

# CEO's Review



In 2021, Capricorn actively managed its asset portfolio to refocus on cashflow generation from sustainable production with shorter capital cycles

and resilience to volatile hydrocarbon prices supported by infrastructure-led exploration. We retain the balance sheet strength to further build out this strategy in 2022.

In Q1 2021, we announced the acquisition of Shell's Western Desert assets in Egypt, which completed in Q3 2021. These assets provide low-cost production, owned infrastructure, near-term production growth, exploration potential and an attractive combination of fixed price gas into growth markets with oil price exposure. In a country with strong and growing domestic demand and a supportive regulatory and fiscal environment, production performance since completion has been very encouraging.

Also in Q1 2021, we announced the disposal of our UK North Sea producing interests as they began to enter long term decline. The terms of the sale to Waldorf Production provide Capricorn with continued exposure to oil price and production performance through contingent payments due to the Group over the next four years.

We continued the high-grading of our exploration portfolio during the year, reinforcing our focus on shorter capital cycle, lower-cost infrastructure-led opportunities, whilst limiting our capital allocation to the remaining more frontier positions.

Capricorn continued its track record of returning value to shareholders, with commitments made during 2021 to return nearly US\$1bn of cash to shareholders. In Q1 2021 we paid a special dividend of US\$257m following completion of the sale of our Senegal interests to Woodside. Following resolution of the Indian tax dispute we committed to return US\$500m by way of a tender offer to close in April 2022, and up to a further US\$200m by way of an ongoing share buyback programme. In total the Company will have returned to shareholders more than US\$5.5bn in the last 15 years.

To ensure portfolio resilience and relevance through a changing energy mix, in Q3 2021 we accelerated our net zero target for Scope 1 and 2 equity emissions to 2040, at the latest. Capricorn has invested in its internal capability to progress its transition strategy, making key senior appointments, and the business has concluded agreements for an initial investment in high-quality, verified carbon credits as part of our offsetting strategy. Capricorn has tested the resilience of its producing assets against the IEA's STEPS, SDS and NZE scenarios. Based on the economic assumptions we apply, these tests show that our production portfolio is capable of generating value in a climate scenario aligned with 1.5 degree warming. We apply a conservative set of assumptions to screen new opportunities, including a range of internal carbon prices, to support the ongoing relevance of our portfolio as we build our future platform for sustainable cashflow and growth.

## India Tax Refund and Return of Capital

Following the resolution in 2021 of the India tax dispute, Capricorn received a tax refund of US\$1.06 billion from the Government of India in Q1 2022. A circular issued in early March details the shareholder resolutions required in connection with the proposed shareholder return of up to US\$700 million, comprising a US\$500m tender offer and US\$200m ongoing share repurchase programme.

## Outlook

As we look to further build out our resilient platform for sustainable cashflow and growth, Capricorn will use its balance sheet strength to pursue value accretive acquisition opportunities where these meet our strict criteria for capital allocation, value and energy transition relevance. Following strong initial performance in Egypt, our focus there during 2022 will be on delivering continued production growth and prioritising near term liquids rich opportunities to maximise value from these assets. Exploration drilling this year will take place in the UK, Mexico and Egypt and focus primarily on shorter capital cycle, infrastructure-led opportunities, with limited capital allocation to more frontier locations. Capricorn will continue to make progress on the decarbonisation of its assets in support of our net zero by 2040 target.

## Board Changes

Capricorn announced in Q1 2022 the appointment of Luis Araujo as an independent non-executive director with effect from 11 May 2022.

## Simon Thomson

Chief Executive Officer

"2021 was a transformational year for Capricorn; we continued to successfully reshape our portfolio and achieved a positive resolution of our Indian tax dispute. From the proceeds of asset sales and the Indian tax refund we have committed to nearly US\$1 billion of capital returns to shareholders in 2021 and 2022. We acquired an attractive portfolio of low breakeven oil and gas production in Egypt, where we are already delivering production growth and emission reductions, and which has significant further opportunities for value creation. We also retain the balance sheet capacity to further expand the production base through value-accretive acquisitions. We look forward to continuing to deliver our strategic aims in 2022 with a strong commitment to safety, social responsibility and our pathway to net zero carbon emissions by 2040."