2018 Results

Wednesday, 3rd April 2019

Transcript produced by Global Lingo
London - 020 7870 7100

www.global-lingo.com

Introduction

Sam Laidlaw

Executive Chairman

Understanding our Results

Good morning everyone and thank you for joining our earnings call for the year 2018. What we will be talking about covers the period from 15th February when we acquired the ENGIE E&P business up until the end of the year. But for clarity, where we draw comparisons, we will use pro forma numbers for 2018 based on ten-and-a-half months of Neptune ownership and one-and-a-half months of EPI. We will also include the VNG Norge results for the final three months of the year.

Strong Financial and Operating Results for 2018

Turning first to slide five, I am pleased to say that Neptune made significant strategic progress during 2018 completing three acquisitions and delivering strong financial and operational results. These results have laid the foundation for 2019 which will be an important period of organic growth as we deliver the first of our FEED project, Touat in Algeria, and we have progressed our other new developments and strengthened our enhanced exploration programme.

Just to summarise our results for 2018, first and importantly, health and safety is of paramount importance for Neptune. And we have made improvements in both our culture and processes across the group throughout the year resulting in material reductions in injury frequency rates. Of course, we can always do more and we have set ourselves further ambitious targets for 2019.

Operationally, our performance was also very strong. Production increased by just over 3% on a pro forma basis to 159,000 barrels of oil equivalent per day.

Financially, we delivered EBITDAX of $1.9 billion with this strong result helped by high realised prices for both oil and gas as well as lower costs. On a pro forma basis, EBITDAX was up 38% from 2017 to just over $2 billion.

Our strong financial performance, modest leverage and good level of liquidity put us in a strong position to support our organic growth plans whilst also providing significant financial headroom to fund further value-accretive acquisitions should the right opportunities arise.

Focused on Organic Growth and Project Delivery in 2019

2P Reserves Growth

Our performance last year has left as well placed as we head into 2019 with a focus on organic growth and project delivery as you will see on slide six. And after full appraisal of our reserves and the addition of the VNG Norge portfolio, we have increased our 2P reserves by 15% to 638 million barrels of oil equivalent. That amounts to a reserve replacement ratio of 244% of our production.

Increased Investment

With increased development spend, we have a capital budget of $700 million for the year 2019 for production and development expenditure and a further 125 million for exploration.

Project Progress

Supported by increased capital investments, our project pipeline will deliver new production net to Neptune of some 90,000 barrels of oil equivalent per day over the coming years. All projects remain on track with our Touat gas development in Algeria expected to export gas in the next few months. And while we are a little more than a year old, we've already made significant strides in building Neptune for the long term focused on our founding principles of a gas-weighted, long-life, low-cost portfolio. It is geographically diverse at scale and provides both organic and inorganic growth opportunities.

So, with that, I would like to hand over to Jim who'll take you through our operational highlights before Armand will talk through the financial highlights. So, over to you, Jim.

Operations Update

Jim House

Chief Executive Officer

Thank you, Sam, and good morning to all that are joining us today. As Sam mentioned, we made excellent operational progress in 2018 delivering higher production, good project progress, substantial reserves upgrades, lower operating costs across the portfolio and a materially improved safety performance.

Production Performance Improving

Turning to our first production performance on slide eight, despite being in transitional period, production increased 3.1%, 159,000 barrel oil equivalents per day on a full year - mainly due to a full year contribution from Jangkrik in Indonesia which added more than 13,000 barrel oil equivalents per day. Production from Cygnus in the UK also contributed as we benefitted from de-bottlenecking that was carried out in 2017 while strong performance from key assets in Norway helped mitigate natural declines elsewhere in the portfolio.

Our country-led model provided greater focus in management oversight of the operations which enabled a more rigorous production and improved reservoir management process. The approach also helped improve production efficiency particularly in Norway and the Netherlands, our two largest producing areas.

In the UK, the marginal decline was due to third party pipeline constraints impacting Cygnus. If we were able to set this out, we would have seen a material improvement in efficiency in the UK as well. As operator of more than half of the group's production, we have been able to deliver earlier operational improvements and expect to see the benefits of this increasing over time. Where we are not operator, we are working with our partners to engage closer to ensure growth opportunities and enhancement are pursued.

Geographical Diversity at Scale

On slide nine, you will see our diverse portfolios in Europe, North Africa and Asia Pacific. These remain key regions for us providing exposure to different commodity prices and different markets thereby spreading risk and creating opportunities in these areas.

Operations Update

Norway

Looking more closely at our operations on slide ten, Norway continues to be the largest contributor to Neptune's global production portfolio producing more than 78,000 barrel oil equivalents per day in 2018. This performance was largely due to solid reservoir performance from Gjøa, Gudrun and Fram fields while with higher well building or production efficiency at Gjøa, Gudrun and as well as Snøhvit.

The VNG Norge acquisition which we completed in September added approximately 4,000 barrel oil equivalents per day for the fourth quarter. At $7 per BOE, operating cost in Norway are, along with the UK, the lowest in the group and we have identified further savings into 2019 primarily in the areas of logistics and transportation.

Looking further out, Norway will deliver significant production growth from late 2020 as we operate at Fenja, Duva and Gjøa P1 projects adding almost 30,000 barrel oil equivalents per day while the non-operated Njord redevelopment will add a further 22,000 barrel oil equivalent per day for the portfolio.

Netherlands

In the Netherlands, production was in line with expectations at 28,000 barrel oil equivalents per day. Operating costs were below forecast at $12 per BOE as we achieved cost savings in offshore transportation. We have implemented organisational and management changes that we also expect to reduce cost further in 2019.

While the Dutch sector is relatively mature, it remains an important province for Neptune providing 15% of the group's EBITDAX. Our focus here is on extending the life of existing assets and delivering high value incremental projects.

UK

In the UK, production average of 17.1 thousand BOEs per day. Production from Cygnus is currently constrained at 250 million cubic feet per day due to operational constraints of the third-party infrastructure. This is significantly below the rate possible following the debottlenecking project. And we have already successfully trialled production rates of 320 million cubic feet per day if the availability exists. We have achieved some cost savings in the UK with OPEX per BOE falling to $7. And we expect costs to remain in or around that level going forward.

Germany

In Germany, production average, 13,000 BOE per day reflecting good production management. Operational cost reduced to $22 per BOE excluding royalties but still remain too high and we are targeting a 10% cost reduction across Germany this year.

We have already made progress by introducing an organisational restructuring programme that will help improve the competitiveness of the German business. In 2019, we will also drill the Schwegenheim prospect, another key development that would also better understand the full potential of the Rhine Valley.

North Africa

Production from Egypt which makes up the whole North African segment was slightly ahead of plan at 4,300 barrels equivalent per day. We achieved positive results from drilling and workover activity in 2018 and a similar programme is planned in 2019. We expect production in Egypt to remain broadly flat for 2019 and production for the North African region will increase significantly with the start up of Touat in midyear.

Asia Pacific

In Asia Pacific, we saw the first full year of operations in Jangkrik in Indonesia where production increased to 21,000 BOEs per day. Net production in 2019 is expected to remain at similar levels to 2018 with a programme of two infill wells and a workover to mitigate natural declines. As a long-life, low-cost asset, Jangkrik is the key part of the growth portfolio.

Growth Projects

Touat

Turning to slide 11, as Sam said upfront, our focus in 2019 is on organic growth as we progress our pipeline projects. These add production of around 90,000 BOEs per day over the ensuing years. The first of these, Touat is expected to begin production in the next few months. We have already achieved first gas into the facility back in February as part of the commissioning process and the project continues on track. Volumes are expected to ramp up throughout the year and then plateau but it will provide Neptune with additional 26,000 BOEs per day on a working interest basis.

Njord

In Norway, our non-operated Njord redevelopment project continues to plan with start-up expected at the end of 2020. Our net development in Njord will be around 22,000 BOEs per day.

Fenja

We have made good progress at our newly acquired and operated Fenja project last year. Drilling will commence in 2020 and we remain on schedule for first production in 2021. The project is a sub-sea tieback to Njord and will provide Neptune with 13,000 BOEs per day.

Earlier this year, we cemented development plans for Duva, Cara and Gjøa P1 projects. Duva was previously called Cara. The fields will be developed as sub-sea tiebacks to the nearby Gjøa platform which we operate. And later this year, we will begin drilling ahead of the sub-sea campaign that will start in early 2020. Start-up is expected by early 2021 and at peak the developments will provide Neptune 16,000 BOEs per day.

You will have seen last week that our operated Seagull project has now been fully sanctioned. Seagull is a high-pressure, high-temperature development located in the UK Central North Sea. It was part of the package of assets we acquired from Apache last year. It is expected to initially produce around 17,000 BOEs per day net to Neptune. Existing proved reserves are estimated 50 million barrels oil equivalent with scope for further upside. Seagull is approximately 80% oil and will be developed as a sub-sea tieback to the ETAP host platform.

Our project development this year will increase CAPEX to $700 million, up from $441 million in 2018 which is likely to be more reflective of the annual CAPEX spend going forward.

Increasing Spend on Exploration

Now, turning to slide 12, exploration is a key part of the growth strategy and we will spend approximately $125 million this year targeting a higher quality group of prospects. In 2018, we drilled seven exploration wells resulting in three discoveries. Most notable of these was the Sigrun field in Norway.

Importantly, we also invested significantly in seismic acquisition and/or redesigning our exploration processes and organisation to lay out the foundation for our future projects.

In 2019, the Sigrun East and Echino South prospects in Norway will be drilled while in the UK, we will also drill two exploration wells. The first of these, in the southern North Sea, we will be targeting the Darach prospect. The second well we expect toward the end of the year, we will be testing the exciting high-pressure, high-temperature Isabella prospect.

In Germany, the Schwegenheim exploration well will be drilled we expect around midyear. The outcome of this well is important for us to understand the potential of the region where we hold a number of additional licenses.

Also due to be drilled toward the end of this year is the Geng North well in Indonesia. This will test a very large gas prospect close to our Jangkrik production field.

Material Reserves Upgrade

On slide 13, one of the main highlights from our 2018 results was from the area of reserve replacement performance. In 2018, we achieved a 244% reserve replacement ratio of produced volumes, increased our proved and probable reserves 15% from 555 million BOEs to 638 million BOEs at the end of the year.

Revisions, extensions and expected discoveries add 79 million barrel equivalents delivering an organic reserve replacement ratio of around 140%. Our assets in Norway were the primary contributors for this performance with volumes added Duva, Fram, Gjøa, Snøhvit, as well as upward revisions at Gudrun.

The UK also added net 16-million-barrel oil equivalents following the results of the Cygnus Bravo well and there were minor downgrades to our reported reserves in Germany and Indonesia of which we have plans to address.

Acquisitions added a further 59 million barrel equivalents of which it is important to reflect that these are high quality, short-cycle, high-return type reserves which is in line with our North Sea acquisition strategy.

Overall, our strong reserve replacement performance has increased the reserve life from approximately nine to more than 11 years. On that note, I will pass it on to Armand who will run through our financial results for 2018.

Financial Results

Armand Lumens

Chief Financial Officer

Thank you, Jim, and good morning everyone. As already mentioned, operational progress combined with stronger oil and gas prices and lower costs enabled us to deliver a strong financial performance in 2018. And this provides a great platform going into 2019.

Financial Highlights

As a reminder, we completed the acquisition of ENGIE E&P International on 15th February 2018. So, our financial figures unless stated as pro forma reflects the performance of those assets since this date. We also completed the acquisition of VNG Norge on 28th September 2018 and this transaction added approximately 4,000 BOEs per day of production in the final quarter of the year. Of course, the assets we acquired from Apache are not producing yet.

Pro forma numbers reflect the performance of ENGIE EP in 2017 and ENGIE E&P and VNG in 2018. The VNG numbers are included from completion date. Revenues for the period were $2.5 billion on a production of 50.9 million BOE. On a pro forma basis, production was 58.1 million BOE. As Jim just mentioned, we have implemented quite a bit of change during the period and we are able to install good cost control, lowered rate OPEX per BOE to $10.2 compared with $10.5 per BOE in 2017.

As a result, we generated significant cash flows in 2018 reporting free cash flow of $600 million. This is calculated as operating cash flow after CAPEX and net finance cost, but before acquisitions and acquisition expenses.

CAPEX for the period was $461 million of which $441 million was for development. As we noted before, there has been some re-phasing of project CAPEX in 2019. As a consequence, and reflecting our newly sanctioned projects, we expect CAPEX to be higher in the next few years as investments in our growth assets continue. I will come back to this later.

Our other key numbers were EBITDA of $1.8 billion and EBITDAX of $1.9 billion excluding exploration expense. Our net debt to EBITDA ratio was 0.89 times and 0.84 times on an EBITDAX basis, both of which are well within desired levels.

Strong Earnings Performance

Moving on to our income statement now on slide 16. We have reported a pre-tax profit of $906 million in 2018 with a net profit after tax of $262 million. Our full year results were impacted by a number of negatives including a higher tax charge. As a result, our effective tax rate was 71% compared to an underlying effective tax rate of 67%. We also incurred an exploration expense of $82 million in the period following a significant investment in seismic and we had one-off acquisition expenses of about $63 million.

Strong Cash Flow Generation

Now turning to slide 17. Our cash flow performance was strong and we reported operating cash flows of more than $1.1 billion after cash taxes of $535 million. This allowed us to make significant investments in our asset base and in the second half of the year to complete the acquisitions of VNG Norge and the Seagull and Isabella assets from Apache for a combined consideration of more than $400 million net of acquired cash. Total CAPEX for 2018 was $461 million which was largely weighted towards development projects in Norway.

Robust Balance Sheet

On slide 18, you will see our balance sheet summary. Even after the acquisitions and paying a $380-million dividend in December, our balance sheet remains in a very strong position with net debt of $1.6 billion and available liquidity of more than $1.1 billion. We have no near-term debt repayments and 68% of our interest costs are fixed giving us good visibility and flexibility to pursue additional organic and inorganic growth opportunities.

Financial Position

Moving on to our financial position on slide 19. We have drawn down $1 billion on our RBL and ended the year with a total book value of debt of about $1.8 billion. Net of the $200 million of cash left us with $1.6 billion net debt at the end of the year.

At the end of the period, we have $964 million of headroom under our RBL which when combined with our cash position gives us a liquidity of more than $1.1 billion.

Increasing Realised Commodity Prices in 2018

On slide 20, we show our average realisations for the year. These all improved markedly from 2017 to 2018 with oil realisations up from $56 to $70 per barrel; gas from $6.4 to $8.1 per MCF; and LNG increasing from $6.1 to $7.5 per MCF on a pro forma basis.

Hedging

Turning to hedging now on slide 21. As we have flagged previously, Neptune operates a conservative hedging policy and we have hedging obligations in both our shareholders' agreement and the RBL. As a reminder, our RBL requires us to hedge 50% of our post-tax production in year one, 30% in year two and 15% in year three but we have generally gone beyond those requirements.

In 2018, we have reported a mark-to-market derivative loss of 46 million. Historically, most of our hedges inherited from ENGIE were swaps. Going forward, we are predominantly using option collar structures to protect the downside but allowing us to capture some of the upside that we previously did not have with the swaps in place.

Low Cost Portfolio

Turning to slide 22 to add a bit more colour on our operating costs. As you can see, Norway and the UK, which together accounts for some 60% of our production, have a really low operating cost of just $7 per BOE which underlines the quality and scale of our assets. Outside of Norway and the UK, costs are higher but we have achieved good progress with more than 90% of our production by region now having an OPEX of $12 per BOE or less. Germany is our highest cost region with operating costs of $26 per BOE. Excluding royalties, operating cost in Germany would have been $22 per BOE.

For the group as a whole, our average operating costs were $10.2 per BOE in 2018 and $9.9 per BOE after stripping out the royalties. While we have more to do and have identified potential cost-saving opportunities, we do not expect cost to change materially in 2019.

Investment in Growth

Finally, moving on to CAPEX on slide 23. We invested $461 million in CAPEX in 2018. The majority of this was spent on development projects with approximately half attributable to activities in Norway including Njord and Fenja. Investment will increase further in 2019 as spending on our key developments ramp up. While most of this is centred on Norway, there will also be increased activity in the Netherlands, Indonesia and Germany.

In Norway, we will invest more than $450 million including the Njord, Fenja, Duva and Gjøa P1 developments. We also have an active year for development in infill drilling.

For exploration, we spent $110 million in 2018, the majority of which was spent on seismic acquisition. Exploration spending is expected to increase to more than $125 million in 2019.

In summary, we finished the year with a robust balance sheet and significant financial headroom. We will ensure we maintain this position of strength through disciplined capital allocation and healthy cash flow generation. And with that, I will hand you back to Sam for some closing remarks.

Summary

Sam Laidlaw

Executive Chairman

Neptune Investment Proposition

Well, thank you very much, Armand. In creating Neptune, our vision was to build a new type of international E&P company, one that offered investors a distinct and diverse portfolio engineered for growth and strong sustainable financial returns.

And in 2018, we have made a strong start to achieve that vision. The three acquisitions we have completed last year have laid the foundation for the business providing us with a gas-weighted and geographically diverse portfolio with long-life, low-cost assets. We aim to maintain a profile that is weighted more toward gas than oil as we believe it offers investors a differentiated and long-term offering whilst also playing an important role in the energy transition and acting as a natural hedge to oil price fluctuations.

Our geographically diverse long-life and scalable portfolio ensures we can spread risk and provide investors with greater optionality. Our strong production performance in 2018 was delivered at lower cost and higher average realised prices providing us with a strong balance sheet which enables us to pursue both organic and inorganic opportunities for value. With an increased reserve base, higher impact exploration and a strong project pipeline, we look forward to further growth in 2019.

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

Q&A

Michael Boam (Sona Asset Management): Hi. A few questions from me. Firstly, on the hedge book, are the floor prices that you are looking to realise higher than they were in 2018 so we should expect a better sort of base level of earnings?

My second question, you obviously raised CAPEX expectations and made significant reference to organic growth during the presentation. How would you take it that that is a slight move away from an acquisition-led strategy going forward given the opportunities that you face?

My third point is regarding the rating. You have made comments in the past that the rating agencies wanted to see an increase in reserve life, I guess, some track records on the company before upgrading you. How is that progressing given the reserve numbers that you have released today?

My final question, your bonds, to me at least, seem very cheap especially the trading on top of for example Tullow Oil at the moment. I would view this credit more akin to an AkerBP than a Tullow. What can be done if you are to have your bonds traded at the requisite level they should? Otherwise, if you do come back to market, you are going to be bearing additional premium to raise new moneys. Thank you.

Sam Laidlaw: Michael, thank you very much. I think four very good questions. Why don't I take the one about CAPEX, organic versus inorganic, and let Armand speak to the hedge book, where we are with discussions with the rating agencies who obviously are engaged in this process. And also, I agree with your assessment of bonds and talk about that as well.

So just to come back to the point on CAPEX, yes, you are absolutely right. We have guided higher CAPEX numbers for this year because of our development portfolio with Seagull and Cara and P1 and Fenja all moving forward. And because we have got a strong growth pipeline at least for the medium term, we do not have to supplement that with inorganic acquisitions. We will continue to be alive to them and look at opportunities if we think they are a particularly good fit and they create value. So, we are not in a situation where we have to do acquisitions to improve our growth profile which is a good place to be and I think it reflects the work we did last year in terms of moving developments forward but also all the work that Jim and his team did in now understanding the portfolio.

So, yes, probably a slight change of emphasis in messaging now but if the right thing did come along that was a good bolt-on and we could see good value for it, good operational and fiscal synergies, we would still be active in the market and we have got the balance sheet and capability to do that. So, Armand, why don't you go to the hedge book prices?

Armand Lumens: Yeah, Michael, thanks for that question. Maybe just a more general comment first on hedging. You saw on slide 21 there the minimum levels that we have tried to hedge – 50% for the first year, 30% for the second year and 15% for the third year. I can say that we are, at this moment in time, largely above those levels. We are more trading towards the 60% and the 40% for the first two years. And what I can say as well is that we have basically locked in prices that are at our business plan level or better. I cannot comment exactly on the price levels at which we hedge because we do not provide that information. But I think telling you that 60% and almost 40% in the second year is hedged above or at the business plan level means that we are solidly protecting our P&L and also our balance sheet as a result.

Coming back to the rating agencies question, we are actively engaging with them on a regular basis. We have had recent discussions with both S&P and Moody's in the last two weeks and we have a meeting with Fitch lined up later in April. You are right, reserves life was definitely one of the points and track records that they wanted to see. We are one year old, so our track record is limited to one year but we are obviously keen to show in the next quarters and the rest of the year that we are doing what we are saying and that we are delivering on our promises. And I think these results already speak to that.

In terms of reserves life, you will see that we have had a replacement ratio of 244% on production. That is a combination of both organic and inorganic reserves replacement. So, without the acquisition, it would still be close to 140% which is also still a very good number.

And obviously, with the acquisitions that we have done and that we might contemplate in the future, we are keen to extend the reserves life and push out the curve in terms of the reserves. So, we hope that as a result of the engagements and our results, we see some positive feedback in the period to come from the rating agencies.

And your last comment on the bonds, yeah, we fully agree with that. And you saw that the bond pricing was close to 93, 94 in December period. It actually came back in January to 99 roughly trading. But I believe this can trade up to 110 easily. And again, the markets will decide and the results will decide as well. But we are keen to show that this is a good investment and a good investment for the future.

Michael Boam: Okay. Thank you very much for those answers. One final question from me. At the time of the roadshow, I mean, your cash taxes are obviously very high. That is not to be disputed. I think you talked about having a lower cash tax rate in 2019. I am not sure where that came from. But can you give any guidance around cash taxes - not rate but actual level if possible?

Armand Lumens: Yeah, I can. So, the cash tax level was about 535 in 2018. But in fairness, that was $435m related to the year 2018 and $100m million that still came from 2017 that was actually paid in 2018. So, I think a fair kind of representation of what our normal tax level will be and cash taxes will be around the $400-$450 million a year.

Michael Boam: Okay. Listen, congratulations on a good first year and good luck for 2019.

Armand Lumens: Thanks, Michael.

Sam Laidlaw: Thank you very much, Michael.

Robin Haworth (Stifel): Hello, thank you very much for taking the question. Just sort of coming at this with a sort of equity hat on rather than debt, we often hear that private market is the new public market and you have demonstrated an ability to raise capital in the private market obviously from debt. So just wondered if you could comment on what role do you see for the public markets in your growth trajectory. Is that related to an acquisition at some point in the future or would you need it even in an organic growth strategy as well?

And then a second one perhaps just you are one of the relatively few E&Ps with what could probably be described as a truly global portfolio. So, your comments about de-emphasising acquisitions relative to previous communications, so is this a reflection of the fact that it is quite difficult to screen the world with a limited set of resources or is that to do with the shape of the opportunities there and how it has evolved since some of the big deals happened one or two years ago? Thank you.

Sam Laidlaw: So, let me sort of speak to the first piece which is around sort of private versus public. You are absolutely right, Robin. We have had I think very good support and continue to have very good support from our existing investor base as well as from our lenders and of course also, importantly, our bondholders. So, with the track record that we are starting to establish with the cash flow and dividend capability and the growth that we have got in the portfolio, there is no rush to go to the public markets and no need to. At some point in time, I would expect some of our investors will be looking for a liquidity event but we are not doing this against the clock. We think we can continue to improve the performance of the business. And also, of course, it will depend where markets are. So, I think we are happy with the model as it is. At the right time, yes, we will look to see whether there is an opportunity and some of our investors may wish to settle down. But we have got lots more to do to improve the performance of the business still further.

In terms of the second part of your question which is around being a global company, is there some sort of linkage to de-emphasising acquisitions. Actually, it is a very subtle change here driven by the fact that we have got stronger growth within our existing portfolio rather than anything to do with the fact that we think the M&A market is lacking in opportunities. There are actually plenty of opportunities but we are very committed to keeping a high-quality portfolio of long-life, low-cost reserves and we do not want to contaminate that with sort of low-quality assets when we have actually got some very good development opportunities within our existing portfolio. So, we will continue to look at the market and we will continue to look at the opportunities out there. And we do not want you to think that we have sort of shut down looking at acquisitions, we will continue to do that but we do not need to do it because we have got strong growth in the existing portfolio. And actually, having the geographic diversity means that we have got more options to look at rather than fewer options. So, I think if we were only locked in to one geography, we would probably find that the opportunity set will be much more limited and our strategic options would be much more constrained.

Robin Haworth: Thank you very much.

Shanawaz Bhimji (ABN Amro) : Yes, hi. Good morning everyone. I have a couple of questions, three actually. Starting off, reading the headlines, I see that you plan around $700 million of development CAPEX for 2019 and have actually submitted NOK10 billion development plan for Duva and Gjøa. Could you perhaps share the development budget for 2020 and 2021 as well preferably itemised for key development projects? Obviously, there is still some significant headroom in the leverage metrics set by the rating agencies. But what I would like to figure out is where the net debt to EBITDA levels sit in the next three years.

Secondly, presumably the tiebacks will have a big role in controlling your CAPEX and OPEX of the assets under development. So, with Duva and Gjøa capital expenditure set around $10 per barrel of oil in reserves, how does this compare to the more traditional non-tie-back type of projects?

And then finally since I am a Dutchman, any colour on how you plan to increase the life span of the Dutch assets? Thank you very much.

Sam Laidlaw: Okay. I will let Jim speak to that. I think you had sort of four questions. One was around the development expenditure beyond 2019. The second was around what that does to the debt to EBITDA metrics going forward. And the third question was, as I understood it, if a lot of our North Sea developments is based on sub-sea tiebacks which are obviously more cost effective, how does that compare with standalone developments. Of course, that depends a bit on the size. And then finally, how do we see the Dutch sector going.

Shanawaz Bhimji: Exactly.

Jim House: Those are all the good questions. If you look at our pipeline of projects, they are heading in 2019, coming in stream 2020 and 2021, so it is a rolling capital type profile. So, to us, these would come on stream this year. And then next year, towards the end of the year with Njord and Duva and then followed by Gjøa P1, Fenja and then Seagull. As we model our portfolio and it is something that we are constantly optimising, our capital spend as I understand it is it will stay flat and then roll off over time just the way the models work. And we are maturing other projects, so these that are not listed yet will come into the project pipeline.

So, I think on the other hand, the message is that we are expecting or anticipating our development expenditures to range in the same plateau for the foreseeable future which gives us 80,000 to 90,000 barrels rate which not only replaces existing production declines but actually continues to add production output to our profile. I will let Armand talk to the debt and EBITDA metric and even the Dutch, you may want to talk about the Dutch business too.

If you look over time, our Dutch business has been very good at adding incremental small-step values over mature portfolios. Other operators do around the world, the same with Gulf of Mexico and some other operator regions. They are refreshing what they have right now. And we have got a number of development wells that we are going to drill this year that will keep it propped up. One is working with what you have. We are doing some new things, looking at perhaps new geological type plays but that but that is early days right now. But we are determined to find a way to keep the Dutch sector healthy and running very well.

And your other question about sub-sea tie-backs versus blue water or greenfield-type developments, naturally not all three vehicles but typically sub-sea developments are less cost as you are not having to build a host facility to host export components. And it is nice to manage or control certain elements of our production base. And so, with Gjøa being a central hub and having an interest in Njord in Norway will provide dividends for years to come and Cygnus on the other hand in the UK.

Armand Lumens: Yeah, maybe just to add to that, I think it is fair to assume that we will have other, let us say, general conditions that are equal in terms of commodity prices a

CAPEX profile that is about $600 to $800 million a year. That will be a fair assumption of which say between 70-90% is committed for the first two years to come.

Now, to come back to your question on debt to EBITDA ratio, as we illustrated earlier, we have some arrangements in the shareholder agreement whereby we would like to keep the debt-to-EBITDA ratio below the 1.5. That is clearly what we want to achieve and want to stick to in the first few years of our business plan.

Now, that could well go up and above temporarily that number in case of an M&A-type transaction. It is not something we are contemplating but, again, I would like to stress that we want to stick to below the 1.5 and a debt to EBITDAX below the 3.5 number as well.

Emily Morris (Numis Securities): Hi, good morning. My question is about cost. Neptune has done a good job getting OPEX down particularly in the UK and getting it below ten in the Netherlands. I just wondered how sustainable you think these trends are and indeed, how much further you think you can take it. And perhaps that leads on to just some comments on overall cost in the industry as a whole. Are you seeing any more kind of bullish tendering by the service companies at the moment?

Jim House: Great question. And we could spend a lot of time talking about cost structures and, as you are aware, different geographical areas have different elements that are driving either cost inflation or down. Granted, we have just come from a cycle where industry with the service sector working together and taking out a fair bit of cost. So, you are seeing some highlights, I am sure, that has been out of the UK and Norway. And so, the question, how much of it is structural and how much of it is something that is due to prevailing market conditions.

Now, we are doing things that are structural around marine logistics and air logistics and sharing logistics across our North Sea portfolio. We want to stay within a service sovereign territory. We are also doing some things on large frame contracting arrangements for our sub-sea work. And there was an announcement yesterday on this with TechnipFMC which will provide sustainable cost efficiencies for both us and for Technip.

Now, we are not seeing the same kind of pressures that you would have seen in North America and actually prevailed with the market in general moderating. So, the activities have sustained within a reasonable range. So, we are not seeing any significant cost inflation on the service side.

There has been additional drilling rigs that have been taken out over the past 12 months but there is no capacity going into the market of new builds. In fact, we have announced the contract of the new build that we are bringing in to start growing in Norway towards the end of this year. So, we are able to leverage our position and take advantage of things that have come through the cycle. And our intent is to preserve the structural savings that industry as well as our business have been able to achieve.

Meanwhile, we have got the advantage of coming in and looking to add any business that was managed with a different mind set and coming in with the mind set of an independent and translating that through our country-based models and putting real accountabilities where they need to be. We are seeing some real action and take up on how to smarten up the business in each of the different countries we are in as well as complement each other.

But we talked to the fact that Germany is already taking some big steps. The Netherlands have restructured their operating footprint which means they can do more with less as well as Germany. And the UK was in a pretty good place but we are going to do a few things to expand our capability with the same amount of people or in the same range.

So, we are pleased where we are. We benefitted from rising production and keeping cost within a certain band. And everyone is focused on taking out more costs in a smart and efficient manner.

Diomidis Ntountounakis (Chenavari): Yes, hi. Congratulations for the good results. I just wanted to ask one question on Touat. On the pricing there, what is it going to be based on? That is the first question. And the second question I have is, is the exploration going to be Norwegian focused? And if yes, do we have to assume a tax rebate there? Thank you very much.

Jim House: Do you want to start with the exploration and we will come back to Touat?

Jim House: I will give some context on exploration but just to back up a little bit, once again, we do have a global portfolio. Yes, the weighting of that portfolio is heavier in Norway. Yes, we have an inventory of opportunities from VNG and new licences we have received. So, we have got nine new licenses that were added to what we had. We got some new expertise. So yes, there will be a strong focus on Norway but that is not the only area that we are looking in. We have got a strategy of weighting to lower risk, particularly lower impact type exploration, heavy weight that would be filtering in modest to higher risk but higher reward-type exploration prospects. And unrelated to lower risk, we have wells that can move the needle quite a bit.

Regarding will we be participating in a high impact well in Indonesia this year with ENI, we have got an important well where we are the operator in Germany that will potentially expand the play fairway there for us. You look in the UK, we talked about Isabella that came from Apache. We have got two prospects, one is moderate risk but moderate upside. I mean, Isabella, is if it works it is going to be something that we will be very pleased with but it comes with a fair bit of risk.

And then right within Norway, we are going to drill two or three exploration wells. And all of this will make an impact, some of the higher impact exploration pieces in the portfolio there for outward years of 2020 and 2021 but those would be matured by the group that we have.

So, to answer your question, yes, Norway is important. Yes, Norway in the current framework will have a dominant part of the portfolio and yes, there will be tax efficiencies with our tax relevancy with that. But we also will be exploring further fields.

Armand Lumens: Yeah. And Dio, coming back to your question on Touat. It is difficult to comment on confidential price formulas. But what we can share is that these contracts are LNG-related without giving you any further details. And we expect those contracts to be LNG-related for the medium to longer term.

Diomidis Ntountounakis: Okay, that is great. Thank you very much.

Sam Laidlaw: Well, thank you all for taking the time to dial in to our results call. I think you have seen we have made significant progress in the first year but the first quarter comes around quickly. And we look forward to speaking to all of you again in a few weeks' time to update you on the numbers and the progress that we have made in the first quarter. Thank you all for your participation and some great questions and for your support. And we will continue to share the story with you. So, with that, I think operator, we can draw the call to a close.

[END OF TRANSCRIPT]