Cairn Energy PLC Half Year Results

For the period ended 30 June 2013
Tuesday 20th August 2013

Presentation transcript

Simon Thomson, Chief Executive

Good morning everybody. Thanks for coming along. Welcome to Cairn's half yearly results presentation. I am Simon Thomson, Chief Executive, and with me are Jann Brown, Finance Director and Mike Watts, Deputy CEO.

As in the usual way we have a presentation to run through with you. I'll provide an overview, Jann will cover the finances and Mike will do the interesting stuff. At the end we will be happy to take questions. It is being webcast, so please if you do have a question wait until a microphone is passed to you so everybody can hear it clearly.

Our message today is one of continued delivery against our strategic objectives. So following almost two years of rebuilding and reshaping we are about to commence a 12 month operated frontier exploration portfolio. We have upped our targets in terms of the potential resource size, so it's now 4 billion barrels out of a total yet to find of 10 billion barrels. I am sure Mike will cover that in some detail in the following slides but it's worth noting that any one of these wells is potentially material to the company. There is follow on potential around all of these wells and they are an attractive commercial destination, in the event of success they are valuable barrels that we are discovering. In particular we are very excited about Senegal and the increase in volumes that we see there and again Mike will talk about that in more detail.

The organic growth potential and the general attractiveness of our Atlantic margin portfolio is evidenced by our partnership with Statoil which we entered into last year, and more recently with Conoco in Senegal. The increased industry activity in general in the Atlantic margin play also lends some comfort in support of Cairn's strategy. You just need to look to areas like Morocco where there is going to be a lot of industry activity over the coming 12 months to see that it's not just us who are pursuing these play types.

Looking at the balance and the North Sea portfolio, Kraken and Catcher are on track. As you know, EnQuest recently published their results announcement and we expect FDP on that project in this second half and possibly also for Catcher. I know that Premier will be providing an update later on this week.

We continue to evidence financial discipline in everything that we are doing. Last year there were sell downs of Cairn India. I have already talked about the partnerships in the frontier exploration which obviously reduce our capex exposure but leave us still with material equity positions. I would also like to highlight the sale of our 6% non-core interest in Mariner in today's announcement. Not so much from the point of view of the $40m that we receive but more from the point of view of the approximately $290m of avoided capex going forward. That is money that we have already allocated and therefore can reallocate in our portfolio. Again this is something that we have signalled we will do that we would dispose of non-core and we would continually shape that North Sea portfolio. In terms of active portfolio management there are a number of other transactions that we have announced today. We have announced swaps and a farm-in – all of which are about focusing on those areas that we find most attractive, whether it is increasing our acreage position adjacent to Skarfjell or doing a number of transactions to increase our acreage position adjacent to Catcher. We are focusing on that portfolio and an expanding position where we believe there is more value to go for.

We retain balance sheet strength. We retained that throughout the period and so we have the continual financial flexibility to pursue all of our strategic goals. In short we have done everything that we said we would do and we are now in a good position and ready to enter an intense operational period.

Looking at the last period, essentially there are two strands to the forward programme: the transformational exploration position; and the mature UK and Norwegian Continental shelf position. Dealing first of all with the transformational, we can see that we now have firm line of sight on two wells in Morocco, two wells in Senegal and, subject to a decision with Statoil, which would make the second half a well in Greenland in 2014. That's all with the Cajun Express which is contracted, as you know, for a year long drilling contract.

We have also recently contracted the Blackford Dolphin and we will be drilling the Spanish Point well in Q2 of 2014. We continue to look at other opportunities that we might be able to bring into the portfolio in the near term and the K Prospect here which is the 100% position that Cairn have adjacent to the Kraken development, and is a potential candidate for near term drilling in the portfolio.

In addition we have the longer lead items and have built out a substantial portfolio in terms of exploration in the longer term whether that's our Spanish acreage applications, our nascent position in Morocco, the recent farm-in deal in Mauritania, or indeed new bid round applications like Lebanon. All of these are able to eventually backfill and be added into the drilling portfolio.

In terms of the UK and Norway I have mentioned the FDPs for Kraken and Catcher that continue. We also have our rolling programme of wells between four and eight wells per annum looking to access approximately 20 million barrels of additional resource per annum. Additionally, again there's a hopper of opportunities whether through the APA or the UK bid rounds or through farm-in deals or indeed the swaps that we announced today.

Looking at all of that together, we believe it presents an attractive proposition for investors in terms of a transformational upside portfolio, drilling that commences next month but balanced off against downside protection and clear line of sight on our forward cashflow. And with that I'd like to hand over to Jann.

Jann Brown, Chief Financial Officer

Thank you, Simon and good morning everybody. We will start with a reminder of where we are in the investment cycle. On the funding side we are currently funding from our balance sheet strength, both our cash position and our Cairn India shares. On current levels of spend we expect the cash to last through 2014 well into 2015, so we're under no pressure to liquidate the Cairn India shares.

Over time and particularly at project sanction of the development projects that we have, debt finance will be introduced to help fund these development projects and in time will turn into free cashflow which will fund the business on an ongoing basis.

If we look at how we allocate our capital, this is done with the overarching objective of maximising shareholder returns over the cycle and that philosophy drives how we allocate across the constituent parts of the portfolio. About 50% of the available liquidity, that's cash, Cairn India shares and debt over the next five year period is allocated to fund development capex with the balance going to our exploration and appraisal investment which of course is our key investment destination.

A bit more detail about the planned programme that Simon talked about. Over the two years, 2013 and 2014, the total spend is about $700m, approximately 70% of that is on frontier basin exploration where the prospect sizes tend to be larger. The commercial terms tend to be better and so the returns that you would expect in the success case are likely to be transformational. As Simon said we have the rig contracts in place and the farm downs that we have done have provided the balance between cost exposure and growth potential.

The development projects, in particular Kraken and Catcher, over time will provide the funding platform for the ongoing business, Kraken was an attractive project when we bought it last year about this time, and as we have gone through the development planning process, the economics have become even more robust. We expect project sanction as Simon said in the second half of this year. Last week, EnQuest the operator, announced gross reserves of 137 million barrels, we are broadly in line with that. They also announced that they anticipate a second heavy oil allowance; that will mean about $625m worth of tax allowances to Cairn should that second heavy oil allowance be available. Of course the economics for Cairn are even more attractive because we are carried for between $150m and $240m worth of the development spend and the precise level of the carry is based on the certified reserves level.

Catcher is coming up fast behind, we are now through the concept selection phase with the concept firmly on a leased FPSO and we're awaiting the draft field development plan from the operator Premier within the next month, and that will then go through the normal joint venture approval process.

In summary, Mike will talk in detail about the programme that we're about to embark on and the key messages from the financial side is that we're fully funded to deliver that programme and beyond. We have financial sustainability underpinned by our North Sea developments, we are balancing our capital allocation over the various parts of our portfolio to generate maximum returns over the cycle and our ongoing portfolio management is focused on our exposure to cost and exposure to upside; it's focused on value. With that I will hand over to Mike.

Dr Mike Watts, Deputy Chief Executive

Thank you, Jann and good morning everyone and welcome to those listening in on the webcast. Simon has already gone through the rebuilding of the last 18 months. We have repositioned ourselves away from the Indian subcontinent and we have built a strong footprint along the Atlantic Margin and in the mature areas of the North Sea. This has been against a background and we have adhered to a constant strategy of trying to create value. We are firm believers and we always have been throughout our careers in the creation of value. Organic growth for an oil company is really the way to establish value. The twin track approach, looking at the frontier areas where the fiscal terms are attractive from being either first movers or early movers, is important, but also to balance that with, in the mature areas where we think there are either some new play concepts, new ideas, or indeed where we can see the potential around existing positions. That has led to us building an inventory, a prospective lead inventory, which today has 62 prospects, over the last 18 months which on average is just over three prospects a month, so the portfolio will continue to grow and will continue to evolve.

Having said that, it is not just a focus on assets, it is also a focus on people. We have always prided ourselves within Cairn on having core competences, technical commercial strengths allied to corporate financial skills. In the last 18 months we have added offices in Stavanger, London and Madrid to the head office in Edinburgh and we have hired a significant number of high-calibre experienced people in the oil industry. When you have 62 prospects and a growing portfolio you need experienced people to go through and work that data up.

The real focus in a nutshell relates to the super-continent breakup which we have mentioned before so that is on a geographical basis. On the right appears to be diffuse and unfocused in reality is focused because there's a timing difference to the sort of unzipping of the Atlantic if you like and you can see the North Atlantic was well underway before the sort of transform and southern Atlantic margins even opened up. There is nothing different here to what we did in the Indian subcontinent, the Rajasthan Basin, the Cambay Basin has failed rifts as the Indian subcontinent broke away from Africa and indeed the present hot plays of the industry in East Africa are all failed rifts related to super-continental breakup.

When we look at the portfolio and we plot it on a risk and reserve plot, the important thing to notice straightaway is the additions of the deep water in Senegal. When we showed this before, we were still working through that data. We farmed-in to our partners FAR, an Australian company, on the basis of what we saw on the shelf and we were working through the deep water prospects. When you are finding prospects of the order of 500 million barrels or more if you are a credible operator you can attract majors to farm-in and work with you. That is the sort of threshold size and that is why it is very important for us when we think of Mauritania. When we will show this in March next year, that sort of gap between Senegal and Pitu I am pretty sure will be filled by prospects in Mauritania. That particular deal is very well structured to allow us to grow if we have a stronger position and also to think about bringing in strong partners.

When you look at the book value as a whole there are interesting things. You notice sometimes in the North Sea, for example, near the Catcher area where commercial risks are low, tying in satellites is quite attractive. Generally, the lower equity positions of our predecessors, Nautical and Agora, mean that the prospects seem more immaterial but we are gradually changing that and acquiring higher equities. You can see the K lead or prospect here which is a candidate for drilling, we have that 100%. That is probably in the same position as Skarfjell was in, before we drilled Skarfjell. Skarfjell now has been appraised so the risking does not fall on the prospect slot but obviously the risking is very close to 100% chance of success.

Things evolve and we do not think of this as a static plot at all. It is something that will change but we continually look at the cream, the top 10% or so, and that is what we are trying to have in our drilling programme. The programme that Simon set out for the next 12 months is structured through the hopper process to repeat that as the years go on, so that we have a material sustainable transformational exploration programme.

Just before we go through the areas each in more detail, just to remind you the break-up of the North Atlantic, this break-up happens at different places, different times. The North Sea oil province, as you know, is a failed rift and also part of this break-up process. All along the length here there are data points which suggest that there is potential for oil. It is very important that we are going at this whole area from an oil perspective point of view.

Simon has already alluded to the activity of other companies, particularly Morocco but also Senegal. In Ireland you have seen activity this year already and perhaps Shell will be drilling in Greenland in 2015. Apart from the Eastern Seaboard of the US, where there is a moratorium, there is activity by the industry. In Canada in December last year, you saw all the majors come into the offshore for Canada. It is this strategy, the play concepts whether they are Jurassic or Cretaceous source rocks that have been formed in restricted basin settings as this insipient rifting, the structures were formed by the tectonics of stretching before this became a true passive margin and it was pushed apart by volcanics as the present day Icelandic Ridge forced the continents apart.

This is a well-known concept but we are in very early stage, and I think we are having a pioneering role. Because the geological processes are very similar along this coastline, because the deep water plays are untested, we are extremely well positioned to take advantage of our early mover example.

Let's go through very quickly each of these areas. We are starting and the rig should be arriving some time towards the end of September. We are starting in Morocco in the Foum Draa block. Just as a reminder this is an ex-Shell block. The data, the 3D seismic was all acquired by Shell. Just south of our block there is an old well, the Tan Tan well, which demonstrates the deltaic Cretaceous and deltaic input over the shelf edge. The Shell well was drilled to the North and the Rak well was drilled in 2004, three years before the Tullow Kosmos discoveries in Ghana. At the time they drilled the well, the modern play concept, the Cretaceous turbidites, were not a focus for the industry.

This is the first prospect and we see 142 million barrels and these are all pre-drill estimates. Some of them have a wide range. There are other prospects in this area and there are a number of leads, so Simon is right to point out the follow on potential, should we get success. One important point, this well will test the deepest known stratigraphy along this margin to date.

The second well in the sequence is in the Cap Juby Prospect. Here are the numbers. There is a wide range and we have just done a pre-drill estimate which we have not updated, 73 million barrels. There is a very wide range of potential of this prospect. There are some old wells, Esso Well 1972, which encountered light oil shows in the middle Jurassic. There is of course a heavy oil field in the upper Jurassic, about a kilometre above that but that's not the focus of our exploration effort. Our focus is on the middle Jurassic. The important point here is the well location we've chosen is about 240 metres up dip of the known oil point. So the uncertainties with Cap Juby are related to the reservoir itself and aspects of the depth conversion.

Probably early in the New Year, we will move the rig to Senegal where we have two wells to drill. We could drill either of these, the first one is on the fossil shelf and one at paleo shelf, and one is in deep water. The deep water fan could be first or the shelf could be first. That will be an operational decision that we will take later.

The interesting thing is that there are a lot of DHIs in the seismic flat spots associated with faults and pock marks and oil seeps which gives you real encouragement for a petroleum system on the block.

The prospects tend to have a number of objectives but the important point for me is when you look at some of these plays, and the Albian Clastic play in the bottom left here shows that you have a seismic amplitude anomaly which is more or less conformable with the structural closure. That is an extremely positive sign for hydrocarbons, it doesn't actually tell you whether they're live hydrocarbons or residual but it's a strong indicator of hydrocarbons.

If you look at one of the other targets you can see it's for the carbonate play and you can see various faulting structures, joints etc. which may or may not enhance productivity. So we have got two objectives there which we're estimating about 180 million barrels at about 250 million barrels each. This is the reason that Conoco farmed into our block as soon as we had this battened down and mapped. What you have off the shelf is a number of sediment entry points and a number of fan systems at different times and different ages. You have multiple stacked fan systems and sometimes you can see they have different orientations. We are going to be drilling one which we call the Northern Fan. Please remember that we don't give our prospects names until they are discoveries. It's the traditional convention rather than the modern one; so we are drilling the Northern Fan which we can see 280 million barrels in one of the horizons and over half a billion in another. The point here is this is obviously super material for us, it's super material for a major but also if it is successful the repeatability on the acreage and that really is a powerful message to understand if we do get the success. Everything we are talking about we're in the 20, 25% chance of success not the one in ten in the frontier phase of Greenland.

Coming to Greenland we have our Pitu Prospect which we'll be proposing to drill with the Cajun Express rig; decisions will be made on that later in the year. The important thing, just a reminder, is that this is a massive structural closure. 1,400 sq. kilometres of closure is enormous. It is ideally situated to be the regional capture point for any hydrocarbons that are generated either on the East or the West.

When you look at the 3D seismic, we have incredibly strong hydrocarbon indicators, amplitude spots, AVO responses. We have had some of the top experts, Rob Simms from Agora, for example. He is a recognised world expert on AVO responses. What is nice to see is all the trouble we had in the disco area just trying to get to the Cretaceous the Cretaceous is there.

Coming to Ireland and this, as Simon has already mentioned, will be a different rig. This is an old discovery; Phillips made a gas discovery right against a fault. This has been looked at by others and a 3D seismic survey has been acquired since the discovery well. And so now you can put the whole thing in context and map quite a decent structure. The estimates, whether they're CPR estimates or some estimates for some of the majors and our own estimates they are all more or less in line. We're looking at around about a 400psi here gas field with upside. The economics say that we need 300psi, if you have to make this attractive. The really attractive point for this and the reason we came in is for the green area, the condensate. Our engineers, our exploration team see this is where the upside is on the gas/oil condensate ratio and the possibility of seeing more than three times that number through condensate can transform this particular project.

There's a well planned in one fault block. If that comes in then you have a potential follow up well in an adjacent fault block probably in the following year.

We have just come into Morocco. This was a Chariot block, so in the bottom, the volumetrics, these are all Chariot numbers. They are more or less in line with ours but we have parked them until the 3D survey, which was acquired this year, is fully interpreted. So we will be coming in March with our results next year, with our own fully worked out numbers. What we can see is the potential for large basin floor fan systems with potentially large closures. This block is on trend with known oil, the Aigrette Well to the south and indeed oil on the shelf. We are looking at the sediment input points again for Cretaceous fans and these basin floor systems giving us multiple prospects. This is the hopper that Simon was talking about for the next phase of transformational drilling. This will give us enough because the deal is structured for us to obviously on the second farm-in to take the operatorship, to take control and be in a position to do hopefully some further deals.

To wrap up now, on the North Sea, there are a number of announcements this morning. On an individual basis it is not going to get anybody excited but it cumulatively demonstrates that this company is very much focused on working its portfolio and getting the best out of it.

On the Mariner sale we have seen the cost/benefit analysis that Jann has spoken about. We have come into a Klara well and there has been a discovery and yet it remains to be seen what the significance and the size of this discovery is. There is a lot more evaluation work to do. In the Catcher area we have increased our percentages. We have 30% in Catcher but in the 27th round we came in with Premier. We have 46%, Premier, the operator, 54% in some block where we think – and one of the transactions Statoil coming in has certainly confirmed – others are seeing the potential. I can certainly remember when I was mapping this area in the 80s thinking it was moose pasture.

T is an area where we've drilled 10 wells, they've all found oil and there's significant potential. And finally the K prospect structure next to Kraken, which Simon's already mentioned. I believe it is possible to have transformational potential for the North Sea if you keep high enough equities.

We have a balanced portfolio, an exciting portfolio, I think we have the team to deliver, and Jann has got us in the financial position to deliver, and I think Simon is going to close us out.

<u>Simon Thomson, Chief Executive</u>

Thanks Mike. In conclusion, we're absolutely on-track with the strategic delivery. We've achieved a balanced portfolio. We have re-geared to the drill bit and drilling commences in September. We've entered into value added partnerships: ConocoPhillips; Statoil. It's worth nothing that in the event of success in each of those deals those parties become development operators. But those partnerships evidence not only the industry interest in our acreage, but also our approach to financial discipline in more capital intensive projects. Key field developments are on-track. We continue to actively manage our North Sea portfolio, as Mike's just outlined, and we're funded to deliver all of our objectives over the next few years.

So in summary, there's clear line of sight on the constituent elements of Cairn's value, and we look forward to coming back to you in the next weeks and months reporting on further progress, and in particular obviously on our high impact exploration campaign. With that I'd like to hand over to the floor for questions.

<u>Question & Answer session</u>

<u>Question 1</u>

Unidentified analyst

Just starting on Greenland, you're going to be making a decision in H2 whether to go and drill this thing. Is there more analysis that needs to be done? Why are you not able to take this decision now?

Answer: Simon Thomson

Basically we need to go through the process of technical committees and operating committees and then take it to our respective Boards for final decisions. That's what we have agreed with Statoil for well over a year, so that's just the time process we're working to.

Further question

And then if Statoil were to pull out, would you go and drill this prospect anyway?

Answer: Simon Thomson

Hopefully that's not going to be the case. The nice thing is that we have flexibility. For us, it's very important to be in partnership in these high capex environments. I think this remains an interesting prospect for Statoil.

Further question

And just finally a bit of housekeeping just on exploration capex: since the full year you've hiked guidance from $530m to $700m, and it looks like you've parked two wells in Morocco and then just added one in Ireland. So I'm just trying to understand the delta; where is that extra cash going? Is it more North Sea appraisal or something else?

Answer: Jann Brown

We've added to the North Sea programme. Furthermore that $700m is over the full 24 months. So we've added to the North Sea but we've also added another well in Senegal since the last guidance. I think that's the major change.

Answer: Dr Mike Watts

We've not changed anything to the Morocco programme. If you have a rig contract for a year basically you can, plus or minus, drill five wells a year with it with some mobilisation, so the five wells is what we're going to drill.

<u>Question 2</u>

Dan Ekstein – UBS

Firstly on the K Prospect, what are the key parameters that determine the drilling schedule there? Would you like to farm down, pre-drilling, or is the kind of the thing you might do on 100% equity?

And then secondly on Norway, could you talk about your strategy there? You classified it as mature basin exploration, but equally it could well be frontier exploration if you chose that path. Given the fiscal system that operates there - one of the most attractive exploration regimes in the world potentially - could we expect to see you be more aggressive in that respect? Finally what is the Agora team up to at the moment, and how does Klara, the recent farm-in, fit in with that strategy?

Answer: Simon Thomson

I think I'll let Mike answer in detail. Yes, the Norwegian plays like Skarfjell was a new play type that the team had worked up and had been interested in over many years, and that's resulted in a very attractive discovery for us. I think it is a great example of the kind of plays that can be pursued in Norway. I think we are mindful of capex, notwithstanding the attractive tax regimes from the point of view of pushing out too far in terms of exploration drilling. We want to get that balance right in the North Sea and we want to concentrate on those areas where we have a particular skill set.

Answer: Dr Mike Watts

Just on the K complex, the only really outstanding bit of homework is the possibility for a west Kraken well to be drilled by the EnQuest Group so there's an element of potential de-risking from another well which may or may not be drilled. So ideally that well will be drilled early next year and we'll take the data and drill our well.

<u>Question 3</u>

Stephane Foucaud – FirstEnergy

First question on Spanish Point: how would you define the success at this coming appraisal well? Is it flow rate, gas condensate ratio, reservoir thickness, reservoir quality?

Answer: Dr Mike Watts

Well, all of the above. But the flow rate one is a difficult one. To fully test that you may want to frack a well such as this because it is a tight reservoir. Whether you would do that next summer or the following summer, at the same time as you drill the second appraisal well is an open question. It's the gas condensate ratio which can turn this from a nice project into a really simple one.

Further question

Reservoir quality?

Answer: Dr Mike Watts

Reservoir quality. Yes, these are tight-ish reservoirs. But for gas it's not a problem. Away from the fault you need to take cores, you need proper data, to decide whether you go on and test it and frack one year. It's probably better from an engineering point of view to do your homework before you re-enter and drill your second well. So it's probably a two year appraisal programme.

Further question

The $700m of capex, is it net of Norwegian tax refunds?

Answer: Jann Brown

Yes it is.

<u>Question 4</u>

Nathan Piper – RBC

A couple of quick questions and maybe perhaps a slightly more difficult one in the end. The quick one; you talk about big ranges in the Cap Juby prospect, and 73 million barrels does not seem to fit your high impact drilling strategy. Could you tempt us with what that range might be?

Answer: Dr Mike Watts

I'm deliberately trying not to put different numbers into the marketplace. We've had the Government specifically say there are too many numbers out in the market pre-drill, so we will drill the well and work out what it is then. The problem in this particular area is multi-fold: it's a carbonate reservoir. Carbonates in this setting are notorious for uncertainty in deciding where the sweet spots are. There will be variability, so there's a lot of uncertainty. There's additional uncertainty with the velocity distribution here, you can just about see on that seismic line the variability in the tertiary overburden which can tilt this structure dramatically, and if you notice on the map there's a whole northern area there which looks like the culmination of the structure with one depth conversion, whereas with another depth conversion it looks different. But the agreement is let's get the modern well, get through the loss zone in the top of the upper Jurassic - which is why you get that little kink - take proper cores, do an evaluation, and then extrapolate our thoughts from a known high quality modern data point.

But you can imagine from a 240 metre up-dip of known oil on a structure this size, you could get some big numbers, but only if the reservoir is of high quality over that area, and there's no way from the seismic that you can calibrate that. So we need to upgrade our data. I think from all of these things you boil them down to a single mean number pre-drill, you then get your data and then you feed into our information. So all of these are guidance numbers.

Further question:

Understood. Another quick one. In Mauritania there's quite a lot of drilling activity going on this year. Which wells are relevant to the play type you're looking at?

Answer: Dr Mike Watts

Tullow, particularly, I think have maybe a three or four well programme. Then to the south what we're looking at is a basin which we believe is generative across its way for oil, and any oil finds by any other company in this area just confirms this theory or concept. Like I say, it's not just Mauritania; it's along the length of this. Source rock is the important thing, generating, then it's all a debate about which are the best traps.

Further question:

Understood. Last one. You talk about your prospect inventory and how you're drilling the top 10% and how you work your portfolio imagery fairly hard, which makes sense. But you seem to have added a lot of prospects that you're going to drill. Can you give examples of ones that have now dropped to the back and are less favourite, just to show that you are actively managing it?

Answer: Simon Thomson

Well I think it's more that if you've got a rig and you can drill five wells, you've got to rank them. Once you've ranked them everything else is on hold. But if one were to come in then there's a lot of juggling that goes on and all those spheres on the chart would move up the way or perhaps go down the way if it's a dry hole. Like I said, there's on average three prospects a month being added. This is a work in progress and it will be different in March than it is today. But you have to make decisions, you have to do site surveys, you have to go through partner approvals. The history of Cairn was decisive decision making with 100% interest which was fantastic. As soon as you go down the joint venture route - de-risking and sharing the finance - you go through more process, and you have to have technical committees, you have to have operating committees. We didn't do all that before. We could move more quickly, let me say.

<u>Question 5</u>

James Thompson – JPMorgan

Just a couple of questions if I may. The first one's on Kraken. Just in terms of details of the carry, I just want to confirm whether it is the 137 million barrels a number that your carry will be drawn from, or is it another number?

And secondly, you've spoken really fondly about amplitude performance and flat spots and other sort of DHIs in Senegal, but I thought those statements were really missing from your comments on Foum Draa. What is the risk associated with that prospect, or perhaps what makes you confident that that could be a success?

Answer: Jann Brown

On the carry, the answer is it might be. The reserves can be determined over the development drilling period, so we'll go through that process. But at the moment that's what we're working on in our economics, 137 million.

Answer: Simon Thomson

Just on Foum Draa, you can see on the map there – there's an amplitude map on the top left of that page – and I would make similar sorts of comments. It's always risky. Even at a 20-25% chance of success the odds are not with you in any exploration area, so there's always risk. This is the deepest stratigraphic, deepest well along the margin. As I said Shell drilled 10kms away from here and didn't get to this horizon, so there are no data points and no control points apart from the Tan Tan well on the shelf. But you've got to get those sediments transported down the slope and into a fan system that is trapped. Once you've got the 3D seismic there's an element of de-risking. The problem with all this lateral prediction and geophysics is that it doesn't actually distinguish between good hydrocarbons or good gas, and residual hydrocarbons or residual gas. You can still drill something which did once have hydrocarbons but they've leaked off or it's been tilted and whatever. So there's a lot of science goes into it but short of drilling you cannot be sure.

<u>Question 6</u>

David Mirzai – Société Générale

A question for you Jann, first. In terms of your balance capital allocation, how do you match having an asset like Cairn India where you have roughly $1bn worth of capital tied up in a company that pays you 3% to 4% dividend yield, against the fact that you will be devoting capital expenditure for the next two or three years in the UK, which I would see as being non capital tax efficient?

Answer: Jann Brown

Well, if I needed that cash back in the UK to invest right now then we would liquidate the position. I think last year Simon talked about how we made two moves: the first one a smaller one; the second one we sold at 8.5% - and that was really to test how deep and how liquid the market was. So we're really confident about that liquidity now and we can move whenever we want to. But right now we've got the cash to fund the programme and we'll leave that investment sitting there until we need to liquidate it.

Further Question

Second to you, Mike. From my perspective, I'd like to know what it is I can see that is different from where I was three years ago before Greenland? I see two or three different plays, I see seismic has been done, I see a lot of expectation and hope. But what makes you better qualified to drill in West Africa than the ten or 20 wells that have already been drilled there targeting the same prospects that have not come up commercial?

Answer: Dr Mike Watts

I think that in our thinking, nothing has changed. I found out last night I've been in my career longer than Jamie Buckland since he was born; my career is longer than his age, if you like. Nothing has changed. We have the same approach and the same strategy – it's about unlocking that value.

I think what we tried to demonstrate is there is a coherency to our focus. Different geographies but similar geologies is what's going on. The more data you get, the more 3D seismic you have here and there, the more you start seeing the similarities and the more expertise you bring in.

These plays have not really been drilled. There is not a single well on the Eastern seaboard of the US, so dismiss that for a start. This Morocco well will be the deepest stratigraphic well. I think these plays that we see in Senegal have been seen by somebody like Conoco. There is no magic - you just have to have a focus and bring together the data and the team and the belief. And I think it's the belief that for us we've put together a programme. People keep coming back to Greenland. Greenland was a one-off because it was the size of Europe and it was up for grabs at the same time, and we went for it on a one in ten basis. And there wasn't a single investor that didn't know that it was a one in ten shot.

These are different. We can position the wells better but we still have to drill them. But that's the business we're in. It seems that people want guaranteed success – well they should be investing in companies that appraise and develop if you want that sort of certainty. The exploration business is about backing your own judgement and taking the risk; that is what we do.

Answer: Simon Thomson

The point is, as Mike says, there's a consistency in our approach right the way through, whether a larger company or a smaller company. But it's all about getting that balance right. That's why we worked so hard over the last couple of years to get that portfolio right in our eyes so that we do offer that higher risk potential, which is game changing if it comes in, but you've got downside protection that there's an ongoing business. So there's that balance that allows us to do what we want to do, that we believe in, but also allows us to be a sustainable company.

<u>Question 7</u>

Thomas Martin – Canaccord

Can you give us an update on the situation in Greenland regarding using a second rig and does that need to be clarified before you make your joint venture decision?

Secondly, could you break down the $500m frontier exploration capex by country?

And thirdly, if it's not too technical, why could the Spanish Point condensate ratio be three times higher? Are there some sorts of clues that you have?

Answer: Simon Thomson

I'll answer the first point then Mike can come in. We're still in discussions with the Greenland government and when those discussions are resolved we'll come back. I don't want to pre-empt anything. But I think when I say "we", it is the industry as a whole that are present in Greenland. There is an aligned approach and the discussions are progressing very well.

Answer: Dr Mike Watts

I think that's right. With the 'cap and secure' process and the experience that we've had in Greenland there's an argument - a very strong argument - that we can proceed more safely than waiting for another year for Shell, for example, to be drilling with another rig at the same time. So there's an ongoing debate.

On the condensate I think there's just an engineering view that measurements that were taken at the time preferentially recorded the gas rather than the condensate. And that would fit. On this block we have the Burren oil field, which is one of the significant Cretaceous data points for oil along this margin. It wouldn't be a surprise to have higher condensate ratios. The estimate I think was 140. If there could be 500 per Mcf then you're really smoking.

Answer: Jann Brown

On the capex for the wells, the only wells that are in the 2013 budget are the Moroccan ones and we're estimating about $150m for those. The rest of the wells fall into 2014, so we're going through the budgeting process for those and we'll have more definite figures when we do our pre-close update in January.

But we're also estimating that we will have about $1.2 billion, possibly $1.3 billion the balance sheet at the year-end, if that's helpful.

Further Question

Could you also breakdown how much you'll spend on Greenland in that total versus West Africa, including the 2014 numbers?

Answer: Jann Brown

I have a number but it's too early for that to be made public. We're going through joint venture processes, as Mike said.

<u>Question 8</u>

Alessandro Pozzi – Barclays

First question is for Mike. In terms of Morocco I believe you mentioned the chances of success are between 20 and 25 per cent. I was trying to understand how conservative or aggressive this number may be. Within that what is the chance of finding gas condensate instead of oil?

The second question is on asset swaps in the UK and whether it would make sense to swap the position in Kraken and Catcher for an asset that is already producing so you can limit your demand on capex even further?

Answer: Simon Thomson

Let me deal with the second question first and then hand over to Mike. We continually look at swaps and we continually look at deals that might bring forward production if we believe that would be attractive to us. But I would emphasise that we see Catcher and Kraken as core to our forward position in the North Sea. We very much like both developments. We've seen a value increase from our perspective. We regard them as core to the forward programme, so we're not considering swapping those assets.

But yes, where you are right and I think what we've demonstrated in the announcement today, is that we will look at more complex transactions to swap out or to exchange and to refine the portfolio. And if those happen to include existing production and so on that may be of interest to us.

Answer: Dr Mike Watts

We'll shortly find out, Alessandro. The well is due to spud in September, so we'll find out. Obviously we have oil on Cap Juby. We've seen light oil shows at the Middle Jurassic. The kitchen for that oil is outboard in the place where we're going to be drilling, for the first time for the industry, one of these Cretaceous finds. There are still a lot of unknowns, but we can't hide - we will know very shortly. So we can speculate forever but we're going ahead.

Further Question

Is it like 50/50?

Answer: Dr Mike Watts

No. We're going into this in the belief that this is oil, as I said at the very beginning. Obviously in parts there are different age source rocks; different depths of burial are going to be in the gas window. We're not looking at type 3 source rocks. This is marine, high quality oil prone source country.

<u>Question 9</u>

Alejandro Demichelis – BNP Paribas

Just to follow up on the previous question. You have been talking about rebalancing the portfolio, and actually you have done a great job on that. How much more rebalancing do you think you need to do from here onwards? And how much money do you still need to invest in that portfolio?

Answer: Simon Thomson

None in terms of rebalancing. We may choose to continue for example the swap transactions we've been talking about, or potential additional farm-ins or indeed farm-outs in the frontier portfolio. But as far as we're concerned, as I said in March, is that we're comfortable with the kind of balance we've achieved now. We think it's right. We think it's about the right level of cash exposure. We're covered; we know we are. And we know that in terms of the percentage of upside versus the downside risk it's where we're comfortable. It's what's we've been planning to achieve, so we don't need to do any more.

Answer: Dr Mike Watts

And Alejandro, this is the business; the normal business is to work your assets of the North Sea; to be doing farm-ins. We've got things in the pipeline that could come in. That's what you need: you need current activity and you need to feed the feed stores. The lifeblood of the industry is prospect generation, so you need to be generating it.

Further Question

And that end of the hopper you are comfortable that you have built up enough?

Answer: Simon Thomson

Yes, it's ongoing; it's work in progress. We continually look at a stream of opportunities. And, in the usual way, most of them are rejected. But those that we feel fit strategically are brought in. So yes, in two years' time there will be a different hopper because these things will be worked up. It's a work in progress.

<u>Question 10</u>

Michael Alsford – Citigroup

Just firstly on the exploration portfolio: you've talked about obviously 4bn barrels of un-risked resources, which I guess is quite a big skew given the Pitu prospect. But can you talk about what the risked resources are that you're targeting with your 2013 and 2014 programme?

Answer: Dr Mike Watts

Well, it's difficult to answer that properly, Michael, because there are some big numbers alongside those in Greenland here; you take Senegal. You have to consolidate those numbers in a proper technical way, which is difficult to present in a forum like this. But there are some big numbers and certainly big numbers in Senegal.

In Greenland, Pitu is very large, we're not shy of that, but it is part of the programme.

Further Question

But on a risk basis, what are the risks?

Answer: Mike Watts

The risks as I said, it's all summarised on the one plot, which gives you not only the technical risk but the commercial chance of success. So you can see what numbers you've come to. But the technical risks, if you like, are in that 20%, 25% chance of success range which as I say is far better than a one in ten, but it's not one in one – it's exploration.

Further Question

Just following up on the capex point. You've given us a number, Jann, on exploration capex but could you give a sense as to what the 2014 development capex is going to be?

Answer: Jann Brown

Well, Kraken we're mainly carried. Catcher we don't know because we haven't got the field development plan yet.

Further Question

On that point, you're looking at your funding of your development capex; what kind of debt are we expecting in terms of percentage of spend? Are you looking at 20% to 30% or is it less than that? What are you thinking about?

Answer: Jann Brown

Probably higher than that, 40 to 50%.

Question 11

Tao Ly - GMP

You must be one of the most active participants in the screening of farm-ins and farm-outs just now among the independents. I'm just curious of how much of a competitive advantage you think that cash pile just now. Are you receiving materially better terms than you would have done three years ago, given the current environment for funding of exploration wells in the capital market?

Answer: Simon Thomson

I think the cash definitely helps from the point of view that there is a clear ability on our part to match commitments going forward rather than just saying yes sure, we'll drill a well but we'll have to raise some money to do it.

But I think almost more important is our operational ability. For example, in North West Africa when we have a discussion and we say we're bringing a rig - look at Senegal for example - that is powerful because it's a tight market in terms of the availability of the right kind of rig. So, someone can come along with cash, but also with a proven track record of operating in deepwater environments and with a rig, that is something that really gives you a seat at the table.

Further question

In relation to the Cairn India stake, we are keeping a close eye on currency effects obviously, do you have a view on how, in terms of fundamental value of how fundamentally undervalued or overvalued that stake is relative to the Indian market valuation?

Answer: Jann Brown

Well, I guess we've got legacy knowledge of that asset that puts us in quite a unique position in terms of investors and we still think there's a lot to play for there which is why we don't feel under any pressure to liquidate that position just now. And I agree, I keep my eye on the currency market very carefully as well and now is not a great time for the rupee, but given the timescale that we're looking at, hopefully it'll come back.

Further question

So do you think it's overvalued or undervalued?

Answer: Simon Thomson

Undervalued.

Answer: Jann Brown

Massively undervalued.

Answer: Simon Thomson

The last time we sold was a considerably higher price than this.

Question 12

Anish Kapadia – Tudor Pickering

I've got three questions. Just given the state of the small cap E&P market, if you look at a lot of the AIM stocks there are a number of distressed stocks out there when you look on valuation. I'm just wondering - in this market are you temped once again to go out and look at acquisitions?

The second question, when I look at the plot that you talk about in terms of your exploration inventory versus chance of success, I'm a little bit confused when we look at Morocco because you're talking about a 25% chance of success, but looking at the plot it looks more like 5% to 10% or 5% to 15% chance of success. So I'm just wondering if you can explain that? Further to that, it looks like Morocco's kind of low risk, low reward - if it wasn't for extremely favourable fiscal terms would you still be drilling there?

And then the final question is on the acquisition today from Premier of the Grosbeak Field and the associated blocks. A number I've seen on that block in the past suggested Grosbeak was about 90 million barrels or barrels of oil equivalent. Is that a number that you are happy with?

Answer: Simon Thompson

Right, so the first question is no we're not. We would of course consider additional corporate opportunities, if they absolutely fitted with what we're doing strategically and if we saw something that was distressed but was most importantly to us an attractive asset. And I think you're right, there are a lot of distressed companies out there, but we screened everything previously when we were building this portfolio and making a choice on particular acquisitions. As I say we don't need to do anything else and if we were going to do something it would have to be for very, very good reasons that was a pure strategic fit. Mike on Morocco?

Answer: Dr Mike Watts

Just on your Grosbeak question, it's not necessarily the case that we've only just looked at what is known. We're about hidden value and trying to find additional potential, so don't just read into it that there's a known number out there which is relevant to our decision making.

Further question

I was more just wondering whether you are aligned with that number for Grosbeak or do you see upside or downsides for that number?

Answer: Dr Mike Watts

Yes, but that's not the driver, the driver is putting the strategy together. We see other potential on that block which has not been identified by others. The difference is simply that you have technical risk and you have commercial risk, so if you've got a big, big technical number the difference between your technical risk and your commercial risk is very low because it's going to be commercial. The smaller you are in size the bigger the gap between your technical risk and your commercial risk; it's just the way that you look at this. Morocco is a very, very good place to find oil because of the fiscal terms, but again this is not a static thing, this is a live thing - one well changes the whole thing. As I said, Skarfjell was on this plot at one point and now it's off the scale.

Further question

So the way to think about this is a lower geological risk but a higher kind of commercialisation risk?

Answer: Dr Mike Watts

Yes, just because of how it's on that threshold of the volume, it's all about Monte Carlo probabilities and how you approach it.

Concluding comments, Simon Thomson

sWell thanks very much for coming along and of course we're available for any questions after the presentation. Thank you.