Cairn Energy Interim Results Presentation - Transcript

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Cairn Energy PLC Speakers

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Presentation

Simon Thomson

And with me are Jann Brown, CFO and Managing Director, and Dr Mike Watts, Deputy CEO. We've got a number of slides to run through with you this morning, and the slides are on the webcast, and following completion of the presentation we will, as ever, be happy to take questions.

If you turn to slide three, this is just to summarize that I will cover four areas before handing over to Jann; the delivery, the summary of our delivery of consistent strategy, the capital growth opportunity that we believe the Company represents, the work that we have done in rebalancing the portfolio and what Cairn looks like in 2012.

Turning to slide four, this serves as a reminder that Cairn is a company focused on delivering value through exploration led growth, within the framework of a balanced portfolio of opportunities and, importantly, with balance sheet strength. Added to that, we do have an excellent record of delivery of safe and efficient operations, and that stands us in good stead with Governments and partners alike.

If you turn now to slide five and delivery of consistent strategy, we have had an extremely active first six months of this year delivering on our strategic goals. As you know, in February we returned $3.5 billion to shareholders and we recently followed this up in July with an on-market sale of a 3.5% shareholding in Cairn India, which provided net cash of just over 370 million, thereby reinforcing our financial flexibility. We've established a platform of lower risk, exploration, appraisal, and near-term sustainable cash flow following the acquisitions of Agora and Nautical in the North Sea. In terms of frontier exploration, we've also built a 10,000 km² operated interest offshore Morocco with a well targeted in 2013 and we've submitted bids in the Cyprus bid rounds with JV partners, including Marathon. Mike will go on and discuss each of those initiatives. We're well above the planning for future Greenland drilling, following the farm-down to Statoil on our key Pitu block and, again, Mike will go into some detail on the progress that we have achieved in Pitu. Presently, our key frontier exploration blocks now target in excess of 4 billion barrels (that's gross unrisked) of yet-to-find potential, and added to that we have a very active lower risk exploration programme over the next 16 months.

Turning to slide six, Cairn has consistently sought to provide shareholders with capital growth potential from focused exploration plays. As this slide indicates, we believe that our remaining holding in Cairn India and the cash on the balance sheet provide a very strong platform to exploit our existing portfolios, and also new venture opportunities, to position the Company for future capital growth, and that's really what Cairn is all about.

Slide seven indicates our belief that recent transactions have been successful in rebalancing the portfolio, so with the Agora transaction, we initially added 20 million barrels of 2C resource. That was through entry to the Catcher project and also access to what we believe was significant additional exploration potential, and importantly also a team that had a track record of success. Almost immediately, the increased value with the Skarfjell discovery, which, as you will see from the slide, has a range of resources attributable to it, but our belief can more than double the contingent resource base that we initially acquired. We subsequently acquired Nautical, which added a further 86 million barrels of contingent resource, obviously gave us further exposure to the Catcher, but also added the Kraken and Mariner development projects, so what we believe we now have is an excellent platform for growth in the North Sea.

Flicking to the next slide, slide eight, in summary we believe that Cairn in 2012 does have the building blocks in place to offer exploration-led growth within a balanced portfolio and that's comprising operator frontier exploration, which is very much our watchword, but also non-operated lower-risk exploration and sustainable near-term production to fund future exploration, and Jann will talk about this in more detail, but we're targeting up to $1 billion per annum of annual cash flow from our development projects. There is obviously a clear focus on exploration appraisal currently in three regions (North West Europe, Greenland, and the Mediterranean), and added to that we remain very focused on capital discipline with a strong balance sheet (we'll have in excess of $500 million at the end of this year) plus obviously our stake in Cairn India, and the right partnerships formed to ensure that our capital exposure to the frontier exploration play is commensurate with the size of the Company that we are now.

With that introduction, I will now hand over to Jann.

Jann Brown

Thanks very much, Simon, and good morning everyone. We're going straight to the finance highlights slide on slide 10 and we had cash at the half year of 933 million on the balance sheet and pretty significant cash movements happened after that state from transactions announced before the date.

For the first one, we announced the sale of 3.5% of Cairn India stock in June. The cash came in, in July, that was 371 million net proceeds. Also, we announced the acquisition of Nautical in the first half of the year. That completed in August with a $560 million net consideration payment. Our retained stake in Cairn India is currently valued at approximately 2.2 billion and we estimate our year-end cash position is going to be in excess of half a billion, so the balance sheet remains strong, it's well positioned to earn lots of value in North West Europe and to fund the core exploration.

Turning to slide 11, in the first half of the year we have converted our balance sheet strength into upstream E&P assets and we've re-geared our capital base through the return of cash to shareholders, which Simon talked about that. Now, that re-gearing of the capital base means that the farm-down of Pitu in Greenland, while it reduces our cost exposure, it also has a positive impact on the reward side of the equation. We continued to target growth through our exploration drilling and our forward programme remains focused on converting the balance sheet strength and financial assets into E&P assets to build the balanced portfolio, a combination of sustainable cash flow with lower risk exploration on one side, and transformational exploration on the other.

Moving onto slide 12, our financial assets currently available for investments stand at around $3 billion. The funding required to develop the already-discovered North Sea resource space is estimated at around 1.5 to 2 billion over the next three to five years, and the prize we're targeting there is operating cash flows of around a billion per annum. The debt markets remain very much open for quality assets in the North Sea and we will bring in debt funding at the right time to support the developments. On the exploration side of the business, we're looking to invest $250 million per annum, which is around 10% of our current market capitalisation. Our financial allocation will be focused on creation of shareholder value through exploration and our capital discipline will be focused on the creation of a sustainable cash flow platform to fund that exploration.

On page 13, our finance strategy remains consistent. We have a clear track record of creating value and that remains our focus. We recognise that to achieve this we need to make the capital structure work for us; we need to keep it efficient to allow real impact for shareholders when we have drilling success, but we need to retain access to enough investment capital to fund the growth. What we are building right now is a platform for growth through exploration-led success, but with the focus, as Simon said, very much on financial discipline, and I'll hand over to Mike to talk about where we see the growth coming from.

Dr Mike Watts

Thank you Jann, good morning everyone. Before we start, I would like to briefly say a word that sadly we lost one of our senior explorationists last week, who passed away, Steve Patmore. We attended his funeral yesterday and at this point in time our thoughts are with his family and friends.

Now, if I can turn to page 15, this is the growth strategy of the Company. I should stress this has not changed for 22 years, but we are now making the strategy appropriate for the size of capital base of the company, a $2.5 billion company. I think there are four key things I would like to point out. One is we are exploring for lower-risk, and by that I mean 1-in-5 POS or better, and that is going to mean, certainly in transformational areas, drilling wells on 3D seismic data sets. Also, that our equities will be looking generally for that 35 to 65% equity range, and that means that we will, thirdly, be bringing in partners, whether it's in bid rounds in the North Sea or whether it's in transformational areas, and that's evidenced by both Statoil joining us in the Pitu block in Greenland, as Simon has pointed out, earlier this year and also the way we approached the Cyprus bid round, bringing in, in particular, Marathon as a partner, but, fourthly, that means that we have tremendous gearing to the upside. I think even though the capital base has shrunk, the gearing that we're going to offer shareholders is hugely enhanced, so we are rebalancing the portfolio and the emphasis will be onto operate the transformational areas and non-operate the North Sea with some exceptions. Just before I move on, I would like to mention one we made earlier, which is India, of course, just to point out the current production is over 200,000 barrels a day. At Rajasthan it's 175,000 increasing to 240,000 next year and going to 300,000 barrels a day thereafter.

Turning the page to 16, just looking at the North West Europe area, the recent corporate acquisitions – one private and one public – have effectively been brought in at an acquisition cost of around about $7 per boe, and, as Simon and Jann have pointed out, that is the platform for future growth. We have a larger number of licenses and we have an active drilling programme in the short-term and are building one in the medium-term. The balance sheet strength and the expertise that we've brought to both the Agora and the Nautical acquisitions means we can build on their strategies, allow ourselves to go using their knowledge edge to get into higher equity positions in both licensing rounds and farm-ins.

If we look at page 17, you will see the contingent resource for the pre-development projects that we've acquired. Four main areas: the EnQuest operated Kraken field, the Premier operated Catcher area, the Statoil operated Mariner field, and the Wintershall operated Skarfjell discovery. I think the one thing I'd just point out, Skarfjell we do give a range; in turn, the RV was at the high end of that range and that's mainly because of the quality of the reservoirs, the length of the oil columns, and the fact that there was no sign of water whatsoever in the discovery well.

Page 18 picks up the drilling programme, as we see it. This obviously will firm up a little bit more. We've got the OCMs and TCMs this autumn; things may change slightly, but in essence we've got three wells this year and a number of wells programmed across the North Sea for next year.

19, I think this is an example. This is new opportunities where the Cairn muscle has brought more to bear. We've piggybacked, if you like, the expertise and the knowledge edge of the Agora and Nautical teams, but we've gone for a large number of applications (14 with 18 blocks) in the UK 27th round at the sort of 20 to 50% equity level and, indeed, some of the key areas around the Catcher field, for example, we've applied for blocks at a 46% non-operated level. In Norway, there are bid rounds coming up and the next APA round is early in September, and we will be participating in a handful of blocks there with the expectation of announcements in December, so a growing resource base and a growing license base, we hope.

Page 20 starts with the transformational potential, the raison d'être, if you like, of the Company, and we are still focused on areas which are highly prospective, getting early or early on entry into fiscally attractive areas. The positions we have already in Pitu, Northern Greenland, the Southern Greenland blocks; both of those areas are completely undrilled. We've announced this morning, and Simon has already mentioned Morocco, we've acquired two positions offshore Morocco, and

Morocco is the conjugate margin of Newfoundland in a plate reconstruction. We have acreage in the Valencia Basin, all of those target at least 4 billion barrels, and that's a number which will be growing over time. Applications that we've submitted; in Spain, we've mentioned before, but the process is ongoing; there is a large block application in Spain and blocks in Cyprus, and both of those areas we have a very high number of expectations; well over 2 billion barrels of oil expectations of oil equivalent, but particularly in Cyprus it's a very competitive round. Pending applications in Lebanon, we wish to participate in a Lebanese bid round where we have an edge, and also other basins, which there's no need to mention at the moment, but we will be participating in further bid rounds, again where we see multi-billion barrel potential with fiscally attractive terms, and we have some other initiatives ongoing, direct negotiations etcetera. I think, as I said at the March results statement, our story is evolving. By the end of the year our position will be transformed in acreage and I think by the end of next year, and it's just a consistent delivery on what we've set out.

Going through the areas individually, we talked first of all about Greenland, and I'd just point out that the first phase of exploration we spoke about, we were, you know, very ambitious, looking at about a third of the North Sea and we've built up a big database, but have not made a commercial discovery, but we are now very much focused on where we see the most attractive parts, where we can cut the risks down, bring them down to the sort of 1-in-5 level and focus on where we have partner or where we have 3D. I should point out that Southern Greenland, we're excited by the potential – we're just going through the 3D there – but make it absolutely clear that the capital discipline, that Jann in particular talks about, means that we will not be taking a project forward unless we have a farm-in partner.

First of all, on page 22, we look at the Pitu block. On that block, at the moment we have estimate of a yet-to-find of over 3 billion barrels. We have been focused on about 20% of that block, so the block is about 36 UK blocks on its own, so about twice what we've applied for in the UK 27th round in terms of area, but about 20% of it was covered by a 3D seismic survey we acquired last year, and all our initial efforts will be on that 3D seismic. The final data set came in early August and we've been doing some interpretation on slightly previous data sets and it will be some time (a number of months) before we've gone through that. At the moment, we have one prospect on the 3D, but more than half a dozen leads. I am very confident that this…our understanding will increase in the Pitu area. The industry is very active I think in the area. You can see, if you look at the map, to the north of us we have Conoco who've been shooting 2D seismic this year, Shell have a dual-vessel, two seismic vessels, doing a very large 3D seismic survey, to the west of us and Maersk are completing a 3D seismic survey to the south of us, so indeed we are one-year ahead of the competition. There is a collaborative effort going on with the shallow borehole programme that Shell is operating and that will give us some regional information.

Specifically looking at page 23, and zoom in on Pitu, the prospect that we have at the moment on what we call the Melville High, it's a very proud structure in the centre of the basin, perfectly located for charge. The mapping, this is a stacked reservoir, there will be several horizons, but the first mapping, which is being confirmed by amplitude studies, shows about a 700 million barrel prospect. There is no doubt in my mind, as the work continues, this will end up to be a 1 to 2 billion barrel prospect when the mapping is being completed. Just to remind you, we did have very strong indications of oil seeps last year when we did our statistically meaningful seabed sampling survey. All that means is currently our POS for this prospect is 22% and I believe we will get that down in the next six to nine months to something like 30%, so roughly a 1-in-3 shot.

If we turn over to page 24, then move down to Southern Greenland, we also acquired a 3D survey, that's the 3D line shown there; the mapping has just started, the data also came in, in the last month. We're seeing that the structures are being confirmed that we saw on 2D. We're mapping amplitude anomalies at the crest of structures and so that work will continue. Interestingly, I would like to point out last year on the way out from doing the geochemical survey, we managed to get just a handful of data points from the seabed sampling survey, so not statistically meaningful. Those were above the rotated cretaceous fault blocks and on the flanks of those fault blocks, and we've had an extremely high oil signature of micro seeps, and this is calibrated with Barents Sea oil as well as dry hole areas. It's very encouraging, which has led us this year to take, if you look at the bottom right of that slide, what I would call an effective 3D sampling of the seabed down to a 500-metre spacing in some locations, but roughly a 1-km spacing over what we deem to be the prospective areas of 3D, which means come Q3 next year we will have finished the 3D interpretation, we will have the seabed survey and it's that point that we could expect to then go and approach industry.

Moving to warmer climates, page 25, it's Morocco we announced this morning, as Simon has mentioned. There are two positions, which are co-adjacent, but importantly they are going for two different play types. The Foum Draa Offshore 1-3 blocks we farmed in. This is an old Shell block that we farmed into a Serica-San Leon consortium. We've taken 50% of that block and will operate. There are at least two key prospects, which we've identified, and we're looking forward to targeting drilling Q4 2013 next year. The Juby Maritime I-III blocks, one in the North three in the South, are blocks that we acquired through the Nautical acquisition different play where we have 37.5% operatorship and Barrus Petroleum at the moment have done a transaction with Genel Energy, which is I think subject to Government approval as we speak. This is for a different play type, so we're very excited. This is an area where there is existing 3D that needs some reprocessing. We need to shoot some new 3D in Cap Juby, but also there is existing 3D in the Foum Draa offshore area, so the level of risking that we see here is the sort of 1-in-4 range.

Again, quickly turning the page to Spain, the Valencia Basin, there are five blocks that were awarded to us last year going for deepwater potential. We have a 3D survey planned and subject to getting the necessary consents from the Government, it's a probably 2014/2015 area to drill. Very importantly, which we can't show at the moment, but we have a very large application for a number of blocks in Spain going through the system, and the Government notified us a couple of weeks ago that they will be shortly gazetting these blocks, so I think that's mañana in Spanish is when that will happen, but we're hopeful that it will happen this year.

Just finally, page 27, the Eastern Mediterranean, again high potential areas. We think this has been de-risked by the Noble drilling and also de-risked by a number of 3D surveys, but we participated in the Cyprus bid round. We bid for two blocks. As I mentioned, we had Marathon as a partner. This has proven to be a very competitive bid round. There were 33 bids from 20 other companies for nine of the blocks, and the two blocks that we bid for were the most preferred blocks, so we've got to be realistic and see what we get there. Finally, Lebanon, there is a bid round, it has been delayed, but we're ready, willing, and able to participate in that round when it's announced.

Simon Thomson

Thanks Mike, so slide 29, in conclusion, we remain absolutely focused on delivery of our strategic objectives. In North West Europe, we have established a platform to build and grow sustainable near-term cash flow, which Jann talked about, and we've also put an enhanced operator portfolio, providing exposure to transformational exploration potential, so with building blocks in place, we do remain focused on an exploration-led strategy, but with the capital discipline to grow shareholder value through a combination of our financial flexibility, which we retained, and also a strong partnership strategy.

With that, we would now be happy to take questions, thank you.

Questions and Answers

Alex Holbourn – *Merrill Lynch*

Three questions from me, please. The first is on the exploration front. Do you feel that your hands are now full or are you still looking to add further high impact exploration opportunities even beyond those that are currently pending? Secondly, just on the Morocco opportunity set and the plays being targeted there in the two separate block areas that you mentioned, I was wondering if you could touch in a bit more detail on those. Thirdly, just on the tax plans in the region and how you see those favourably versus international peers. Thanks very much.

Simon Thomson

Alex, sorry, it's Simon here; we didn't actually hear the third part of that question. Could you repeat it?

Alex Holbourn – *Merrill Lynch*

Yes, sure. The first part of the first question was on whether or not your hands are now full on the exploration front or whether you're still looking to add further high impact exploration opportunities, even beyond those that are still pending.

Simon Thomson

Sorry, the third part of the question we didn't hear.

Alex Holbourn – *Merrill Lynch*

On the third part, that was the tax terms in Morocco versus peers and international comps.

Dr Mike Watts

Okay, well, I think just on the exploration, yes we are ambitious; we concentrated in the first six months of this year on building the foundations and the platform in the North Sea, but in the background, the things I've talked about we've been pursuing, that there are other opportunities which we are looking at as well, so it's difficult because exploration is a long-term game to know when those will come into fruition, but I would anticipate by the time we stand up in February or

March next year there will be further news flow. As an exploration led company we always need to be feeding the hopper.

I think Morocco very briefly, the two plays, the Cap Juby, it is a passive margin Morocco and Cap Juby is on the sort of platform side on the very edge. On the platform probably immature for source rock for any sort of hydrocarbon generation and the generation takes place in the deep part of the basin. Then you're on the shelf, what you are looking for is the shelf edge. Cap Juby is an old discovery, flow 2000-odd barrels a day of heavy oil in the upper Jurassic, there was a carbonate reservoir. That has potential interest. We will of course be looking at that. We do think see the potential for a deeper play, there is a light oil play in the mid Jurassic about a thousand metres deeper and that is one of the 3D surveys that we’re planning the end of this year, we will be looking at that play. That is a sort of passive margin shelf edge play.

The Foum Draa is really off into the basin, so we’re looking there at really an untested play. There are only three deep-water wells in Morocco, and 50 wells in the offshore, but only three in the deepwater. The most relevant one is the DRACC 1 well drilled by Shell a few years ago, but that didn't test the play that we are looking for which is essentially lower cretaceous turbanite slope channels and fans which may have been pondered against sort of salt diapers. It is in that area where we’re seeing more upside, prospects in the 100 million barrel sort of range, but we need to sit down with the government of Morocco, we need to go through our strategy with them before we start going too far down that line. I think we just need to be aware that we have just come into the area, so I really want to give more detail when we can in February/March when we know that we have got the government fully onboard with what our intentions are.

I will get Jan or Simon on the tax terms, but obviously it is a fiscally attractive country Morocco.

Jann Brown

Obviously as Mike said the fiscal terms are attractive, as you would expect for frontier acreage, it is a tax loyalty regime but with a ten-year corporate tax holiday. The royalty is 10% for oil, 5% for gas, and in addition there is a 25% state participation in the exploration phases, so attractive terms.

Laura Loppacher – *Jefferies*

Thanks guys, just going back to the comments made earlier on the Capex budget, you were saying about $250 million a year on exploration, can you give any sort of indication of what portion you think would be allocated towards what you're calling the transformational opportunities and what you would say would be your sort of North Sea type opportunities.

Jann Brown

It is going to be driven by the opportunity set in any given year, so it depends very much on what Mike and his team come up with. We will focus on targeting the areas where we see most potential to create value.

Laura Loppacher – *Jefferies*

Then just a clarification question, the $1.5-2 billion net development capital, does that include Skarfjell?

Jann Brown

That includes our estimates on Skarfjell yes.

Nathan Piper – *RBC*

Good morning. My question is coming back to the exploration portfolio, you said that your foundations are principally set and are you signalling a slight change of emphasis here and are you trying to focus on bringing in more transformational exploration opportunities. I guess leading on from that, do you have a sufficiently broad and diverse prospect inventory to exercise your fiscal discipline. You seem to have lots and lots of leads all over the place, but when will you actually have a mature exploration portfolio to choose from.

Dr Mike Watts

Nathan I please beg a little bit of patience. The first six months of this year since our cash back we have deliberately focused on bringing those predevelopment projects in. As I say exploration takes time. We are filling the hopper and that is a continual process. I wouldn't be too concerned. Certainly it is not a scatter gun approach, we're being very focused on where we see high potential, where we have the operating capability to drill these wells, quickly, efficiently and safely, and I am actually quite excited by the programme. It is evolving, but it is not something you can put in place overnight. Particularly when you go through the licensing round process, you're at the whim of the government process.

Simon Thomson

I think Nathan just to add to that Mike indicated that of course we will provide further updates next year, the results next year. I think it is a continual building process, the principally set is that we have actually achieved a great deal in the first six months of this year as Mike said, bringing in the lower risk, but also adding to the transformational potential that we already have in the portfolio. We believe that the building blocks are there but that doesn't stop us from adding more where we see there is the right kind of value opportunity.

Nathan Piper – *RBC*

I guess coming at it from a different point of view, you have got a couple of predevelopment assets but no cash flow, and particularly in the UK North Sea that is not terribly tax efficient. I wondered if you're trying to signal that you have got enough or you plan to add more, lets say tangible assets, or is it very much to focus on adding a broader exploration footprint.

Simon Thomson

I think what we are trying to indicate is that we're very happy with the transactions that we have done in the North Sea. Jann has outlined we believe that it will give us in the near term sustainable cash flow. We can through our current cash resources bridge any gap between now and first cash flow. From that point of view we feel that we have achieved a task. That doesn't stop us from other opportunistic moves if we believe the value equation is right, but it is all about building that balance in the portfolio, and we do believe that we have made great strides in doing that in the first six months.

Nathan Piper – *RBC*

One final nitpick question I guess, on your plans in Norway, do you think the rig availability may impact how quickly you can appraise Skarfjell.

Dr Mike Watts

We're not the operator there, it is Wintershall as you know, but we are looking for a two well programme next year. You have got to remember the North Sea operates with an annual work programme budget process and we have not had that process set for next year. That will take place this autumn. I don't want to talk about details of things which have not yet been agreed by the joint venture.

Phil Corbett – *Deutsche Bank*

Good morning everyone, just a few questions. Firstly on Skarfjell Mike is your estimate of contingent resource just on your license alone or does it include possible extension to the south. Just also on the Capex estimate, Jann is there any chance you can give us an early view of 2013. I assume that you have kind of got a build up of that which provides you with that $1.5-2 billion of Capex, so just adding that to exploration budget for 2013, can you give us any indicative guidance. Lastly, should we assume the same kind of commercial threshold on Pitu for a discovery as we did on the southern blocks?

Dr Mike Watts

The first question, very interesting, there is no doubt that I think this Skarfjell is an interesting discovery. It is going to be a standalone discovery. I have got very little doubt of that. I think our estimates are on the block, that is not to say that in the upside cases, if we had a P10 number or a P5 number it could not be significantly larger than that and it could be off the block. That is absolutely true.

Jann Brown

On the Capex guidance it is too early to say. Mike referred to the annual budget round thats going on. The ink has just dried on the Nautical deal so whilst obviously we have our own numbers, it is about talking to our joint venture partners and coming to an aligned agreed view before we say anything publicly.

Simon Thomson

I think on the third part of your question in relation to Pitu terms versus the south, obviously in Pitu there is a greater incursion of annual sea ice than in the south of Greenland, and that needs to be taken into account in development planning. We have already run development-planning scenarios and done some generic cases through a number of third parties. There will be a slight increase cost, but I think it is safe to assume that the original kind of threshold that we previously guided to which I think was around about 250 million barrels at around about $60 a barrel, so there is not a great difference in terms, slightly more cost.

Phil Corbett – *Deutsche Bank*

Can I just ask a quick follow up question, just with your strategy regards the license that you drilled on before, do you think the government is going to be comfortable with you effectively just sitting on those blocks until you get an acceptable offer from the industry, or will at some point they want you to actually do a deal or take the licenses away.

Simon Thomson

I think if you look at our track record in Greenland from a government perspective, we have delivered two years of drilling safely and efficiently, within four years of data acquisition, a huge amount of seismic has been acquired. I think from a government perspective we have more than fulfilled all of our commitments on all of our licenses, way ahead of when any period that we were obliged to in terms of the license obligations. We're not a company that just sits on things for the sake of it. I think the point is that we're trying to go through this in a methodical way, getting our understanding of data in the right place, before we then transact and move forward. I would say that just reaffirm our relationship with the Greenland government's extremely strong and I think we have got a strong track record delivery which stands us in good stead with them.

Michael Alsford – *Citi*

Morning all, two questions if I could, firstly on Greenland. Could you maybe talk a little bit about forward planning on drilling, because I guess given the long lead times in the deepwater rig market we see at the moment, I guess you must have to think about how you go about thinking about getting a rig for drilling in Pitu. I guess on that point as you continue to shape the portfolio, would you say that you're almost 60% stake in Pitu is what you're running to drilling at or do you think we might see further farm down to there.

Just secondly on the Mediterranean, again a little bit more related to the rigs as well, I guess again finding a deepwater rig is a challenge in this market. Could we think maybe that we see Morocco and also potentially Spain drilling done at the same time, or would you say that you will just try and get a rig slot for one well in Morocco.

Dr Mike Watts

Yes Michael all very good questions. I think in Pitu we're targeting 2014; that is because we need to pull the data together, we need to go through the joint venture process, get joint venture approval and then we need to embark on a one-year approval process for environmental clearances and government support. There is a well-trodden path and the critical, the first year that we could complete that is 2014. I think bringing in Statoil has been a big positive in terms of the rig market. Obviously we're very alert to what is happening on the rigs, and having drilled eight wells in Greenland, we have got the respect as Simon has mentioned of the authorities. There are several things happening obviously with the others shooting seismic, it is unlikely they will be ready at the same time as us to drill, so we're still looking for cooperation for a second rig and I think the arguments that we will be presenting and have been presenting with the government is that we have demonstrated we can drill safely and are there some rigs on the Canadian side maybe that Statoil are involved with or whatever that can be used in the sort of relief backup case. The industry is looking at capping containment issues, as you know. There is a lot going on in the background as well as the sub-surface evaluation. I think 2014 is what we're targeting on.

In terms of farm down, we don't need and don't want to farm down anything from Pitu barring strategic decisions. There could be advantages if we wanted to cross-fertilise with some other players or whatever, but I think that is the sort of 35-60% range is where we want to be drilling our high impact wells, particularly ones with the sort of potential that we see here.

Simon Thomson

In Spain and the Mediterranean and Morocco, no we will be looking to drill first of all in Morocco as Mike has indicated towards the end of next year and Spain will be some time after that.

Jamie Maddock – *Morgan Stanley*

Good morning, just on the point you made about the operating cash flow and about the billion Dollars that provides you or that you would aim to have. Do you think that is achievable from the current resource base or is there perhaps something else you would have to add in the predevelopment part of the portfolio to allow you to obtain that? That is the first question.

The second one is just to try and get a better understanding of what the other oil companies surrounding the Pitu block are undergoing this year with regards to the seismic acquisition and whether you're aware of any activities they plan for 2013 to perhaps drill a well or what other data acquisition there will be.

Jann Brown

On the cash flow, yes that is exactly what we are targeting on the existing resource base.

Dr Mike Watts

Just very simply Jamie, obviously we can't talk on behalf of other companies in the Pitu area, we just know they are very active. Shell in particular is acquiring a very large survey with two vessels. That is going to take a year to process, so if these companies want to drill on their processed then interpreted the results, I can't see anybody being ready for possibly 2014, but more likely 2015.

Mark Wilson – *Macquarie*

Good morning, it is just a question on the remaining Cairn India stake. You have previously pointed out how you are happy holders but then we did see the sell down of a small percentage. Do you expect further releases along the lines of that or would it be more if the opportunities arrive. To that end, just on the discussion about near term production, but strategically would you like to have current production within the portfolio?

Simon Thomson

I guess on the first question the answer remains the same, we are happy holders. Obviously our watchword is financial flexibility, so we believe it is absolutely the right thing to do to transact that 3.5%. The market has been strong but we remain happy holders in the stock and the production is going up and the stock seems to be performing well, so that is very positive.

I think you never rule anything out in terms of opportunistic transactions, but as we described earlier we believe that the right way for us from a value perspective to access cash flows at the contingent resource base and to bridge the gap through balance sheet strength.

Mark Wilson – *Macquarie*

Can I just add one final thing on that, so exiting the year at just over $500 million of cash, is there a view going forward on what is the correct balance sheet makeup that we should envisage say end of 2013 and onwards into the new development.

Jann Brown

Mark again it is too early to say. We are obviously very comfortable with the year-end position. We will sit down with our joint venture partners and look at the profiles of the development spend, those predevelopment assets, and so until we have had those discussions it is premature to start talking about our ideal balance sheet position.

Anish Kapadia - *PPH*

Good morning, just a few questions. First of all I was wondering could you just explain in a bit more detail what exactly attracted you to Morocco and are you looking to further build up your position in the region. With the new blocks you acquired, I was wondering is the apricot prospect currently the most likely to be drilled. And the final one, switching back to the UK, given the number of developments that you do have going forward now, does it make sense to acquire small UK companies with significant tax loss positions in the North Sea.

Simon Thomson

I think on the first one, I will hand over to Mike on the prospects, but Morocco is a great example of somewhere that offers a frontier exploration play and as we talked about on terms that we believe are fiscally attractive.

Dr Mike Watts

We do like building up a focused portfolio, but I would steer clear, we're not going to be hoovering lots of little assets in there. We started looking at Newfoundland and as I said the conjugate margin of Newfoundland is Morocco and it was a logical area to come into for us. It has got high potential.

The prospects – we don't give our prospects names like other companies, we give our fields names, but not prospects, but there is a prospect which was called Apricot is a candidate for one of the drilling. That is clearly the target is to test this untested lower cretaceous play that the shell DRACC-1 well missed.

Jann Brown

Tax is just one element of the total equation so yes we would always take into account when we're assessing any opportunity, but it is not going to drive us solely on its own. It has got to be about the overall value proposition.

Stephan Foucaud – *First Energy Capital*

Good morning. The first question is around Kraken, when do you think we will have the visibility of the exact amount of carry. I think there is rather a big range in the press release. With regards to the 16 wells you are targeting next year, I think 15 in the North Sea and 1 in Morocco, so you touched base on Morocco, but what would be your view of the overall unrisked prospective resources of that programme. Lastly so we talk about end of the year >$500 million cash, what do you think would be your Capex in H2? Thank you.

Dr Mike Watts

If I can start with the second one, we don't want really to say anything more about Morocco until we have sat down with the government. The prospects are about 100 million barrels. The ultimate question is how many prospects are there going to be in that area. We don't want to say anything more than that at the moment.

On the Enquest carry we have inherited from Nautical that is related to the reserves of Kraken, so the minimum carry is $115 million, but there is a $90 million contingency which is allocated pro rata in the range of 100 million barrels, reserves to 160, and we already see third party analyses at the high end of that range, so one of the comforting things I know helps Jann sleep at night is there is a development carry for the Kraken field.

Stephan Foucaud – *First Energy Capital*

When do you think we will know whether it is 240 or 150?

Dr Mike Watts

It is reserve dependent, so there is still some time but I am saying there are third party views that we're at the high end which would make it 240.

Jann Brown

As on the Capex guidance, the full year Capex guidance remains pretty much in line. The second half of the year is probably about 120-150.

Stephan Foucaud – *First Energy Capital*

I think remaining the 15 wells in the North Sea, what are you looking to target in terms of unrisked resources.

Dr Mike Watts

It is difficult to be precise. It is probably more than 50 million barrels on a risked basis but how much more I don't know until we have gone through the full joint venture work programme budget setting process this autumn. We will have more flesh on the bone in February and March.

Karen Crowley – *Davy*

Good morning. Just a quick question regarding near term growth initiatives and near term corporate activity, should we expect more farm-ins and participating in licensing rounds as opposed to the deals similar to the Agora and Nautical acquisitions earlier on this year. Again I suppose it goes back to an earlier question, is the focus more now on again building up the exploration programme and you're pretty happy with the balance of predevelopment assets that you have in there at the moment.

Simon Thomson

I guess we would never comment on whether or not we were considering any corporate activity. What I can reiterate though is that in the North Sea in particular we're very active in terms of whether it is new license applications on farm-in deals and so on, and that activity will just be ongoing within that portfolio. Elsewhere as Mike has indicated there are a number of initiatives currently ongoing in relation to new acreage bid round activity and so on that we hope by the end of the year, and therefore in February and March next year we will be able to provide you with more clarity on. We never rule out anything else opportunistically but we wouldn't comment on it.

[No further questions]

Simon Thomson

Well thank you all very much indeed for listening in. As ever if there are any follow up questions please do get in touch, and David Nisbet is the first point of call. Thank you very much indeed.