



Kistos NL2 B.V.

2022 Interim Report



Highlights

		Unaudited H1 2022	Unaudited H1 2021 (restated) ¹
Gas production	MM Nm ³	163	156
Gas production	000 MWh	1,861	1,770
Revenue ²	€'000	137,502	33,740
Average realised gas price ^{2,3}	€/MWh	83.55	20.71
Unit opex ³	€/MWh	2.21	2.25
Adjusted EBITDA ⁴	€'000	132,155	28,729
Profit/(loss) for the period	€'000	61,308	(2,312)
Net cash from operations	€'000	132,039	20,619
Capital expenditure (cash basis)	€'000	6,815	3,239
Total cash	€'000	133,777	44,422

1. Certain production and other comparative figures have been restated to align with the methodology used in the full-year audited 2021 financial statements.

2. Includes the impact of effective realised gains or losses on cash flow hedges.

3. Non-IFRS measures. Refer to the definition within the glossary.

4. Adjusted EBITDA is calculated on a business performance basis. Refer to the definition within the glossary.

Production and revenue

Q10-A production was 6.1 kboe/d compared to 5.8 kboe/d in the first half of 2021, with the increase driven by the drilling campaign undertaken on the Q10-A gas field in the second half of 2021. Average realised gas prices increased by 303% to €83.55/MWh from €20.71 a year earlier. As a result, total revenue in the period increased by 308% to €137.5MM versus €33.7MM a year earlier.

Costs

Total production costs for the year were €4.1MM or €2.21 per MWh (H1 2021: €4.0MM or €2.25 per MWh). During H1 2022, pre-final investment decision (FID) development expenses of €2.1MM (H1 2021: €0.8MM) on the Q10-A Orion project and on potential alternative export routes for the Q10-A platform have been incurred.

Adjusted EBITDA

	30 June 2022 Unaudited €'000	30 June 2021 Unaudited €'000
Adjusted EBITDA	132,155	28,729
Depreciation and amortisation	(7,630)	(8,847)
Impairment	–	(7,471)
Development expenses	(2,095)	(814)
Share-based payment expense	(230)	–
Operating profit	122,200	11,597

The Company reported Adjusted EBITDA of €132.2MM for the first half of 2022 (H1 2021: €28.7MM). No impairment has been identified in the current period. In the first half of 2021, an impairment of €7.5MM relating to the partial abandonment of the A04 drilling path was recognised. Operating profit in the first half of 2022 was €122.2MM versus €11.6MM in 2021.



Interest-bearing debt

Kistos NL2 has two bonds outstanding. One of €90MM, which has a coupon of 8.75% per annum and a maturity date of November 2024. During the period, the Company used surplus cash on its balance sheet to repurchase €27.7MM of the €90MM bonds, resulting in €63.3MM of those bonds remaining due to third parties at 30 June 2022. Kistos NL2 also has an additional €60MM bond, which has a coupon of 9.15% and a maturity date of May 2026. During the period, semi-annual interest payments were made in relation to each of the bonds.

Cash flow from operations

The Company generated positive cash flow from operations of €132.0MM for the period (H1 2021: €20.6MM).

Financial position

Cash at the end of the period was €133.8MM (2021: €44.4MM). Gross debt was €121.9MM (2021: €148.0MM) and net cash was €11.9MM (2021: net debt of €103.6MM).

Financial Statements



Profit and loss account

	Note	Unaudited 6 months ended 30 June 2022 €'000	Unaudited 6 months ended 30 June 2021 (restated) €'000
Revenue	2	137,502	33,740
Other operating income		7	–
Exploration expenses		(185)	(231)
Production costs		(4,104)	(3,980)
Development expenses		(2,095)	(814)
Depreciation	6	(7,630)	(8,847)
Impairments	6	–	(7,471)
Other operating expenses		(1,295)	(800)
Total operating expenses		(15,309)	(22,143)
Operating profit		122,200	11,597
Interest income	3	2,746	564
Interest expenses	3	(6,155)	(2,877)
Other financial expenses	3	(3,593)	(4,040)
Net finance costs		(7,002)	(6,353)
Profit before taxes		115,198	5,244
Tax charge	4	(53,890)	(7,556)
Profit/(loss) for the period		61,308	(2,312)

Statement of comprehensive income

	Unaudited 6 months ended 30 June 2022 €'000	Unaudited 6 months ended 30 June 2021 €'000
Profit/(loss) for the period	61,308	(2,312)
Items that may be reclassified to profit or loss		
Costs of cash flow hedge deferred and recognised in OCI	(9,404)	(8,425)
Cash flow hedge – reclassified to profit or loss	21,185	–
Tax impact on hedge reserve in OCI	(5,891)	4,212
Total comprehensive income/(expense) in the period	67,198	(6,525)

Balance sheet

	Note	Unaudited 30 June 2022 €'000	Unaudited 31 December 2021 €'000
Non-current assets			
Exploration and evaluation assets	5	23,527	17,443
Property, plant and equipment	6	82,537	89,250
Deferred tax assets	4	869	13,496
Loan receivables		60,000	60,000
		166,933	180,189
Current assets			
Inventories		1,746	902
Unbilled receivables		24,837	40,299
Other receivables	7	8,935	11,711
Cash and cash equivalents		133,777	44,422
		169,295	97,334
Total assets		336,228	277,523
Equity			
Share capital		–	–
Share premium		20,517	20,517
Hedge reserve		–	(5,890)
Capital contribution reserve		230	–
Retained earnings		109,973	48,665
Total equity		130,720	63,292
Non-current liabilities			
Abandonment provision	8	16,861	15,904
Bond payable	9	119,472	145,074
Interest-bearing loans from affiliates		1,804	1,804
Other non-current liabilities		–	31
		138,137	162,813
Current liabilities			
Trade payables and accrued expenses	10	1,829	22,130
Other liabilities	11	65,542	29,288
		67,371	51,418
Total liabilities		205,508	214,231
Total equity and liabilities		336,228	277,523

Statement of changes in equity (unaudited)

	Share capital €'000	Share premium €'000	Retained earnings €'000	Hedge reserve €'000	Capital contribution reserve €'000	Total equity €'000
Equity as of 1 January 2021	–	20,517	14,306	–	–	34,823
Loss for the period	–	–	(2,312)	–	–	(2,312)
Movement in the period	–	–	–	(8,425)	–	(8,425)
Equity as of 30 June 2021	–	20,517	11,994	(8,425)	–	24,086
Equity as of 1 January 2022	–	20,517	48,665	(5,890)	–	63,292
Profit for the period	–	–	61,308	–	–	61,308
Movement in the period	–	–	–	5,890	–	5,890
Total comprehensive income for the period	–	–	61,308	5,890	–	67,198
Share-based payments	–	–	–	–	230	230
Equity as of 30 June 2021	–	20,517	109,973	–	230	130,720

Statement of cash flow

	Note	Unaudited 6 months ended 30 June 2022 €'000	Unaudited 6 months ended 30 June 2021 €'000
Cash flow from operating activities			
Profit/(loss) for the period		61,308	(2,312)
Tax charge	4	53,890	7,556
Net finance costs	3	7,002	6,353
Depreciation and amortisation	6	7,630	8,847
Impairment losses	6	–	7,471
Share-based payment expense		230	–
Tax paid		–	(1,406)
Deferred tax on hedge reserve		5,890	–
Decrease in trade and other receivables		12,139	1,466
Decrease in trade and other payables		(15,142)	(7,949)
(Increase)/decrease in inventories		(844)	593
(Decrease) in other non-current assets/liabilities		(29)	–
Net cash flow from operating activities		132,074	20,619
Cash flow from investment activities			
Payments to acquire tangible fixed assets		(6,815)	(3,239)
Net cash flow from investment activities		(6,815)	(3,239)
Cash flow from financing activities			
Repayment of long-term payables		(31)	(1,896)
Interest paid		(6,534)	(3,872)
Intercompany interest paid		(75)	–
Other finance charges	3	–	(20)
Bond refinancing costs		–	(3,021)
Proceeds from new bond loan		–	60,000
Issue of loan to parent company		–	(60,000)
Repurchase of own bonds	9	(29,264)	–
Net cash flow from financing activities		(35,904)	(8,809)
Net change in cash and cash equivalents		89,355	8,571
Cash and cash equivalents at start of period		44,422	17,691
Cash and cash equivalents at end of period		133,777	26,262

Notes to the financial statements (unaudited)

These unaudited interim financial statements have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS) IAS 34 'Interim Financial Reporting'. Thus the unaudited interim financial statements do not include all information required by IFRS and should be read in conjunction with the Company's audited annual financial statements as at 31 December 2021. The unaudited interim financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the financial position, results of operations and cash flows for the dates and interim periods presented. Interim period results are not necessarily indicative of results of operations or cash flows for an annual period. These unaudited interim financial statements have not been subject to review or audit by independent auditors.

These unaudited interim financial statements were authorised for issue by Kistos NL2's Board of Directors on 8 September 2022.

Note 1: Accounting principles

The accounting principles used for this unaudited interim report are consistent with the principles used in the Company's (Kistos NL2 B.V.) audited annual financial statements as at 31 December 2021. A new accounting policy, 'share-based payments', is disclosed below following the introduction of share option awards made to certain employees of the Company during the period.

In preparing these unaudited interim financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates. The significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited annual financial statements as at 31 December 2021.

The presentation and classification of certain line items within the profit and loss account has been restated in order to align with the presentation of those line items in the audited 2021 year-end financial statements. There has been no change to the reported profit after tax for the period ended 30 June 2021.

New accounting policy – share-based payments

The Company participates in equity-settled share-based compensation plans, which will be settled on vesting by shares in the Company's ultimate parent company, Kistos plc, and are accounted for as equity-settled arrangements. The income statement is charged with the expense, with the corresponding entry to the capital contribution reserve within equity. Upon vesting, the obligation will be settled by Kistos plc. The fair value of the employee services received in exchange for the grant of options is recognised as an expense over the vesting period and calculated using Black-Scholes models.

Note 2: Revenue

	Unaudited 6 months ended 30 June 2022 €'000	Unaudited 6 months ended 30 June 2021 €'000
Recognised income liquids	–	551
Recognised income gas	137,502	33,189
Total petroleum revenues	137,502	33,740
Analysis of produced volumes (thousand barrels of oil equivalent)		Restated
Liquids	5	9
Gas	1,095	1,042
Total produced volumes	1,100	1,051
Gas (million Nm ³)	163	156
Gas ('000 MWh)	1,861	1,770

Comparative production information has been restated to align with the presentation methodology as used in the audited full year 2021 financial statements.

Note 3: Net finance costs

	Unaudited 6 months ended 30 June 2022 €'000	Unaudited 6 months ended 30 June 2021 (restated) €'000
Interest income from loan from ultimate parent	(2,746)	(564)
Total financial income	(2,746)	(564)
Other interest expenses	71	20
Interest expenses	6,009	2,738
Interest on loans from affiliates	75	119
Total interest expenses	6,155	2,877
Loss on redemption	2,982	3,528
Unwinding of bond discount	–	135
Accretion expenses	60	35
Amortisation of bond costs	551	342
Total other financial expenses	611	512
Net finance costs	7,002	6,353

Comparative information has been restated to align with the presentation of finance income and expenditure as used in the audited full-year 2021 financial statements.

Note 4: Taxes

	Unaudited 6 months ended 30 June 2022 €'000	Unaudited 6 months ended 30 June 2021 €'000
Taxes for the period		
Current tax expense		
Current period	47,154	1,443
Deferred tax expense		
Origination and reversal of temporary differences	6,736	6,113
Tax charge	53,890	7,556

The estimated effective tax rate used for the period to 30 June 2022 is 47% (30 June 2021: 144%), compared to the statutory tax rate of 50%. The effective tax rate is lower than the statutory tax rate, mainly due to marginal field incentive (investment allowance) and expense uplift on State Profit Share (SPS), which are tax deductible.

Movement in deferred tax balances for the period	Tax losses €'000	Provisions €'000	Other €'000	Total €'000
At 1 January 2022 (audited)	7,015	4,168	2,313	13,496
Deferred tax on hedge reserve in OCI	–	–	(5,891)	(5,891)
Profit and loss account	(7,015)	187	92	(6,736)
At 30 June 2022	–	4,355	3,486	869

The tax losses category comprises SPS losses. SPS losses can be carried forward indefinitely. The provisions category relates to temporary differences on abandonment provisions, and the Other category primarily relates to temporary differences on abandonment fixed assets.

Note 5: Exploration and evaluation assets

	Unaudited Exploration and evaluation assets €'000
Net book value 31 December 2021	17,443
Acquisition cost 1 January 2022	17,443
Additions	5,810
Changes in abandonment estimates (note 8)	(531)
Reclassification (note 6)	805
Acquisition cost 30 June 2022	23,527
Accumulated depreciation and impairments 1 January 2022	-
Depreciation	-
Impairment	-
Accumulated depreciation and impairments 30 June 2022	-
Net book value 30 June 2022	23,527

The assets under exploration and evaluation assets have been recognised in respect of Q11-B, Q10-B, Q10-A Orion and the Q10-G prospects. Additions during the period primarily relate to capitalised expenditures of the Q11-B drilling campaign, which was completed early 2022. The changes in abandonment estimates relate to the update on the cost estimates of the plugging and abandoning of the currently suspended Q11-B well (see note 8). The abandonment costs for the Q11-B suspended well are expected to be incurred in 2025 based on the regulatory requirement to abandon the well by that time as, at the balance sheet date, no extension of the licence or production consent had been granted. The reclassification during the year relates to the movement of inventory items from wells in production to exploration and evaluation wells (see note 6).

Note 6: Property, plant and equipment

	Unaudited Assets under construction €'000	Unaudited Production facilities including wells €'000	Unaudited Other €'000	Unaudited Total €'000
Net book value 31 December 2021	-	89,042	208	89,250
Acquisition cost 1 January 2022	5,859	141,559	398	147,816
Additions	-	280	38	318
Disposals	-	-	(48)	(48)
Changes in abandonment estimates (note 8)	-	1,431	-	1,431
Reclassification (note 5)	-	(805)	-	(805)
Acquisition cost 30 June 2022	5,859	142,465	388	148,712
Accumulated depreciation and impairments 1 January 2022	(5,859)	(52,517)	(190)	(58,566)
Depreciation	-	(7,556)	(74)	(7,630)
Disposals	-	-	21	21
Accumulated depreciation and impairments 30 June 2022	(5,859)	(60,073)	(243)	(66,175)
Net book value 30 June 2022	-	82,392	145	82,537

Assets under construction

Assets under construction relate to wells drilled but not yet producing.

Impairment

Impairment tests of individual cash-generating units are performed when impairment triggers are identified. During 2022, there have been no impairment triggers identified. During H1 2021, an impairment charge of €7.47MM was recognised in respect of the abandonment of the Q10-A-04 drilling path (prior to drilling the side track).

Changes in abandonment estimates

The changes in abandonment estimates primarily relate to the update on the inflation and discount rate of the abandonment provision of the Q10-A wells, facilities and pipelines in production (see note 8).

Note 7: Other receivables

	Unaudited 30 June 2022 €'000	Unaudited 31 December 2021 €'000
Joint operator receivable	906	3,894
Other third-party receivables	901	1,555
Receivables from affiliates	6,457	3,935
Pre-payments	502	91
VAT receivable	169	2,236
Total other receivables	8,935	11,711

The carrying value of other receivables is considered to be fair value given their short-term nature.

Note 8: Abandonment provision

	Unaudited €'000
Provisions as of beginning of the period 1 January 2022	15,904
Accretion expense	57
Addition	–
Utilisation	–
Effect of change in discount rate	(1,779)
Change in estimates and incurred liabilities	2,679
Total abandonment provision at end of period 30 June 2022	16,861

The changes in estimates and incurred liabilities during the first half of 2022 relate primarily to an update of the inflation and discount rate assumption. Abandonment provisions are determined using an inflation rate of 3.0% (2021: 1.0%) and a discount rate of 1.8% (2021: 0.5%) based on management's assessment of publicly available economic forecasts. The abandonment is expected to take place between eight and nine years from 30 June 2022 (for production facilities) and in 2025 for exploration and evaluation assets (see notes 5 and 6).

Note 9: Bond payable

	Unaudited Long-term bond €90MM €'000	Unaudited Long-term bond €60MM €'000	Unaudited Bond costs €'000	Unaudited Total €'000
Book value at 1 January 2022	88,042	60,000	(2,968)	145,074
Amortisation of bond costs	–	–	551	551
Unwinding EIR impact €90MM bond	129	–	–	129
Derecognition on repurchase €90MM bond	(26,282)	–	–	(26,282)
Book value at 30 June 2022	61,889	60,000	(2,417)	119,472

Repurchase of bonds

In March 2022, Kistos NL2 repurchased €27.7MM in nominal value of its €90MM bonds at an average price of 105.645%. Although the bonds cannot be cancelled, under IFRS the liability relating to the repurchased amount is treated as being extinguished, and a loss on repurchase of €2.9MM has been recognised in the income statement (see note 3).

The net loss on repurchase of the bonds is reconciled as follows:

	Unaudited €'000
Total cash consideration paid	30,038
Less: settlement of accrued interest	(774)
Cash consideration paid for repurchase of bond principal	29,264
Carrying value of bond derecognised	(26,282)
Loss on repurchase of bond	2,982

Kistos NL1 B.V. and Kistos Plc are Guarantors. Each guarantor irrevocably, unconditionally, jointly and severally:

- guarantees to the Bond Trustee the punctual performance by Kistos NL2 of all obligations related to the bonds
- agrees to make payment to the Bond Trustee on request in the event of non-payment by Kistos NL2, together with any default interest
- indemnify the Bond Trustee against any cost, loss or liability incurred in respect of the obligations of Kistos NL2.

Kistos NL2 has issued a security in favour of the Bond Trustee over its assets for both the 2024 bond and the 2026 bond, including a pledge over all intercompany receivables between Kistos NL2 and Kistos NL1 and Kistos Plc. In addition, a Netherlands Pledge has been provided to the Bond Trustee covering all receivables of Kistos NL2 and Kistos Plc.

Terms and repayment schedule

	30 June 2022				31 December 2021		
	Currency €'000	Nominal interest rate €'000	Year of maturity €'000	Face value €'000	Carrying amount €'000	Face value €'000	Carrying amount €'000
Secured bond issues	EUR	8.75%	2024	62,300	61,889	90,000	88,042
Secured bond issues	EUR	9.15%	2026	60,000	60,000	60,000	60,000
Total interest-bearing liabilities	–	–	–	122,300	121,889	150,000	148,042

The face value of the 8.75% 2024 bonds as at 30 June 2022 is presented net of €27.7MM bonds repurchased (but not cancelled) held by Kistos NL2.

Financial covenants

€90 million bond		
Issuer (Kistos NL2)	Requirement	Effective date
Minimum liquidity	€10,000,000	At all times
Maximum leverage ratio	2.50	From and including 1 January 2022, tested at 30 June and 31 December
€60 million bond		
Issuer (Kistos NL2)		
Minimum liquidity	€10,000,000	At all times
Maximum leverage ratio	2.50	From and including 1 January 2022, tested at 30 June and 31 December

During 2022 and 2021, Kistos NL2 complied with the minimum liquidity covenant at all times. On 30 June 2022, Kistos NL2 had a leverage ratio of (0.09) calculated as follows:

Calculation of leverage ratio Kistos NL2	€'000
Kistos NL2 EBITDA for the period	132,155
Debt at 30 June 2022	121,889
Cash and cash equivalents at 30 June 2022	(133,777)
Net debt/(cash) at 30 June 2022	(11,888)
Leverage ratio (net debt/(cash) to EBITDA)	(0.09)

Note 10: Trade payables and accrued expenses

	Unaudited 30 June 2022 €'000	Unaudited 31 December 2021 €'000
Trade payables	1,393	8,646
Other accrued expenses	436	13,484
Total trade payables and accrued expenses	1,829	22,130

Trade payables are unsecured and generally paid within 30 days. Accrued expenses are also unsecured and represent estimates of expenses incurred but where no invoice has yet been received. The carrying value of trade payables and other accrued expenses are considered to be fair value given their short-term nature.

Note 11: Other liabilities

	Unaudited 30 June 2022 €'000	Unaudited 31 December 2021 €'000
Liabilities against affiliates	40,597	15,486
Tax payable	23,473	–
Bond interest payable	1,306	1,854
Hedge liability	–	11,781
Wage tax payable	101	76
Right of use liability	65	91
Total other liabilities	65,542	29,288

Liabilities against affiliates

The liabilities against affiliates includes a Corporate Income Tax (CIT) payable amount of €23.7MM (2021: €15.0MM) to Kistos NL1 as head of the fiscal unity.

Tax payable

The tax payable mainly pertains to the SPS payable amount to the local tax authorities (2021: nil).

Interest payable

The interest over the bonds is payable per half year. The balance of €1.3MM (2021: €1.8MM) presented as part of the other current liabilities relates to the interest over the bond payable as at 30 June 2022.

Hedge liability

The hedge liability represents the potential fair value liability in respect of the cash flow hedge for the remaining period of the contract. The fair value has been calculated with reference to the difference between the discounted values of the remaining gas hedge and hedging instrument at the gas forward curves discounted. As at 30 June 2022, the hedge liability is nil (31 December 2021: €11.8MM), as the Kistos NL2 undertook a partial hedge of 100,000 MWh of production in the nine months up to 31 March 2022. As at 30 June 2022, no hedges are in place in respect of future production..

Glossary

Adjusted EBITDA – the Board uses Adjusted EBITDA as a measure to assess the performance of the Group. This measure excludes the effects of significant items of income and expenditure, which may have an impact on the quality of earnings such as reversal of provisions and impairments when the impairment is the result of an isolated non-recurring event, and other non-cash transactions such as share-based payment expense.

Affiliates – Kistos plc, Kistos Energy Limited and/or Kistos NL1 B.V.

Average realised oil/gas price – calculated as revenue divided by sales production for the period. Sales production for the period may be different from production for the period.

bbls – barrels of oil.

boe – barrels of oil equivalent.

boe/d – barrels of oil equivalent produced per day.

Company – Kistos NL2 B.V.

EIR – effective interest rate.

FID – Final Investment Decision.

MMbbl – million barrels of oil.

MMboe – million barrels of oil equivalent.

MM Nm³ – millions of normal cubic metres per day.

P15 – third-party platform (operated by TAQA) where produced gas is exported for processing and transportation to shore.

Parent company – Kistos NL1 B.V.

Q07, Q08, Q10-A, Q10-G, Q11-B – offshore licenses held and operated by Kistos NL2 B.V.

Ultimate parent company – Kistos plc.

ROU – right of use.

Unit opex – calculated as production costs divided by production.

Conversion factors

37.3 standard cubic feet (scf) in 1 normal cubic metre (Nm³)

5,561 scf in 1 barrel of oil equivalent (boe)

149.2 Nm³ in 1 boe

1.7 MWh in 1 boe

34.12 therms in 1 MWh



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