



CHRYSAOR

# Chrysaor Half-Year Results

**30 JUNE 2018**

# 2018 Half-Year Results

## Consolidated Income Statement

For the six months ended 30 June	Note	2018 Unaudited \$000	2017 Unaudited \$000
<b>Revenue</b>	4	933,166	-
Cost of sales	5	(535,664)	-
<b>Gross profit</b>		397,502	-
Exploration and evaluation expenses		(2,579)	(5,433)
Exploration costs written-off		-	(1,580)
Re-measurements		(74,282)	-
General and administrative expenses		(9,327)	(3,768)
<b>Operating profit/(loss)</b>	5	311,314	(10,781)
Finance income	6	27,091	20
Finance expense	6	(130,559)	(1,269)
<b>Profit/(loss) before income tax</b>		207,846	(12,030)
Income tax charge	7	(118,380)	(3,390)
<b>Profit/(loss) for the period</b>		89,466	(15,420)

## Consolidated Statement of Other Comprehensive Income

	2018 Unaudited \$000	2017 Unaudited \$000
Profit/(loss) for the period	89,466	(15,420)
Items that may be classified to income statement in subsequent periods:		
Fair value losses on cash flow hedges	(218,949)	-
Tax on cash flow hedges	87,462	-
Currency exchange differences	(14,695)	3,557
Other comprehensive (loss)/profit for the period, net of tax	(146,182)	3,557
<b>Total comprehensive loss for the period</b>	(56,716)	(11,863)
<b>Total comprehensive loss attributable to:</b>		
Equity holders of the parent	(56,716)	(11,863)

# 2018 Half-Year Results

## Consolidated balance sheet

	Note	30 Jun 2018 Unaudited \$000	31 Dec 2017 Audited \$000
<b>Assets</b>			
<b>Non-current assets</b>			
Goodwill		495,708	500,080
Other intangible assets	8	51,861	45,375
Property, plant and equipment	9	4,107,958	4,249,439
Other financial assets	13	11,807	14,673
<b>Total non-current assets</b>		<b>4,667,334</b>	<b>4,809,567</b>
<b>Current assets</b>			
Inventories		93,273	91,563
Trade and other receivables		239,799	258,499
Other financial assets	13	3,000	3,000
Cash and cash equivalents		329,038	299,541
<b>Total current assets</b>		<b>665,110</b>	<b>652,603</b>
<b>Total assets</b>		<b>5,332,444</b>	<b>5,462,170</b>
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital		22	22
Share premium		234,801	234,801
Hedge reserve - intrinsic		(171,605)	(43,747)
Hedge reserve - extrinsic		(3,629)	-
Currency translation reserve		(17,114)	(2,419)
Retained earnings		220,658	131,192
<b>Equity attributable to the owners of the parent</b>		<b>263,133</b>	<b>319,849</b>
<b>Total shareholders' equity</b>		<b>263,133</b>	<b>319,849</b>
<b>Non-current liabilities</b>			
Borrowings	12	2,128,042	2,414,333
Provisions	11	1,819,121	1,758,712
Deferred tax		397,649	374,606
Other financial liabilities	13	270,862	72,740
<b>Total non-current liabilities</b>		<b>4,615,674</b>	<b>4,620,391</b>
<b>Current liabilities</b>			
Trade and other payables		264,398	479,520
Borrowings	12	46,519	-
Other financial liabilities	13	142,720	42,410
<b>Total current liabilities</b>		<b>453,637</b>	<b>521,930</b>
<b>Total liabilities</b>		<b>5,069,311</b>	<b>5,142,321</b>
<b>Total shareholders' equity and liabilities</b>		<b>5,332,444</b>	<b>5,462,170</b>

# 2018 Half-Year Results

## Consolidated statement of changes in equity

	Share capital \$000	Share premium \$000	Hedge reserve - intrinsic \$000	Hedge reserve - extrinsic \$000	Currency translation reserve \$000	Undeclared dividend reserve \$000	Share option reserve \$000	Retained earnings \$000	Total equity \$000
<b>As at 1 January 2017 (audited)</b>	<b>1,794</b>	<b>167,437</b>	-	-	<b>(10,706)</b>	<b>154,498</b>	<b>65</b>	<b>(257,540)</b>	<b>55,548</b>
Loss for the period	-	-	-	-	-	-	-	(15,420)	(15,420)
Other comprehensive income	-	-	-	-	3,557	-	-	-	3,557
Share options exercised	2	59	-	-	-	-	(65)	8	4
Cumulative dividends not paid	-	-	-	-	-	2,084	-	(2,084)	-
Cancellation of undeclared dividends	-	-	-	-	-	(156,582)	-	156,582	-
Cancellation of shares	(1,796)	-	-	-	-	-	-	(24,756)	(26,552)
Issue of new shares	20	47,261	-	-	-	-	-	(16)	47,265
Share issue expenses	-	(613)	-	-	-	-	-	-	(613)
<b>At 30 June 2017 (unaudited)</b>	<b>20</b>	<b>214,144</b>	-	-	<b>(7,149)</b>	-	-	<b>(143,226)</b>	<b>63,789</b>
Share options exercised	2	-	-	-	-	-	-	-	2
Issue of new shares	-	20,657	-	-	-	-	-	-	20,657
Other comprehensive loss	-	-	(43,747)	-	4,730	-	-	-	(39,017)
Profit for the period	-	-	-	-	-	-	-	274,418	274,418
<b>As at 1 January 2018 (audited)</b>	<b>22</b>	<b>234,801</b>	<b>(43,747)</b>	-	<b>(2,419)</b>	-	-	<b>131,192</b>	<b>319,849</b>
Profit for the period	-	-	-	-	-	-	-	89,466	89,466
Other comprehensive loss	-	-	(127,858)	(3,629)	(14,695)	-	-	-	(146,182)
<b>At 30 June 2018 (unaudited)</b>	<b>22</b>	<b>234,801</b>	<b>(171,605)</b>	<b>(3,629)</b>	<b>(17,114)</b>	-	-	<b>220,658</b>	<b>263,133</b>

# 2018 Half-Year Results

## Consolidated statement of cash flows

For the 6 months ended 30 June	Note	2018 Unaudited \$000	2017 Unaudited \$000
Net cash flows from operating activities	14	713,053	(9,759)
<b>Cash flows from investing activities</b>			
Expenditure on exploration and evaluation assets		(6,923)	(628)
Expenditure on property, plant and equipment		(98,979)	(3,378)
Expenditure on business combinations and acquisitions		(215,000)	-
<b>Net cash flow from investing activities</b>		(320,902)	(4,006)
<b>Cash flows from financing activities</b>			
Deferred equity injection		-	1,497
Proceeds from share issue		-	46,652
Fees associated with future borrowings		-	(29,586)
Proceeds from new financing arrangements		10,290	-
Repayment of borrowings		(300,000)	-
Interest received		3,350	20
Interest paid and bank charges		(74,968)	(1)
<b>Net cash flow from financing activities</b>		(361,328)	18,582
Net increase in cash and cash equivalents		30,823	4,817
Effect of exchange rates on cash and cash equivalents		(1,326)	1,232
		29,497	6,049
Cash and cash equivalents at 1 January		299,541	4,082
<b>Cash and cash equivalents as at 30 June</b>		329,038	10,131

## Notes to the half year condensed financial statements

### 1. General information

The condensed financial statements of Chrysaor Holdings Limited for the period ended 30 June 2018 comprises the parent company, Chrysaor Holdings Limited and all its subsidiaries and were approved for issue by the Board of Directors on 25 September 2018. Chrysaor Holdings Limited is a limited company incorporated in the Cayman Islands and domiciled in the United Kingdom.

The Group's and Company's principal activities are the acquisition, exploration, development and production of oil and gas reserves on the UK Continental Shelf (UKCS).

The condensed financial statements for the half year do not include all of the information required for a full annual report and does not constitute statutory financial statements within the meaning of section 435 of the Companies Act 2006.

The half year condensed financial statements are to be read in conjunction with the Group's annual report and accounts for the year ended 31 December 2017, a copy of which has been filed with the Registrar of Companies. The auditor's report on the financial statements for the year ended 31 December 2017 was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under sections 492(2) or 498(3) of the Companies Act 2006.

### 2. Accounting policies

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The half year condensed financial statements, which have been prepared in accordance with International Accounting Standard (IAS) 34, are presented in US Dollars and all values are rounded to the nearest thousand dollars (\$000) except when otherwise stated.

#### Basis of preparation

The condensed financial statements have been prepared on the going concern basis.

The accounting policies adopted in the preparation of the half year condensed financial statements are consistent with those adopted and disclosed in the 2017 annual report and accounts other than the following new standards that became effective for periods beginning on or after 1 January 2018.

#### IFRS 9 Financial Instruments

IFRS 9 has replaced IAS 39 in its entirety and its implementation has impacted the classification and presentation on the Group's financial statements. IFRS 9 addresses the limitations of IAS 39 and so requirements align more closely the Group's hedge accounting treatments and risk management strategy.

As such IFRS 9 requires the 'cost of hedging', which specifically relates to the fair value movement in extrinsic, time value of options, to be presented as a separate component in the statement of comprehensive income rather than the income statement.

Under the IFRS 9 impairment model, the Group is required to recognise 'expected credit losses' compared to IAS 39 which used the 'incurred credit losses' model. This change has not had a material impact of the Group's financial statements because the Group trade receivables are typically settled within a short time period and financial assets are held with counterparties who are considered to not have a material credit risk.

Adoption of IFRS 9 has had no impact on the opening balance sheet.

The Group's accounting policy for IFRS 9 is set out below:

Under IFRS 9 the Group uses two criteria to determine the classification of financial assets: the Group's business model and contractual cash flow characteristics of the financial assets. Where appropriate the Group identifies three categories of financial assets: amortised cost, fair value through profit or loss (FVTPL), and fair value through other comprehensive income (FVOCI).

For financial liabilities classification and measurement are materially the same as required by IAS 39 with the exception of the treatment of modification or exchange of financial liabilities which no longer result in de-recognition.

Contingent consideration liabilities are measured at fair value with the changes in fair value recognised in the income statement.

Embedded derivatives are no longer separated from a host financial asset and so financial assets are classified based on the Group's business model and the contractual terms. The classification and measurement for derivatives embedded in financial liabilities and in non-financial host contracts is the same as required by IAS 39.

The Group uses the new IFRS 9 'expected credit loss' model to calculate impairment losses rather than and IAS 39 'incurred loss model'. As a result it is not necessary for a credit event to have occurred before credit losses are recognised.

All existing hedging relationships under IAS 39 qualify as continuing hedging relationships and the Group applies hedge accounting to manage commodity price risk.

#### IFRS 15 Revenue from Contracts with Customers

The implementation of IFRS 15 has impacted the classification and presentation of the Group's revenue and cost of sales. Under certain contracts the Group purchases gas where the seller has no option other than to deliver into the Group's infrastructure after which the Group either sells as own gas or earns a handling fee. Previously, both the revenue and cost of purchase of this gas were recognised as gas revenue however under IFRS 15 this is now recognised in tariff and other revenue.

This has not had a material impact on the Group results or retained earnings as at 1 January 2018 and so the Group has elected to apply the 'modified retrospective' approach to transition permitted by IFRS 15 under which comparative financial information is not restated. Disclosure of the revenue information required under IFRS 15 is shown in note 4.

# 2018 Half-Year Results

The Group's accounting policy for IFRS 15 is set out below:

Under IFRS 15, revenue from contracts with customers is recognised when the Group satisfies a performance obligation by transferring a good or service to a customer. A good or service is transferred when the customer obtains control of that good or service. The transfer of control of oil, natural gas, natural gas liquids and other items sold by the group occurs when title passes at the point the customer takes physical delivery. The Group principally satisfies its performance obligations at this point in time.

The following International Financial Reporting Standard has not yet been adopted:

## IFRS 16 Leases

The Group will adopt IFRS 16 Leases for the year commencing 1 January 2019. Implementation of the standard will impact both the measurement and disclosure of leases. All leases will be recognised on the balance sheet except those subject to the exemption criteria of short-term or low-value. The Group's review of its lease agreements is ongoing and expects to complete its assessment of the expected financial and reporting impact of the implementation of IFRS 16 by the end of 2018.

## 3. Segment information

The Group's activities consist of one class of business being the acquisition, exploration, development and production of oil and gas reserves and related activities in a single geographical area presently being the UK North Sea and Norway. This is considered to be the only reportable segment of the Group. All revenues, expenses, corporate activities and non-current assets can be assigned to this reportable segment.

## 4. Revenue

	6 months ended 30 Jun 2018 \$000	6 months ended 30 Jun 2017 \$000
Crude oil sales	578,673	-
Gas sales	255,351	-
Condensate sales	86,840	-
Hydrocarbon revenue	920,864	-
Tariff and other revenue	12,302	-
<b>Total revenue</b>	<b>933,166</b>	<b>-</b>

Revenues of \$957.9 million were from contracts with customers. This was offset by realised hedging losses on crude oil sales in the period of \$24.7 million.

## 2018 Half-Year Results

### 5. Operating profit/(loss)

	6 months ended 30 Jun 2018 \$000	6 months ended 30 Jun 2017 \$000
<b>Cost of sales</b>		
Production, insurance and transportation costs	257,165	-
Depreciation of property, plant and equipment	322,584	-
Amortisation of intangible assets	1,430	-
Movement in over/underlift balances and hydrocarbon inventories	(45,515)	-
<b>Total cost of sales</b>	<b>535,664</b>	<b>-</b>
Exploration costs written-off	-	1,580
Exploration and evaluation expenditure	2,579	5,433
Fair value movement on commodity based derivative instruments	74,282	-
<b>General and administrative expenses</b>		
Depreciation of other fixed assets	5,557	171
Other administrative costs	3,770	3,597
<b>Total general and administrative expenses</b>	<b>9,327</b>	<b>3,768</b>

### 6. Finance income and Finance costs

	6 months ended 30 Jun 2018 \$000	6 months ended 30 Jun 2017 \$000
<b>Finance income</b>		
Bank interest receivable	3,350	20
Foreign exchange gains	23,741	-
	<b>27,091</b>	<b>20</b>
<b>Finance expense</b>		
Interest payable on Reserves Based Loan and junior facility	50,942	-
Interest payable on loan notes	40,955	-
Interest payable on other loan	291	-
Foreign exchange losses	-	1,269
Bank and financing fees	15,539	-
Unwinding of discount on deferred consideration payable	926	-
Unwinding of discount on decommissioning and other provisions	21,906	-
	<b>130,559</b>	<b>1,269</b>

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## 7. Income Tax

	6 months ended 30 Jun 2018 \$000	6 months ended 30 Jun 2017 \$000
<b>Current income tax charge:</b>		
UK corporation tax	10,732	-
Total current income tax charge	10,732	-
<b>Deferred tax charge:</b>		
Origination and reversal of temporary differences	106,952	3,390
Adjustment in respect of prior years	696	-
Total deferred tax charge	107,648	3,390
<b>Tax charge in the profit and loss account</b>	<b>118,380</b>	<b>3,390</b>

The effective tax rate (ETR) for the half year was 57%, compared to 28% for the same period in 2017. Adjusting for non-operating items and fair value accounting effects, the underlying ETR for 2018 was 46% (2017: 38%), which differs from the standard rate of corporation tax of 40% due to a mix of profits and losses at different rates across the group.

## 8. Other intangible assets

	Oil and Gas assets \$000	Capacity rights \$000	Total \$000
<b>Cost:</b>			
At 1 January 2018	35,533	10,448	45,981
Additions	8,156	-	8,156
Currency translation adjustment	170	(475)	(305)
At 30 June 2018	43,859	9,973	53,832
<b>Amortisation</b>			
At 1 January 2018	-	606	606
Charge for the period	-	1,430	1,430
Currency translation adjustment	-	(65)	(65)
At 30 June 2018	-	1,971	1,971
<b>Net book value</b>			
At 30 June 2018	43,859	8,002	51,861
At 31 December 2017	35,533	9,842	45,375

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## 9. Property, plant and equipment

	Oil and Gas assets \$000	Fixtures and fittings and office equipment \$000	Total \$000
<b>Cost</b>			
At 1 January 2018	4,326,636	23,637	4,350,273
Additions	143,262	4,721	147,983
Additions from business combinations and joint arrangements	20,495	-	20,495
Currency translation adjustment	19,279	(683)	18,596
At 30 June 2018	4,509,672	27,675	4,537,347
<b>Depreciation</b>			
At 1 January 2018	98,959	1,875	100,834
Charge for the period	322,584	5,557	328,141
Currency translation adjustment	481	(67)	414
At 30 June 2018	422,024	7,365	429,389
<b>Net book value</b>			
At 30 June 2018	4,087,648	20,310	4,107,958
At 31 December 2017	4,227,677	21,762	4,249,439

## 10. Commitments

The Group has financial commitments in respect of operating leases for office premises in London and Aberdeen the details of which can be found in the 2017 annual report and accounts. There have been no significant changes to lease commitments in the six month period to 30 June 2018.

As at 31 December 2017, the Group had commitments for future capital expenditure of \$344.9 million. Capital expenditure commitments have increased by \$177.2 million to \$522.1 million in the six month period to 30 June 2018 primarily related to the forthcoming Buzzard Phase II project and current Schiehallion drilling program.

# 2018 Half-Year Results

## 11. Provisions

	Decommissioning provision \$000	Other \$000	Total \$000
At 1 January 2018	1,750,952	7,760	1,758,712
Additions from business combinations and joint arrangements	27,941	-	27,941
Additions and re-measurements	6,899	6,592	13,491
Amounts used	(3,329)	-	(3,329)
Unwinding of discount	21,833	73	21,906
Currency translation adjustment	400	-	400
<b>At 30 June 2018</b>	<b>1,804,696</b>	<b>14,425</b>	<b>1,819,121</b>

The Group provides for the estimated future decommissioning costs on its oil and gas assets at the balance sheet date. The payment dates of expected decommissioning costs are uncertain and are based on economic assumptions of the fields concerned. The Group currently expects to incur decommissioning costs over the next 25 years. Approximately half of the costs currently provided for are anticipated to be incurred between 5 to 15 years. Decommissioning provisions are discounted at a risk free rate of 2.5% and the unwinding of the discount is presented within finance costs.

## 12. Borrowings and facilities

	30 Jun 2018 \$000	31 Dec 2017 \$000
<b>Non-current</b>		
Reserves Based Loan facility	891,627	1,183,915
Junior facility	393,306	392,326
Other loan	10,581	-
10% Unsecured C loan notes 2027	30,401	28,985
10% Unsecured D loan notes 2027	244,518	233,124
10% Unsecured E loan notes 2029	604,128	575,983
	<b>2,174,561</b>	<b>2,414,333</b>
Total current	46,519	-
Total non-current	2,128,042	2,414,333
	<b>2,174,561</b>	<b>2,414,333</b>

## 2018 Half-Year Results

The Group's primary financing arrangement is a Reserves Based Loan (RBL) facility of \$2,000 million, having exercised the accordion option of \$500 million in February 2018. This is a six year facility with a consortium consisting of 17 banks and is secured by a pledge over the Group's oil and gas interests in the North Sea. The amount available under the facility is determined semi-annually based on a valuation of the Group's borrowing base assets under certain forward looking assumptions. The facility carries interest of 6 month USD Libor plus a margin of 4%, rising to a margin of 4.5% after 4 years. Certain fees are also payable including a 1.6% fee on available commitments and a 2% commission on letters of credit issued.

The junior facility of \$400 million carries interest at 6 month USD Libor plus a margin of 7% and is repayable in instalments between 2019 and 2023.

As at 30 June 2018, the junior facility was fully drawn and \$890 million remained available for drawdown under the RBL facility.

The loan notes incur interest of 10% per annum which, at the election of the Company, is capitalised and added to the principal amount each 31 December. The C loan notes and D loan notes rank junior to any senior bank debt and the E loan notes rank pari passu with the ordinary shares of the Company. None of the loan notes carry voting rights.

### 13. Other financial assets and liabilities

The Group held the following financial instruments at fair value at 30 June 2018. The fair values of all derivative financial instruments are based on estimates from observable inputs and are all level 2 in the IFRS 13 hierarchy, except for the royalty valuation and the Shell contingent consideration, which both include estimates based on unobservable inputs and are level 3 in the IFRS13 hierarchy.

	30 Jun 2018		31 Dec 2017	
	Assets \$000	Liabilities \$000	Assets \$000	Liabilities \$000
<b>Measured at fair value</b>				
Royalty consideration	3,000	-	3,000	-
Commodity derivatives – cash flow hedges	-	(99,202)	-	(24,090)
Commodity derivatives – contingent consideration	-	(43,518)	-	(18,320)
<b>Total current</b>	<b>3,000</b>	<b>(142,720)</b>	<b>3,000</b>	<b>(42,410)</b>
<b>Measured at fair value</b>				
Royalty consideration	9,567	-	11,373	-
Commodity derivatives – cash flow hedges	2,240	(200,064)	3,300	(52,440)
Commodity derivatives – contingent consideration	-	(70,798)	-	(20,300)
<b>Total non-current</b>	<b>11,807</b>	<b>(270,862)</b>	<b>14,673</b>	<b>(72,740)</b>
<b>Total current and non-current</b>	<b>14,807</b>	<b>(413,582)</b>	<b>17,673</b>	<b>(115,150)</b>

## 2018 Half-Year Results

### 14. Notes to the statement of cash flows

<b>Net cash flows from operating activities consist of:</b>		
	<b>6 months ended 30 Jun 2018 \$000</b>	<b>6 months ended 30 Jun 2017 \$000</b>
Profit/(loss) before tax	207,846	(12,030)
Finance cost, excluding foreign exchange	130,559	-
Finance income, excluding foreign exchange	(3,350)	(20)
Depreciation, depletion and amortisation	329,571	276
Exploration write-off	-	1,580
Fair value movement on commodity based derivative instruments	75,697	-
Unrealised foreign exchange (gain)/loss	(22,898)	1,269
(Increase)/Decrease in royalty consideration receivable	(1,193)	2,872
Increase in contingent consideration	(222)	-
Movement in other provisions	6,814	-
Share option reserve	-	2
Working capital adjustments		
Increase in inventories	(1,710)	-
Decrease/(increase) in trade and other receivables	25,983	(18,282)
(Decrease)/increase in trade and other payables	(34,044)	14,574
<b>Net cash inflow/(outflow) from operating activities</b>	<b>713,053</b>	<b>(9,759)</b>

# 2018 Half-Year Results

<b>Analysis of changes in net borrowings</b>		
	<b>6 months ended 30 Jun 2018 \$000</b>	<b>Year ended 31 Dec 2017 \$000</b>
<b>Reconciliation of net cashflow to movement in net borrowings</b>		
Proceeds from issue of loan notes	-	(822,893)
Proceeds from drawdown of borrowing facilities	-	(1,635,000)
Proceeds from financing arrangement	(10,581)	-
Repayment of senior debt	300,000	-
Transaction costs capitalised	-	59,254
Amortisation of transaction costs capitalised	(8,692)	(2,820)
Currency translation adjustment on transaction costs	-	2,325
Loan notes interest capitalised	(40,955)	(15,199)
Movement in total borrowings	239,772	(2,414,333)
Movement in cash and cash equivalents	29,497	295,459
Decrease/(increase) in net borrowings in the period	269,269	(2,118,874)
Opening (net borrowings)/cash	(2,114,792)	4,082
<b>Closing net borrowings</b>	<b>(1,845,523)</b>	<b>(2,114,792)</b>
<b>Analysis of net borrowings</b>		
Cash and cash equivalents	329,038	299,541
Reserves Based Loan facility	(891,627)	(1,183,915)
Junior facility	(393,306)	(392,326)
Net debt	(955,895)	(1,276,700)
Shareholder Loan Notes	(879,047)	(838,092)
Financing arrangement	(10,581)	-
<b>Total net borrowings</b>	<b>(1,845,523)</b>	<b>(2,114,792)</b>

Borrowings consist of unsecured loan notes, short-term debt and long-term debt. The carrying values on the balance sheet are stated net of the unamortised portion of the issue costs and bank fees of \$50.1 million (2017: \$58.9 million).

## 15. Post balance sheet events

Under the two Sale and Purchase Agreements (SPA), Chrysaor agreed the full and final settlement with Shell during August 2018. This has not had a material effect on the financial statements.



CHRYSAOR