrels of oil per day net to Cairn in the first half. The Catcher area production data continues to demonstrate good pressure support provided by aquifer and injector wells and generally excellent continuity. In addition, the field GOR is relatively stable and water cut remains at lower levels, below 10%, and therefore we anticipate a small reserves increase at year end 2019 assuming the water cut development follows the forecast trend.

Additionally, the Joint Venture has supported the Laverda and Catcher North satellite field developments, and formal approval from the oil and gas authority was granted last week. The reserves associated with these discoveries will also be booked at year end. A key element associated with these developments was reaching an equity equalisation agreement within the Joint Venture in July, with Cairn as a key catalyst farming down from 36% in Laverda to 20%. These two satellites will come on stream in the first half of 2021 and will be proceeded by a single infill well on Varadero in the second half of 2020. Strong appetite remains in the European market for this medium grade sweet Catcher crude.

So next Kraken which averaged approximately 9,600 barrels of oil per day net in the first half. Three Drill Centre 4 new wells were hooked up and commissioned in March 2019 adding two new producers and one new injector to the overall well stock. Subsequent well testing in May confirmed the gross well production capacity in excess of 47,000 barrels of oil per day. Reservoir field performance indicates that the field water cut has stabilised and is averaging around 60%, and well potential has improved due to the better voidage replacement in the central and Southern areas of the field and the stabilised water cut.

Further investment is also planned on Kraken in 2020 with the drilling of a single producer and injector from the Drill Centre 2 template to an accumulation West of Kraken called Worcester. The reserves associated with this area will be booked at year end and these wells are expected to come online in the second half of 2020. The inventory management of critical spares by the operator has helped to contribute to the improved uptime along with more rapid response to trips by the FPSO contractor. As I've already stated, we look to see further improvement in the FPSO performance in the coming period. The Kraken crude pricing has continued to strengthen both in light of the current heavy oil market dynamics and a good understanding of the crude’s characteristics by a global set of buyers.

So, we'll now move on to our SNE project in Senegal. As a reminder, we are progressing towards final investment decision of phase one, which involves development of 230 million barrels from a combination of lower S500 and upper S400 reservoirs. This is likely to be followed by further phases of both gas and oil development by extending the subsea infrastructure, installing gas export facilities and drilling further oil, gas and water injection subsea wells beyond the initial 23 wells envisioned for phase one.

2019 has indeed been a busy year for the project. A high-resolution 3D seismic survey commenced in July to enhance definition across the field, particularly the S400 sands and potentially may become a baseline survey for a future 4D survey. The updated exploitation plan, including the findings of FEED, has been submitted to the government and is being reviewed. We anticipate costs will continue to reduce for the current scope and at the point of FID to be below $3 billion. And as a reminder, the environmental and social impact assessment associated with the project has already been approved by the government.

Excellent progress has been made on the drilling side too. Earlier in the year we awarded the drilling rig contracts to Diamond Offshore for the provision of two deep water drill ships. The Ocean BlackRhino, currently operating for Hess in the US Gulf of Mexico and the Ocean BlackHawk, currently operating for Anadarko in the same area. These modern units are five years old, have a very strong operational track record and have a unique feature whereby the BOP manufacturer operates and maintains the pressure control equipment on a leased basis and these contracts are wells based and will commence in early 2020 and 2022 respectively. The drilling and completion services contracts have also been awarded and split between drilling formation evaluation and sandface completion to Halliburton, and upper completions to Baker Hughes.

Both front end engineering and design studies have progressed well with the full support of the Joint Venture. The subsea FEED was awarded to SIA in late 2018 and this work is now essentially complete with rise pipeline and subsea production systems, technical deliverables in the process of being closed out, and manufacturing slots allocated to protect delivery of long lead items to support the start of drilling operations. All flow assurance studies associated with the subsea production system are now complete. The FPSO FEED was awarded to MODEC early 2019 and this scope has progressed well, the tanker for conversion has been identified. It's a sister vessel to recent MODEC conversions, was inspected last year, and as a double hulled VLCC it meets our basis of design for storage requirements. A VLCC also has a much larger surface footprint for future facilities expansion. Requests for quotations, or call for bids, have been issued to all the main process and utility packages along with the ship yard conversion work and subsequent integration and commissioning of this 100,000 barrel of oil a day capacity FPSO. And as you can see, the project has progressed well with all of the key components now essentially in place sitting with tier one contractors familiar with executing projects of this nature in West Africa.

Let's now move on to Nova in Norway and you'll be familiar with many of the details on this slide, so I don't intend to go through them all. Although we've reduced our stake, we continue to actively monitor progress and remain fully engaged on the project.

This summer saw the preparation for modifications on the Gjoa host platform and a very successful subsea campaign. Two subsea templates were installed before laying 65 kilometres of pipeline and 20 kilometres of control umbilicals. Next year we'll see the dedicated Nova module installed and the start of development drilling using the West Myra rig for the drilling and completion of the six planned development wells. On this positive note and with a backdrop of improved production guidance from our UK assets and very strong strides towards FID being made in Senegal regarding our SNE oil and gas project. I will hand over to Eric.

Eric Hathon: Thank you Paul. Good morning everyone. The watchwords for our exploration program are active and dynamic as I'll explain, but our core values have not changed. We pursue and execute quality material opportunities while maintaining exposure to potential game changing prospects in order to add significant value for shareholders. There are multiple catalysts coming up in our drilling program in countries with good fiscal terms, a variety of play types, and in multiple basins. We accelerated our exploration program in a strong way in 2018 on the heels of our very successful appraisal program in Senegal and we will continue right through 2020 and beyond with the goal of demonstrating the NAV growth we have committed to.

We have a robust drilling schedule both this year and next. We're in the midst of what is now an eight well drilling campaign in three countries and five of those wells are operated by Cairn. We've built an attractive portfolio in Latin America, with Mexico the focus of drilling now. We're progressing opportunities in West Africa with newly acquired seismic data and I've expanded into the Eastern Mediterranean with an operated entry and offshore Israel. In Europe, we've completed three exploration Wells in Norway without incident and we are preparing to spud the Chimera, well in the UK. As I said, active and dynamic.

Now we've completed our drilling program in Norway for this year and unfortunately did not find hydrocarbons. Now all three wells were targeting very material volumes but they were higher risk prospects, focused on either unproven plays or trying to push proven plays into new unproven areas. And given the attractive fiscal regime for exploration in Norway, it is the ideal place to take additional risk while trying to expand the proven play portfolio.

So while an unsuccessful campaign in terms of hydrocarbons, there were no health, environment or safety issues and our first two operated Wells in Norway were completed ahead of time and under budget. Now let's move to the UK and the Chimera well is planned to spud this month and this prospect has material impact potential. Now as I've talked about before, it is a new play in a proven reservoir interval. It's targeting stratographically trapped Heimdal sands which really are only visible on modern 3D seismic, which took special processing and attribute analysis.

Now this prospect certainly has risks. It is a stratigraphically trapped prospect, but first Suncor and now DNO have chosen to farm in which adds confidence to our thesis and we should know the results in a month or so, give or take. And in the last UK lease sale we picked up the adjoining acreage, which you can see here. So that in the event of success we have follow on exploration potential, which as I've said many times is one of our consistent themes, the ability to move on with success.

Now let's focus and switch to Latin America where we continue to build a mature and exciting program. Now as you've already heard, we've increased our position in Mexico and are on the verge of starting our drilling campaign. In Nicaragua we are worked with our partner, Equinor to mature multiple interesting prospects and leads on newly acquired seismic with the possibility of a well as early as 2020. Offshore Suriname we have acquired over 4,500 line kilometres of 2D seismic on our off shore block and we're working up opportunities there.

But now let's talk about Mexico. Mexico is clearly a country which has multiple exploration catalysts for us, As you will have heard,e are now in four blocks with our entry into the ENI operated block 10 giving us four Wells between now and the end of the year. Now block 10 has clear synergies for both Cairn and ENI. Some prospects that you'll see straddle the block boundaries and this enhances a hub and spoke concept of pulling multiple fields together as we have numerous targets to chase. And we're particularly happy to enhance our relationship with ENI, which as you know is the first IOC to bring on production in the basin.

Overall we're targeting over 700 million barrels of gross unrisked resource across our six commitment Wells in these three blocks. Now this schematic you can see at the bottom of this slide gives you a view of the variety of play types and the different age sands which we're targeting, and the line is anchored here on the East by the world-class Zama discovery. In addition, the Murphy operated Cholula oil discovery sits due North of our block, so we're definitely in a good address to find hydrocarbons.

Now let's turn to the prospects. In block nine, which you see on the left here, the Alom well is expected to Spud by the end of the month using the Maersk developer. Alom is targeting multiple stacked sands with potential direct hydrocarbon indicators. Now these sands are slightly younger than the well-known Zama discovery to the East. Now the Bitol well shown on the right will directly follow Alom and is targeting multiple intervals from that proven upper Miocene zone that Zama found, all the way down to largely untested lower Miocene and Oligocene sections.

So in essence we're drilling a frontier well but in a proven oily basin. Now let's take a look at our non-operated prospects. ENI plan to spud the Ehecatl well in block seven in November following the Saasken test in block 10. Ehecatl is a very robust structure, being a three-way trapped against salt, and it's targeting also lower Miocene sands, which again have been rarely penetrated in the basin.

So success here will open up a whole new play. Now in block 10 as you see on the right, the Saasken prospect should also Spud this month. It has moderate volumes, but robust hydrocarbon indicators on seismic in the Upper Miocene. And this represents a quality tie back candidate to any potential hub in either block 9 or block 10. So across our acreage position in Mexico, we have the potential for multiple combinations of hub and spoke developments which adds flexibility and enhances our chances of commercial success.

Now while our focus has been on the active drilling campaign, and remember we'll likely have three wells drilling at the same time between now and the end of the year, we do continually aggressively evaluate other leaseholds. We remain very active in Africa. Our analysis off shore Mauritania on new 3D seismic is ongoing. In Senegal, as Paul said, we're in the midst of acquiring a high-resolution 3D multi azimuth seismic survey which will not only be instrumental in the development campaign but will also be used to mature other potential exploration targets. And in Cote d'Ivoire, the operator Tullow plans to begin 2D seismic acquisition over our seven onshore blocks in the coming months and recent fieldwork there has demonstrated the presence of active oil seeps on our blocks. And in our latest addition to the portfolio, we entered the Eastern med being successful in the second Israel offshore bid round, which closed in August.

We're operator of eight licences which cover over 2,700 square kilometres. We're chasing both Tamar like sandstone plays and Zohr like carbonate plays. And our initial commitment of seismic processing here is modest and this represents a good example of that long range thinking where we have things that may mature into future drilling targets.

So, in conclusion, I want to leave you with this. We have multiple near-term exploration catalysts in our drilling portfolio. While we continue to mature other opportunities across a variety of plays in prospective basins in countries with attractive fiscal terms. We have a strong multiyear opportunity set in front of us and we're continually screening for additional potential game changers. We are as capable as any operator of drilling Wells safely, effectively and in a way, which protects the environment. We certainly have exciting times ahead for exploration and Cairn. And with that I'll return it to Simon.

Simon Thomson: Thanks Eric. We are, as Eric has outlined, well positioned as a company to deliver a catalyst rich portfolio across the full cycle business. That's through the remainder of this year, into 2020 and beyond. As Eric has outlined we're building further option value in terms of further exploration activity out into the long term. And I think the other point to reiterate is that that is all underpinned by our full cycle business, underpinned by balance sheet strength and by financial flexibility, and underpinned by continued focus on capital discipline and on active portfolio management of which you've seen evidence over the last few months on which you will see further evidence in coming months and years. We believe that we do offer shareholders multiple catalysts for value creation in the near, medium and longer term and we look forward to reporting further news flow to you through the remainder of this year. So, with that, I'd like to handover to any questions

Peel Hunt: Two questions. So first one on the updated SNE development plan, just wondered if you could give a bit more detail on that, if there are any Capex implications or production profile implications. And then the second question of the four wells you're drilling in Mexico this year. Do any of those have flat spots or amplitude conformance to structure. Thank you.

Paul Mayland: The SNE exploitation update plan is fairly simple to be honest. There have been few refinements, it's really just to incorporate the findings of FEED which was a request from the Government in terms of some of the design basis, some of the layouts and some of the additional details that came out of those front-end engineering design studies. But there's no sort of material changes to the reserves, the production forecasts and at this stage the costs which are still being refined on one or two elements, particularly the drilling costs.

Eric Hathon: In Mexico we do see indications of both flat events which could indicate fluid context as well as indications of conformance to structure the latter, which is more difficult given the potential steep dips in places and the salt, which sometimes will make imaging more difficult. We have indications of both and when drilling will demonstrate whether they truly are direct hydrocarbon indicators.

BMO: Two quick ones on SNE or one quick one actually to start with. Obviously, we've heard a bit from your partners around the timeframe around FID in the second half of this year. So really just interested in any comments around your confidence of still hitting that target. The second one, I think you might've mentioned an attractive asset market and applying that to SNE obviously you've talked in the past about a potential farm down there. I suppose I'm just wondering, we've got all the inputs, we know what the project's potentially worth. Is that the type of project you are looking for full value given what is sounds like an attractive backdrop or how much would you be willing to leave on the table to entice a buyer because obviously that has advantages for your balance sheet. Just thinking about if you were to leave something on the table, would that be likely to be all price or resource upside?

Simon Thomson: Dealing with the second part of your question first, I think every negotiation is different. Obviously in everything that we do, we're looking to try and extract full value from many discussions. I suppose when you think about timing, Nova as an example of something where we're taking money off the table, ahead of first production, looking back through time. India is an example of where we waited until first production to take value off the table. So, I think each one of those discussions has a number of different aspects in terms of what's the underlying price assumptions, what's the time to market, how fully valued, how much other interest is there and so on so forth. I mean, what I would say in relation to Senegal specifically is that we continue to have incoming interest.

But our line remains the same. We will look at around FID if there is an appropriate transaction that we may take some value off the table, but we don't have to and that remains the position on it. In relation to timing and 2019 FID, I mean, we remain in close discussion with all of the JV, speaking with Woodside last week and there's regular meetings with the Government and so on. There is no alignment no matter what you might hear about other things. There is an alignment to move this project forward to FID. That's what everybody wants and specifically that is what the Government wants and what they're targeting. So, we are working very hard towards that. So that remains the case FID in 2019

Citi: A couple of questions just on SNES we're talking about SNE. Can you maybe speak more specifically on the financing, where we are, what needs to be done. Clearly there's a number of parties with different requirements from a funding perspective. So, could you talk about holistically about the project from a financing perspective. Then just on UK, North Sea area and Norway. I was just wondering if you could provide us with an overview of your assessment of how the strategy's gone since you entered the basin in 2012 with Agora. What's worked, what hasn't worked, and should we see any changes to that UK Norway strategy going forwards?

Simon Thomson: On strategy and the general entry into the UK, Norway. I mean not everything is going to work. And as you pointed out we've had a number of wells that haven't been successful. As Eric has been highlighting, what we tend to do is try and move towards more materiality in terms of prospects in terms of newer types of plays or extending those plays and that's higher risk. So, we obviously have had success in terms of Nova is an example of that. What you can realise in terms of value. In terms of future strategy, I think we'll continue to do what we have been doing, which is constantly honing our effort around those areas that we see as attractive technically, first of all, most importantly, and where we think we can build a large position around success.

Sometimes it takes time necessarily, don’t forget Rajasthan was the 16th well before we found Mangala, so I think everything, it'd be nice if you had success all of the time, but I think strategically you've got to take a longer-term view in terms of any particular basin that you're exploring. And furthermore, obviously there's a cost advantage in Norway but that is not the driving factor. The driving factor is we're looking for things that we think have sufficient materiality. Eric, and if there's anything else you want to comment on that.

Eric Hathon: No, I think that's exactly right. It's a long-term view. It's a balanced programme and we do tend to target things that when they come in we'll make a material difference for shareholders.

James Smith: On SNE financing. We've appointed a group of commercial banks in the various key roles to move forward with the senior debt financing. And in terms of discussions on or agreements around terms with them and also with the Government to the extent that those interlink, that's well progressed and well-defined now. So, we've been working towards being ready to press go on the effectively on the credit process for that senior debt. In terms of project definition, obviously the key contracts have been awarded now. So from a cost point of view that's well defined as Paul has mentioned, there's probably a couple of areas where there's one more turn with the intention of hopefully moving those cost estimates down. But they're in a good place already and the resource space is obviously well-defined. So, we're close to being able to push the button on that.

Citi: And just to confirm on the financing, do you need to see the end of the arbitration process before the banks will lend?

James Smith: We are talking about the Far / Woodside arbitration, which we are not a party to. So, you wouldn't expect us to be able to comment on what the potential outcomes or the timing of that is. What we do know is that everybody in the joint venture and particularly the Government is aligned on seeing this project funded and FID’s in the timeframe that we've talked about.

RBC: I've got three questions, but they're all very different. So can I do them individually? Chimera is it a heavy oil play?

Eric Hathon: No.

RBC: On the financing, SNE are you assuming you have to pay for the government's stake?

James Smith: No.

RBC: No. You're not assuming that you're paying for this stake?

James Smith: No, the PSC is very clear that Petrosen is fully carried through the exploration and appraisal phase. And post FID, post exploitation licence, the production licence award that they pay their share of development costs. They have the option to increase their share from 10 up to 18%. And that is very much the basis on which we are working with the Government and Peterson has been making those preparations.

RBC: Right. And then you all sound very happy with what you've got. So, I'm wondering why you'd bid for Edison?

Simon Thomson: We wouldn't comment on any particular rumour on what we did or didn't look at. I think the point that I would make is that yes, we are happy with what we've got. But we continue like everybody look at is there something else that is accretive that we could bring into the portfolio that makes sense to us, both from the point of view of obviously the financials attached to that particular transaction, but also does it fit with our strategy moving forward. So, we continue to look at things, but it's only on the basis that we would only bring it in if we believe is accretive.

Macquarie: Just a quick one on Kraken, sounds like everything's sort of going well. Two train operations and the efficiencies back up and water cuts in line. So, I'm just wondering what do you need to see there before you get confidence to write those reserves back up? Or at least narrow the gap between yourselves and the operator.

Paul Mayland: The first thing to say is we fully respect all the views in the Kraken family and I think across it, we're all striving to improve production potential and maximise economic recovery from the field. And the second thing I think we should recognise, and I think I said this in March, is reserves are estimated they're never determined. So, we carry a range of estimates in P90, P50 and P10 and of course we chose and we believed that was prudent at the time and remains prudent to reduce our P50 estimate, which we did back in March. We would just like to see longer production data in terms of water cut trend and overall performance in the field before we make any revisions actually, which we would do as a matter of normal course of business on a six-monthly basis.

There is further potential on Kraken and touching a little bit on Michael's question about the North Sea, we have three assets, when we acquired those two companies choose to sell one of them, which was our small stake in Mariner, and if we step back and look at Catcher and Kraken performance overall, we are pretty happy with it. There's still growth potential on both fields that we're seeing investments next year on Catcher that we touched on in terms of the satellites. There's a plethora of infill opportunities in Catcher and there's significant potential in the West side of Kraken which we are going to obviously test with our first two wells next year. So overall, we're relatively happy with both fields.

Numis: Firstly, on SNE the rig contract has been signed. And just to be clear, are the costs associated with that now set in stone? I think you'd said before 60% or thereabouts of the development costs of rigs or excuse me are wells. So, does that mean that you've locked in getting on for two thirds of the development costs?

Paul Mayland: Partially I guess is the answer to that. So that's the variable element of the cost. But obviously the other element is the durations. So, we're still looking at the optimised schedule in terms the batch approach, which we successfully did for example on Kraken can we phase the wells where I was and also looking at the durations in terms of sand face, completions and upper completions. So, an element of it is indeed fixed as you said, but there's another element which we're still trying to optimise further.

Numis: Okay. So, there's sort of time on the rig as it is priced, but because you said it was a rig, sorry, a well based contract. But it's not a fixed price per well then that you've agreed

Paul Mayland: No, it's a normal day-based contract, but the commitment that we will make under that contract will be wells based rather than duration based.

Numis: On the SNE FPSO footprint point that you made for future expansions, does that imply that you will have the ship coming to shore in future phases to put kit in?

Paul Mayland: Could you repeat?

Numis: You spoke about having a big footprint there to put on.

Paul Mayland: Basically, it would just be additional modules that will be added. I mean, it's predominantly around the consideration of gas export. So we will have we've got a basis of design of 130 million standard cubic feet a day of gas. So that's more than what we need in terms of gas lift and fuel on the FPSO. So as a future phase, potentially gas export, which would follow first oil by several years, we would need to consider export risers and obviously pipeline, et cetera to shore. So, there's flexibility to do that. And there's flexibility if necessary to expand the FPSO.

Numis: So, you could be loading modules onto the FPSO, offshore.

Paul Mayland: Correct.

Numis: For future expansions. Okay. So, the other ones were just Catcher reserves. I can't remember now. Did you originally book higher reserves? Amount versus Premier? I remember back in the Nautical days they had a different view.

Paul Mayland: No, from what I recall, we're very close to the operator's position when we booked our reserves.

Numis: Just on the bigger picture on exploration spend and strategy, I mean, you touched on it a bit before, but on the one hand you've got SNE, which it looks to me like you're well-funded for a good period of time on your current interest. But obviously if you're spending, $170 million a year on exploration for multiple years, that becomes quite a large amount of money. Looking at the drilling programme, should we be thinking that the exploration budget for next year is give or take similar to this year's budget?

Simon Thomson: Year on year, I mean, sometimes it'd be higher, sometimes it'd be lower, but the guidance remains around about $150 million is what we would like to allocate towards exploration. I mean, coming back to your point on SNE exploration, other calls on capital, we're always looking at that balance. We're always looking at the waiting and the balance between development activity and exploration. But at the end of the day we have viewed ourselves and exploration led company. We believe it's very important, core to the strategy to continue to provide exploration catalysts. And that's what we'll want to do. So, we'll look at that in terms of our thinking around the balance of expenditure in the portfolio without being specific about what we might sell or when.

JP Morgan: Couple of questions if I may, just in terms of Senegal, the SNE seismic programme, what are you hoping to learn from the more detailed view of the S 400 sands?

Paul Mayland: Basically, it's primarily locked to try and improve the overall imaging and connectivity within the S 400 reservoirs and potentially may well help in terms of well placement and orientation

JP Morgan: Just in terms of Catcher and the Laverda delivered a farm down, what were the terms?

Paul Mayland: Well we're not going to disclose them, but obviously the key drivers, there was to ensure that we have the common equity across the joint venture within the Catcher area. So, if you recall MOL didn't participate in that exploration well, so we basically brought them into that discovery. And ourselves predominantly went from 36 to 20 and Premier who held 54 went down to 50% operated stake. And from our perspective, that was a very smart move because it brings complete alignment associated with production allocation. And also metering et cetera on the FPSO. So, we were all aligned to make sure that happened.

JP Morgan: On India, I mean obviously when you've spoken to the arbitration panel before, they told you to sort of not bug them too often. Have you bugged them recently and they've given you any indications at all about how they're getting on and when you might hear.

James Smith: We're in regular contact with them. I mean effectively they're now in the mode of drafting the award. So correspondence interaction is relatively limited, but it's still frequent. So, we're in regular contact with them. And what we know is that they will give us a reasonable but relatively short period of notice when they're ready to issue the award.

Barclays: On SNE you're very clear that you believe you can get FID by the end of this year, but have you prepared for the worst and talked to the Government of both an extent into the PSC just in case?

Simon Thomson: Well, that would be the job of the operator.

But the answer is no. We are moving forward on the basis of FID this year.

Barclays: So, the operator had the need or between the JV partners discussed plans for an extension.

Simon Thomson: No, there's no plan for an extension plan is to get to FID this year.