KISTOS

Kistos Holdings plc

2023 Interim Report

Highlights

In April 2023, Kistos announced that it had reached an agreement to acquire Mime Petroleum AS (Mime) for an adjusted consideration of $111 million (comprising the Mime debt being retained by Kistos or retired by Mime, less Mime's cash balances at 31 March 2023 and less a tax refund due in December 2023) plus the issue of up to 6 million warrants exercisable into new Kistos ordinary shares at a price of 385p each. When the transaction completed in May 2023, it marked the Group's entry into the Norwegian Continental Shelf (NCS). Mime, which was subsequently renamed Kistos Energy (Norway) AS (KENAS), holds a 10% interest in the Balder joint venture (JV) (comprising the Balder and Ringhorne fields) and a 7.4% stake in the Ringhorne Øst unit. All of these assets are operated by Vår Energi ASA.

KENAS' net production in the six months to 30 June 2023 was 312,000 barrels of oil equivalent (boe). Output was impacted by a temporary shut-in due to issues with a second stage separator in April, and the temporary unavailability of gas lift for certain Ringhorne production wells due to an integrity issue identified in February regarding the gas lift riser. However, the latter were reinstated in May after safety and integrity evaluations confirmed that the riser could continue to be used until its scheduled replacement in September 2023.

In the Netherlands, net production from the Kistos-operated Q10-A field was 3,100 barrels of oil equivalent produced per day (boepd) in the first half of 2023 (H1 2022: 6,500 boepd). This was impacted by downtime from the start of the scheduled maintenance period which began in June, and a planned workover campaign that commenced in Q4 2022 and concluded in Q1 2023. The results of this campaign were mixed, mainly due to mechanical issues arising from utilising the existing well stock rather than reservoir performance issues.

In the UK, net production was 4,300 boepd (H1 2022: 6,500 boepd), with operations impacted in March by unscheduled downtime relating to a compressor and an extensive planned maintenance and pipeline pigging campaign in April 2023. Whilst the Benriach exploration well proved sub-commercial, it was completed safely and within budget, and the data gathered will prove valuable as the Greater Laggan Area (GLA) partners consider future developments including Glendronach and potential additional infill wells.

Kistos remains well-funded. The Group exited 2022 with cash of €212 million offset by €82 million of Nordic Bonds issued by Kistos NL2. After assuming $225 million of Nordic Bonds in May 2023 as part of the Mime acquisition, Kistos exited the half year with net debt of €42 million, comprising total cash of €247 million and debt of €289 million. This excludes $45 million of hybrid bonds, that only becomes payable in full or part if the Jotun floating production storage and offloading vessel (FPSO) has offloaded its first cargo by 31 May 2025.

Given this financial strength and in line with its strategy, the Group continues to evaluate several business development opportunities in the energy security and transition spaces.

Pro forma[1] unaudited highlights for six months ended 30 June 2023

		H1 2023	H1 2022	Change %
Pro forma production[2,3]	boepd	9,200	12,200	(25)%
Pro forma revenue	€'000	119,883	285,109	(58)%
Pro forma average realised price[3]	€/boe	74	139	(47)%
Pro forma Adjusted EBITDA[4]	€'000	68,613	261,397	(74)%

1. Pro forma figures include the results from Kistos Norway as if it had been acquired on 1 January 2023. The acquisition completed on 23 May 2023. Pro forma figures for H1 2022 include results from the GLA as if it had been acquired on 1 January 2022. That acquisition completed on 11 July 2023. Minor adjustments have been made to comparative pro forma information following receipt of additional information after completion of the GLA acquisition and to align with the Group's accounting policies and methodology as used in the 2022 Annual Report and Accounts.
2. Total production rate includes gas, oil and natural gas liquids and is rounded to the nearest 100 barrels of oil equivalent per day. Actual production rates include the impact from acquired businesses only from the date of acquisition completion.
3. Sales and production volumes are converted to estimated boe using the conversion factors in Appendix C to the Interim Financial Statements. Average realised price is a non-IFRS measure. Refer to the definition within the glossary.
4. Non-IFRS measure. See note 2.2.1 to the Interim Financial Statements for definition and reconciliation to the nearest equivalent IFRS measure.

Outlook

Kistos' acquisition of Mime added 24 million barrels of oil equivalent (MMboe) to the Group's 2P reserves (operator estimate) and is expected to boost the Group's net output to more than 15,000 boepd in 2025, once the Jotun FPSO and associated wells are fully onstream. This entry into Norway signified management's commitment to securing sustainable growth opportunities across the North Sea Basin and positioned Kistos as an influential independent producer across three jurisdictions. Furthermore, the assets provide visibility on a rising production profile over the next few years whilst enabling the Group to maintain its industry-leading Scope 1 and Scope 2 CO_2 emissions intensity in the medium-term.

In the UK, adverse changes to the fiscal environment and cost pressures from suppliers mean that Edradour West, rather than Glendronach, is now anticipated to be the next development in the GLA. When sanctioned this project will increase Kistos' 2P reserves by 3.8 MMboe. In conjunction with expected new third-party throughput across the Shetland Gas Plant (SGP), Edradour West would extend the life of the existing facilities and give more certainty to potential future developments such as Glendronach, additional infill wells and other third parties that are evaluating potential development plans and/or export routes in the area.

In the Netherlands, the Concept Select phase of the Orion oil development is nearing completion and the Final Investment Decision (FID) is targeted for the first half of 2024 with first oil expected around the end of 2025. This low-cost project is expected to utilise the existing facilities at Q10-A and P15-D and the oil produced will be among the lowest taxed barrels in the North Sea. In parallel, the Group continues to evaluate opportunities to enhance production from existing wells or drill infill wells at Q10-A.

During the first half of 2022, Kistos applied for an extension to the M10a and M11 licences (Kistos 60%) north of the Wadden Islands beyond 30 June 2022. Initially the extension was denied, but following successful objection proceedings, Kistos was granted an extension to 2028. Kistos will now apply for a permit to drill an appraisal well, and is actively engaging with the relevant local municipalities and other stakeholders prior to commencing any assessment phase planning work.

As a result of the acquisition of Mime, and the successful M10a/M11 licence appeal, the Group's 2P reserves plus 2C resources are estimated to have increased by over 300% to 108 MMboe since the end of 2022. As previously guided, Kistos' production for the full year 2023 is expected to be in the 8,500–10,500 boepd range.

Chairman's Statement

I am delighted to be able to report Kistos' interim results covering the six months to 30 June 2023. Adjusted EBITDA for the period was in excess of €67 million. While it was disappointing not to encounter commercial quantities of gas in the Benriach exploration well, an extensive data acquisition programme was conducted that will help inform the geological interpretation of the area. Although we benefitted from enhanced capital allowances in relation to the Benriach well as a consequence of the Energy Profits Levy (EPL), we continue to see this tax in particular and fiscal uncertainty in general as major barriers to investment in the UK North Sea.

Cash balances at the end of the period were €247 million. Kistos' strong financial position was one of the reasons we were able to acquire Mime in May 2023 and assume its bond debt. This resulted in a Group net debt position at the end of the period of €42 million. Our balance sheet strength means we remain well placed to grow the business, and after completing three acquisitions in three years from a standing start, we continue to evaluate a pipeline of business development opportunities.

While we assess other potential acquisitions, we are pursuing the organic growth opportunities within our existing portfolio. In the Netherlands, the Orion oil project has now progressed to the Concept Select phase, which should complete later this year ahead of taking FID in the first half of 2024. As it will utilise existing infrastructure at Q10-A and P15-D, Orion is expected to be a relatively low-cost development and the barrels produced would attract a tax rate of approximately 50%, which is considerably lower than elsewhere in the North Sea.

Alongside our JV partners in the UK, we continue to assess the potential single-well developments of the Edradour West and Glendronach gas fields, both of which would utilise the existing GLA subsea infrastructure and the SGP. Once sanctioned, Edradour West is expected to add 3.8 MMboe to our 2P reserves, while Glendronach could add a further 2.5 MMboe. These projects, coupled with further potential infill drilling elsewhere in the GLA and third-party opportunities could contribute substantially to the overall life extension of the area, through the world-class Shetland Gas Plant and associated infrastructure which has only been in operation since 2016.

On behalf of our shareholders, we remain intent on building a first-class energy business that secures supplies close to home to ease the energy crisis and to drive transition. We have taken great strides in a short period of time, and we will continue to pursue rapid, disciplined growth both organically and through acquisitions.

Andrew Austin
27 September 2023

Financial Review

Unaudited results for the six months ending 30 June 2023

		30 June 2023 (actual)	30 June 2023 (pro forma)[5]	30 June 2022 (actual)	30 June 2022 (pro forma)[5]
Total production[1]	kboe	1,433	1,659	1,031	2,206
Production rate[1]	boepd	9,600	9,200	5,700	12,200
Revenue	€'000	105,149	119,883	137,502	285,109
Average realised sales price[2]	€/boe	74	74	142	139
Adjusted EBITDA[3]	€'000	67,071	68,613	130,207	260,987
(Loss)/profit before tax	€'000	(5,216)	n/a	102,539	n/a
Basic earnings per share	€	0.16	n/a	0.63	n/a
Net cash from operations	€'000	91,762	n/a	126,957	n/a
Total cash at 30 June	€'000	247,698	247,698	148,446	148,446
Net cash/(debt)[4]	€'000	(42,263)	(42,263)	26,146	26,146

Note: The financial results are prepared in accordance with IFRS, unless otherwise noted below:

1. Total production rate includes gas, oil and natural gas liquids and is rounded to the nearest 100 barrels of oil equivalent per day. Actual production rates include the impact from acquired businesses only from the date of acquisition completion. Sales and production volumes are converted to estimated boe using the conversion factors in Appendix C to the Interim Financial Statements.
2. Non-IFRS measure. Refer to the definition within the glossary.
3. Non-IFRS measure. Refer to the definition within the glossary and reconciliation in note 2.2.1.
4. Non-IFRS measure. Refer to the definition within the glossary and reconciliation in Appendix B2.
5. Pro forma figures for 2023 include Kistos Norway as if it had been acquired on 1 January 2023. The acquisition completed on 23 May 2023. Pro forma figures for 2022 include GLA as if it had been acquired on 1 January 2022. The acquisition completed in July 2022 and is therefore not included in the actual results to 30 June 2022. Minor adjustments have been made to comparative pro forma information following receipt of additional information after completion of the GLA acquisition and to align with the Group's accounting policies and methodology as used in the 2022 Annual Report and Accounts.

Production and revenue

Actual production on a working interest basis averaged 9,600 boepd in the first half of 2023 (H1 2022: 5,700 boepd). This represents an increase of over 68% from a year earlier and reflects the inclusion of the Group's interests in the GLA and production from interests in Norway from 23 May 2023.

On a pro forma basis (assuming Kistos had completed the acquisitions of the GLA interests and Mime on 1 January 2022 and 1 January 2023 respectively), production in the six months to 30 June 2023 averaged 9,200 boepd (six months to 30 June 2022: 12,200 boepd). This decrease reflects natural decline, coupled with periods of downtime in the Netherlands during the drilling campaign in Q1 2023, planned annual maintenance at the P15-D platform in June and planned annual maintenance and pigging campaigns on the GLA in the UK during April. This was offset by the addition of oil production from the Balder area in Norway.

The Group's average realised price across gas and oil sales during the period was €74/boe, and total revenue from gas and oil sales was €105.1 million, versus €142/boe and €137.5 million a year earlier. On a pro forma basis, these figures were €74/boe and €119.9 million, a decrease from €139/boe and €285.1 million realised in the equivalent 2022 period, reflecting the significant volatility in the gas price across the periods.

In the Netherlands, the average realised gas price for the period was €46/MWh (H1 2022: €105/MWh). In the UK, the average realised gas price for the period was 91p/therm (H1 2022 pro forma: 204p/therm). The average realised oil price from crude oil sales in Norway on a pro forma basis was $74/boe, reflecting the norm price differential applied by the Norwegian Petroleum Price Council to Balder crude for the period.

Costs

Total adjusted operating costs (which exclude non-cash accounting movements in inventory) were €28.1 million (H1 2022: €4.2 million). On a pro forma basis, adjusted operating costs were €38.3 million (H1 2022 pro forma: €22.5 million), with this figure reflecting the inclusion of six months of production costs in Norway.

Cash capital expenditure in the first half of 2023 was €46 million. Of this, €20 million related to the drilling campaign on Q10-A, which concluded in March 2023. Capital expenditure on the Benriach exploration well, which spudded in March 2023 and completed operations in June 2023, was €17 million net to Kistos, of which €12 million had been paid by 30 June. The total effective post-tax cost of the well is anticipated to be c.€3 million after taking into account the investment allowance available under the UK tax rules. In Norway, Kistos' share of cash capital expenditure was €13 million, which was spent on drilling, refurbishment costs on the Jotun FPSO, and other facilities. Most of Kistos' capital expenditure in the second half of the year is anticipated to be incurred on the Balder Future project in Norway, with no drilling or well intervention campaigns planned in the UK or in the Netherlands.

Adjusted EBITDA

The Group reported Adjusted EBITDA of €67.1 million in the six months to 30 June 2023. On a pro forma basis, Adjusted EBITDA for the period was €68.6 million (equivalent to €41.3/boe produced). These figures represented decreases of 26% and 65% respectively from the comparable pro forma prior year figures of €261.0 million or €118.4/boe. The decline was primarily driven by the reduction in gas prices from the historic highs that were observed during 2022.

Profit and loss before tax

The statutory operating loss for the period ended 30 June 2023 was €7.1 million (2022: operating profit of €112.5 million). After net finance income of €1.9 million (2022: net finance charges of €9.9 million) principally relating to bond interest expense offset by foreign exchange gains and interest income, a loss before tax of €5.2 million was recorded (2022: profit before tax of €102.5 million). The reduction in operating profit was due to lower EBITDA following the decline in commodity prices compared to the highs seen in 2022, higher operating costs and depreciation charge rates due to the inclusion of a full period of GLA activity and approximately one month of KENAS activity, and exploration impairments of €29.8 million, primarily relating to the Benriach well in the UK.

Tax

The net tax credit for the period was €18.3 million, reflecting the deferred tax impact of the Benriach well impairment, the EPL investment allowance on capital expenditure in the UK and pre-tax losses in Norway. The net current tax charge for the period (which only reflects tax due or receivable on profits or losses made in the period) was €12.7 million, representing an effective rate of 19% on EBITDA (H1 2022: €47.2 million, and an effective rate of 37% on EBITDA). This reflects the statutory headline rates of 75%, 78% and 50% in the UK, Norway and Netherlands respectively, offset by capital allowances for capital expenditure from our drilling campaign at Benriach, the well intervention activity on Q10-A and the Balder Future project. Cash tax payments for the period were €38.1 million (H1 2022: €nil), wholly relating to the Netherlands. A cash tax refund of NOK 838 million (€71.7 million) is scheduled to be received by KENAS in December 2023.

Cash flow

€'000	6 months ended 30 June 2023	6 months ended 30 June 2022
Cash and cash equivalents at beginning of period	211,980	77,288
Net cash generated from operating activities	91,762	126,957
Net cash used in investing activities	(52,104)	(19,701)
Net cash (used in)/generated from financing activities	(5,889)	(35,831)
Net increase in cash and cash equivalents	**33,769**	**71,425**
Foreign exchange differences	1,577	(267)
Cash and cash equivalents at 30 June	**247,326**	**148,446**
Face value of debt (Appendix B2)	(289,589)	(122,300)
Net (debt)/cash at 30 June	**(42,263)**	**26,146**

Debt and liquidity

Cash balances at the end of the period were €247.3 million, and, following the Mime acquisition, the Group had outstanding bonds (excluding the $45 million hybrid bond) with a face value of €289.6 million giving net debt of €42.3 million. The Group's accounting debt at mid-year comprised €141.6 million of EUR-denominated bonds issued from its Dutch subsidiary (net of €68.4 million bonds repurchased and held in treasury) and $271.6 million of USD-denominated bonds issued from its Norwegian subsidiary. Of the latter, $45 million is non-interest-bearing, and is only fully payable in the event 500,000 bbl (gross) have been offloaded and sold from the Jotun FPSO by 31 December 2024. This amount will decline to $30 million from 1 January 2025 to 28 February 2025, to $15 million from 1 March 2025 to 31 May 2025, and to zero thereafter. Further details on the bonds are outlined in note 5.1 to the financial statements. No bonds were repurchased in the first half of 2023.

In the first half of 2022, 100,000 MWh per month of gas from Q10-A was hedged at a price of €25/MWh from January 2022 – March 2022 inclusive. Prior to its acquisition by Kistos, Mime closed out all of its Brent swaps in February 2023. Therefore, the Group is fully unhedged and, although the position is reviewed regularly, it does not have any immediate plans to enter new hedges.

Review of Operations

Netherlands

Q10-A

Q10-A (Kistos 60% and operator) production in the first half of 2023 was 3.1 kboepd compared to 5.7 kboepd in the first half of 2022. Production was adversely impacted by downtime during a planned workover campaign that commenced in Q4 2022 and concluded in Q1 2023. The results of this campaign were mixed, although that was mainly due to mechanical issues arising from utilising the existing well stock rather than reservoir performance issues. Production was also impacted by a planned maintenance shutdown of the P15-D platform commencing in June 2023 and natural reservoir decline.

Kistos continues to evaluate opportunities to enhance production from existing wells at Q10-A and to drill infill wells. The Group is also co-operating with the operator and other users of the P15-D platform and associated infrastructure to ensure volumes are maximised and unit operating costs are minimised in the coming years. The objective of this collaborative exercise is to extend the economic life of the hub for the benefit of all users.

Average realised gas prices fell by 45% to €46.2/MWh from €83.6/MWh a year earlier. Combined with lower production rates, this caused total revenue in the period to decrease by 71% to €40.1 million versus €137.5 million during H1 2022.

Orion

The Q10-A Orion oil field (Kistos 60% and operator) is located in the Vlieland sandstone formation, which is a stratigraphically shallower formation deposited above the Q10-A gas field. This is a proven play in the area and although this reservoir has low porosity and permeability, it also contains natural fractures that can significantly enhance productivity. This was demonstrated in the third quarter of 2021, when Kistos drilled an appraisal well and flow tested an 825-metre horizontal section at a maximum rate of 3,200 boepd.

The Concept Select phase of the development is nearing completion, with FID targeted for the first half of 2024. Assuming the project moves into the development phase, first oil is expected around late 2025 or early 2026. This relatively low-cost project is expected to utilise the existing facilities at Q10-A and P15-D and, under currently enacted fiscal regimes, the oil produced would be among the lowest taxed barrels in the North Sea at a rate of approximately 50%.

M10a/M11

During the first half of 2022, Kistos applied for the M10a and M11 (Kistos 60%) licences north of the Wadden Islands to be extended beyond 30 June 2022. Initially the extension was denied, but Kistos was granted an extension to 2028 following successful objection proceedings. The area is estimated by a reputable third-party consultancy to contain technically recoverable 2C resources net to Kistos of 174 billion cubic feet (Bcf) or 31.7 Mmboe. Kistos will now apply for a permit for an appraisal well, engaging closely with the local municipalities and other stakeholders prior to commencing any assessment phase planning work.

Other

In January 2023, Kistos was awarded three new offshore exploration licences (P12b, Q13b and Q14), which are adjacent to the existing Q10 block and cover a total of 507 km^2. Kistos holds a 60% operated working interest in these licences and is partnered with EBN (40%). Initial evaluation of the acreage has commenced with previously identified prospects being further worked and ranked against our portfolio of exploration opportunities.

UK

Greater Laggan Area

In July 2022, Kistos marked its entry to the UK Continental Shelf with the completion of the acquisition of a 20% interest in the GLA from TotalEnergies. As part of the acquisition terms, an additional payment of €15.9 million was made in January 2023. This was calculated by reference to the average gas price and GLA production during 2022.

Average net production from the GLA in the six months to 30 June 2023 was in line with expectations at an average rate of 4.3 kboepd. This period included a period of unplanned outages during March as a result of compressor unavailability, approximately three weeks of planned shut-ins during April to allow for planned pipeline pigging operations, plus a three-day planned maintenance window during May. Production from the single well on the Edradour field is temporarily suspended due to facilities constraints relating to monoethylene glycol (MEG) management. These constraints are expected to be resolved during Q4 2023 and the well is anticipated to restart early in 2024. During H1 2023, wells on the other GLA fields successfully compensated for the production shortfall, with overall output for the period being within the original forecast range. On a pro forma basis, average realised gas prices fell by 55% to 91p/therm from 204p/therm a year earlier, resulting in a decrease in revenue to €60.6 million from €149.5 million.

A 4D seismic survey was acquired over all four producing GLA fields, with completion occurring in early July ahead of schedule and (due to favourable weather conditions) significantly under budget. The primary aim of the campaign is to de-risk potential infill opportunities over Laggan and Tormore and to provide better reservoir monitoring and management on the GLA as a whole. The acquired seismic will now be subject to processing with results expected in early 2024.

The JV continued to progress options for the Edradour West development towards a final investment decision, whilst the Glendronach development has passed all technical stage gates with the operator and partners, and is awaiting the easing of cost pressures caused by Covid supply chain issues. Both of these projects, which the Kistos Board is ready to approve, exhibit highly accretive economics, and would utilise the existing GLA subsea infrastructure and the SGP. Once sanctioned, Edradour West is expected to add 2.5 MMboe to the Group's net 2P reserves and unlock a further 1.3 MMBoe of reserves via extending the life of the existing fields, while Glendronach is estimated to add a further 2.5 MMboe.

Benriach

The Benriach exploration well, located on block 206/05c (Kistos 25%), was spudded on 21 March by the Transocean Barents rig. A total measured depth of approximately 4,400 metres was reached, and an extensive data acquisition programme was conducted including rotary sidewall cores, full wireline coverage, live pressures and fluid samples. The campaign confirmed the presence of gas-bearing sands in the target Royal Sovereign formation. However, based on

initial analysis, the discovered resource is expected to be sub-commercial.
Drilling concluded ahead of schedule in June 2023, with zero lost time incidents (LTIs) or first aid cases and at a post-tax cost net to Kistos of approximately €3 million. Analysis of the acquired data is now being undertaken by the operator in order to inform future potential developments on the immediate licence or adjacent licences (such as Glendronach).

Other UK
Kistos is part of a TotalEnergies-led JV that has applied for certain exploration blocks to the West of Shetland as part of the UK Government's 33rd Offshore Oil and Gas Licensing Round. The acreage covers previously identified prospects and Kistos' share in the application is 25%. Submissions were made in January 2023 and a decision on any award is anticipated by the end of the year.

The nearby Victory development (Shell 100%) is planned to be a single subsea well tied back to the existing GLA infrastructure, with a reported target first gas date of Q4 2025. Should the development proceed, it will make a significant contribution to the cost of operating the SGP. In turn, this will result in reduced unit operating costs for the GLA partners and is expected to provide a life extension for the existing GLA fields.

Norway

Production and drilling activity

Net production from the Balder and Ringhorne fields (Kistos 10%) in the period from acquisition to the end of June averaged 2,200 boepd. One cargo of crude was lifted from the Balder Floating Production Unit (FPU) in the period post-acquisition under the joint lifting arrangement with Vår, totalling 72 thousand barrels of oil equivalent (kboe) net to Kistos with a (provisional) realised price of $68/bbl.

Production was positively impacted in the period by the restart of the rich-gas riser between the Balder FPU and the Ringhorne platform in May, which was temporarily shut in during the first quarter. It was permanently replaced in September during the planned Balder FPU turnaround. Overall production efficiency for Q2 2023 for Balder and Ringhorne improved to 83% from 80% in Q1 2023. The Ringhorne Øst field (Kistos 7.4%) had planned for zero production during the period. A well intervention campaign to restore output from Ringhorne Øst started ahead of schedule in mid-May and the C17 well resumed production shortly after the period end. Drilling of the five Ringhorne Phase IV wells started in June, and the remaining Ringhorne wells are anticipated to be completed in early 2025.

KENAS' full year 2023 production (on a pro forma basis) is anticipated to average approximately 2,000 boepd. This incorporates the postitive impact of production from three new wells from the Ringhorne infill drilling campaign which have, or are scheduled to, come onstream during 2023.

Balder Future and other developments

The Balder Future project involves the drilling of fourteen new production wells plus one new water injector on the Balder field alongside the refurbishment of the Jotun FPSO which will be integrated within the Balder area hub to increase processing and handling capacities across the Balder and Ringhorne fields. The project's target is to extract an additional 143 MMboe from the area, and also to provide future expansion capacity to tie in extra wells to the FPSO after the completion of Balder Future drilling programme.

The upgrade of the Jotun FPSO for the Balder X/Future development project is ongoing and the re-float of the vessel occurred in late June. This enabled the safe completion of the heavy-lift installation of the turret, turntable, and gantry in July. The subsea systems including flowlines, umbilical and risers have now been installed, with templates, multi flow bases, flowlines and buoyancy elements for risers also in place. Dewatering of the gas export line and gas lift lines along with flushing of lines and umbilical testing have all been conducted.

The overall project is currently estimated by the operator to be more than 80% complete, with all production wells expected to be ready for start-up once the Jotun FPSO is installed in the field. The operator has reported that the upgrade of the FPSO remains on the critical path, and it remains focussed on securing sail-away in the second quarter of 2024 and a production start-up in the third quarter of 2024. However, the operator's gross capex estimate for the project has increased by approximately NOK 4 billion (NOK 400 million net pre-tax to KENAS), with the additional spend anticipated to be incurred in 2024. The increases, according to the operator, result from a tighter supplier market, mitigation of schedule risk, and to improve construction productivity. Capex guidance for the full year 2023 (pro forma) remains at c.$130 million (net to KENAS), with the Balder Future project comprising c.80% of this budget and the remainder relating to the Ringhorne drilling campaign and general operating investments in the area.

Principal Risks and Uncertainties

The Directors do not consider that the principal risks and uncertainties have changed since the publication of Kistos Holdings plc's 2022 Annual Report dated 26 May 2023. There are a number of potential risks and uncertainties that could have a material impact on the Group's performance over the remaining six months of the financial year and could cause actual results to differ materially from expected and historical results. A detailed explanation of the risks summarised below can be found in the section headed "Principal Risks and Uncertainties" on page 24 of the Kistos Holdings plc 2022 Annual Report dated 26 May 2023, which is available at www.kistosplc.com.

Key headline risks relate to the following:

- Political risk
- Taxation
- Growth of reserves base
- Climate change
- Cyber security
- Joint ventures
- HSE and compliance
- Hydrocarbon production and operational performance
- Project delivery
- Retention of key personnel
- Commodity price risk
- Liquidity
- Decommissioning costs and timing

Our Environmental, Social and Governance Ambitions

Kistos' role is crucial for supplying energy during the global energy transition. As such, the Group is constantly exploring opportunities for growth, adapting to support global sustainability efforts and adding value for shareholders.

In 2022, Kistos undertook a thorough materiality assessment to identify the most significant environmental, social and governance (ESG) issues, enabling the Group to develop a full sustainability strategy and objectives aligned with the United Nations Sustainable Development Goals (SDGs).

Kistos has a Code of Business Conduct in place alongside policies to ensure consistency across the business for issues, including anti-bribery and corruption, whistleblowing, major accident prevention, health, environment, safety and security.

Building on existing health, safety and responsible business practices, Kistos has broadened the scope of its stewardship approach to include enhanced environmental considerations, encompassing its commitment to avoid unnecessary depletion of natural resources. With the aim of creating an environmentally aware work culture, Kistos also works with suppliers to educate and promote sustainable practices.

As an operator in the Netherlands, an EU member state, Kistos is aligned with the Paris Accord – the EU's target to reduce greenhouse gas emissions by 55% by 2030 in an effort to reach net zero by 2050. The Directors are using the net zero 2050 agenda as an opportunity to demonstrate leadership and are confident that with their forward-looking stewardship mindset and industry experience, they are able to drive sustainability without compromising business growth.

The Group is confident that domestic offshore gas has a vital role to play as a transition fuel both in the Netherlands and in the UK and will be imperative in carbon reduction in the coming years. Already a low carbon producer of natural gas, Kistos is well-placed to build on its existing position and has committed to explore more sustainable ways to develop existing assets. The Q10-A platform, which generates electricity from renewable energy sources and produces gas with minimal Scope 1 emissions, will serve as a blueprint for future projects.

To keep emissions as low as possible and exceed regulatory requirements, Kistos has implemented the Lead Detection and Repair (LDAR) programme to identify and prevent methane leaks from its operations. It plans to perform a full platform inspection every year, surpassing the requirement to undertake one every four years. Access points that are not measured through LDAR are assessed using a forward-looking infrared (FLIR) camera to identify any leaks as quickly as possible.

Cautionary Statement About Forward-Looking Statements

This half-year results announcement contains certain forward-looking statements. All statements other than historical facts are forward-looking statements. Examples of forward-looking statements include those regarding the Group's strategy, plans, objectives or future operating or financial performance, reserve and resource estimates, commodity demand and trends in commodity prices, growth opportunities, and any assumptions underlying or relating to any of the foregoing. Words such as 'intend', 'aim', 'project', 'anticipate', 'estimate', 'plan', 'believe', 'expect', 'may', 'should', 'will', 'continue' and similar expressions identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties, assumptions and other factors that are beyond the Group's control. Given these risks, uncertainties and assumptions, actual results could differ materially from any future results expressed or implied by these forward-looking statements, which speak only at the date of this report.

Important factors that could cause actual results to differ from those in the forward-looking statements include: global economic conditions, demand, supply and prices for oil, gas and other long-term commodity price assumptions (as they materially affect the timing and feasibility of future projects and developments), trends in the oil and gas sector and conditions of the international markets, the effect of currency exchange rates on commodity prices and operating costs, the availability and costs associated with production inputs and labour, operating or technical difficulties in connection with production or development activities, employee relations, litigation, and actions and activities of governmental authorities, including changes in laws, regulations or taxation. Except as required by applicable law, rule or regulation, the Group does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Past performance cannot be relied on as a guide to future performance.

Financial Statements

Condensed consolidated income statement

€'000	Note	6 months ended 30 June 2023	6 months ended 30 June 2022
Revenue	**2.1**	**105,149**	**137,502**
Other operating income		26	20
Exploration expenses		(257)	(281)
Production costs		(33,228)	(4,245)
Development expenses		(382)	(2,137)
General and administrative expenses		(5,351)	(3,498)
Depreciation and amortisation	2.3	(46,606)	(14,877)
Impairment	2.4	(29,783)	–
Release of contingent consideration	7.1	3,297	–
Operating (loss)/profit		**(7,135)**	**112,484**
Interest income	3.2	2,625	–
Interest expenses	3.2	(8,826)	(6,082)
Foreign exchange movements and other net finance income/(costs)	3.2	8,120	(3,863)
Net finance income/(costs)		**1,919**	**(9,945)**
(Loss)/profit before tax		**(5,216)**	**102,539**
Tax (charge)/credit	6.1	18,307	(50,103)
Profit for the period		**13,091**	**52,436**
Basic earnings per share (€)	3.1	0.16	0.63
Diluted earnings per share (€)	3.1	0.16	0.63

Condensed consolidated statement of other comprehensive income

€'000	6 months ended 30 June 2023	6 months ended 30 June 2022
Profit for the period	**13,091**	**52,436**
Items that may be reclassified to profit or loss:		
Costs of cash flow hedge deferred and recognised in other comprehensive income	–	(9,404)
Cash flow hedge reclassified to profit or loss	–	21,185
Tax relating to components of other comprehensive income	–	(5,891)
Foreign currency translation differences	(343)	(423)
Total comprehensive income for the period	**12,748**	**57,903**

Condensed consolidated balance sheet

€'000	Note	30 June 2023	31 December 2022 (Audited)
Non-current assets			
Goodwill	2.4	39,979	10,913
Intangible assets	2.4	42,130	43,338
Property, plant and equipment	2.3	437,217	282,474
Deferred tax assets		1,215	566
Investment in associates		63	61
Other long-term receivables		598	102
		521,202	**337,454**
Current assets			
Inventories		18,369	9,688
Trade and other receivables	4.1	22,763	54,562
Current tax receivable		115,215	–
Cash and cash equivalents		247,326	211,980
		403,673	**276,230**
Total assets		**924,875**	**613,684**
Equity			
Share capital and share premium		9,464	9,464
Other equity		3,640	–
Other reserves		59,814	59,987
Retained earnings		46,352	33,261
Total equity		**119,270**	**102,712**
Non-current liabilities			
Abandonment provision	2.5	193,396	123,503
Bond debt	5.1	278,075	80,800
Deferred tax liabilities		139,711	118,325
Other non-current liabilities	4.3	1,311	4,197
		612,493	**326,825**
Current liabilities			
Trade payables and accruals	4.2	47,468	19,372
Current tax payable		127,684	143,134
Abandonment provision	2.5	4,827	2,585
Other liabilities	4.3	13,133	19,056
		193,112	**184,147**
Total liabilities		**805,605**	**510,972**
Total equity and liabilities		**924,875**	**613,684**

Condensed consolidated statement of changes in equity

€'000	Share capital and share premium	Other equity	Other reserves	Retained earnings	Total equity €'000
At 1 January 2022 (audited)	103,808	–	9,226	(42,463)	70,571
Profit for the period	–	–	–	52,436	52,436
Movement in the period	–	–	5,467	–	5,467
Total comprehensive income for the period	**–**	**–**	**5,467**	**52,436**	**57,903**
Share-based payments	–	–	242	–	242
At 30 June 2022	**103,808**	**–**	**14,935**	**9,973**	**128,716**
At 1 January 2023 (audited)	9,464	–	59,987	33,261	102,712
Profit for the period	–	–	–	13,091	13,091
Movement in the period	–	–	(343)	–	(343)
Total comprehensive income for the period	**–**	**–**	**(343)**	**13,091**	**12,748**
Share-based payments	–	–	170	–	170
Issue of warrants (note 2.7)	–	3,640	–	–	3,640
At 30 June 2023	**9,464**	**3,640**	**59,814**	**46,352**	**119,270**

Condensed consolidated cash flow statement

€'000	Note	6 months ended 30 June 2023	6 months ended 30 June 2022
Cash flow from operating activities			
Profit for the period		13,091	52,436
Tax (credit)/charge	6.1	(18,307)	50,103
Net finance (income)/costs	3.2	(1,919)	9,945
Depreciation and amortisation	2.3	46,606	14,877
Impairment	2.4	29,783	–
Change in contingent consideration payable	2.7	(3,297)	–
Share-based payment expense		170	242
Taxes paid		(38,107)	–
Deferred tax on hedge reserve		–	5,890
Abandonment costs paid	2.5	(247)	–
Movement in provisions		(27)	(267)
Decrease in trade and other receivables		41,056	14,501
Increase/(decrease) in trade and other payables		16,381	(19,897)
Decrease/(increase) in inventories		6,606	(844)
Movement in other non-current assets and liabilities		(27)	(29)
Net cash flow from operating activities		**91,762**	**126,957**
Cash flow from investing activities			
Payments of contingent consideration		(15,938)	(7,500)
Deposit paid for GLA acquisition		–	(5,386)
Net cash acquired in acquisition of Mime	2.7	7,287	–
Payments to acquire tangible fixed assets		(46,077)	(6,815)
Interest received		2,624	–
Net cash flow from investing activities		**(52,104)**	**(19,701)**
Cash flow from financing activities			
Repayment of long-term payables		(208)	(31)
Bond interest paid		(4,755)	(6,428)
Repurchase of own bonds		–	(29,264)
Other interest and finance charges paid		(926)	(108)
Net cash flow from financing activities		**(5,889)**	**(35,831)**
Increase in cash and cash equivalents		33,769	71,425
Cash and cash equivalents at beginning of period (audited)		211,980	77,288
Effects of foreign exchange rate changes		1,577	(267)
Cash and cash equivalents at end of period		**247,326**	**148,446**

Notes to the condensed consolidated financial statements

Section 1: General information and basis of preparation

Note 1.1: General information
These condensed consolidated financial statements for the six-month period ended 30 June 2023 have been prepared in accordance with IAS 34 Interim Financial Reporting and AIM Rule 18. These condensed consolidated financial statements, along with the management report above, represent a 'half-yearly report' as referred to in the AIM Rules. Accordingly, they do not include all the information required for a full annual financial report. These condensed consolidated financial statements are unaudited and do not constitute statutory accounts as defined in section 434 of the Companies Act 2006 and should be read in conjunction with the 2022 Annual Report and Accounts. Interim period results are not necessarily indicative of results of operations or cash flows for an annual period. These condensed consolidated financial statements have not been subject to review or audit by independent auditors; therefore all figures are unaudited (unless otherwise stated). The Group's business is not seasonal by its nature, but gas prices (and therefore revenue from gas sales) are typically higher in the European winter months than the summer.

These condensed consolidated financial statements were authorised for issue by Kistos Holdings plc's Board of Directors on 27 September 2023.

Note 1.2: Going concern
These condensed consolidated financial statements have been prepared in accordance with the going concern basis of accounting. The forecasts and projections made in adopting the going concern basis take into account forecasts of commodity prices, production rates, operating and general and administrative (G&A) expenditure, committed and sanctioned capital expenditure, and the timing and quantum of future tax payments. The Group's cash balances as at the end of August 2023 (the latest practicable date of preparing these financial statements) was €226 million. To assess the Group's ability to continue as a going concern, management evaluated cash flow forecasts for the period to December 2024 (the going concern period), by preparing a base case forecast and various downside sensitivities. The base case assumed the following:

- Q10-A production in line with latest internal forecasts;
- GLA and Balder/Ringhorne area production in line with latest available operator forecasts;
- A first oil date from the Jotun FPSO by the end of 2024, in line with operator targets (and thus triggering the $45 million hybrid bond payment in full);
- Committed and contracted capital expenditure only (being primarily the share of capital expenditure on the Balder project, taking into account recently revised estimates of spend from the operator);
- Obligations under Decommissioning Security Agreements (DSAs) satisfied via the purchase of surety bonds in Q3 2023 (in respect of obligations for 2024);
- Material tax refunds due from the Norwegian authorities in December 2023 and December 2024;
- A €47 million payment of the Solidarity Contribution Tax charge in Q2 2024 (notwithstanding that the Group believes it may be out of scope of the charge); and
- Flat commodity prices of 100p/therm and €40/MWh for UK and Dutch gas respectively, and $70/bbl for crude oil.

This base case forecast demonstrated that the bond covenants (minimum liquidity and leverage ratio) were complied with and that the Group had sufficient cash to meet its obligations throughout the going concern period. Various downside scenarios were also analysed, including reasonably possible commodity price and production downsides, and a scenario where the Group has to fully cover its estimated DSA obligations in cash. Individually these scenarios demonstrated an ability to meet the bond covenants and have sufficient cash available to continue in operational existence in the going concern period. If the estimated DSA obligations for 2025 were required to be fully covered in cash in Q3 2024 and either the commodity price or production downside scenarios realised, then it is estimated that, with no mitigating activities undertaken, the Group may fall below its liquidity covenants in or around November 2024. As the Group has continued to receive support from the surety market in respect of its current and future obligations, the possibility that it will be unable to renew its surety bonds on the same basis as is currently posted is considered unlikely.

As a result of the above, the Directors have concluded that there is a reasonable expectation that the Group has adequate resources to continue in operational existence throughout the going concern period, and therefore the going concern basis is adopted in the preparation of these condensed consolidated financial statements.

Note 1.3: Accounting principles
The accounting principles used in these condensed consolidated financial statements are consistent with the principles used in the Company's annual financial statements for the year ended 31 December 2022. Certain amended accounting standards and interpretations became applicable for the current reporting period. The Group did not have to change its accounting policies or make retrospective adjustments as a result of adopting these amendments, as the Group's accounting policies are already aligned with the amended standards, or they are not relevant to the Group's business. There are new and revised accounting standards in issue that will become effective for future periods, but it is not expected these standards and interpretations will have a material impact on the Group's financial statements upon adoption.

In preparing these condensed consolidated 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 Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the audited annual financial statements at 31 December 2022, with the addition of specific key sources of estimation uncertainty and critical judgements that applied in assessing the fair value of assets and liabilities acquired as part of the Mime acquisition:

- Estimated future cash flows from the acquired producing and development assets
- Estimated quantity of reserves and contingent resources
- Estimated costs for abandonment provisions
- Estimated value of exploration and evaluation intangible assets; and
- Critical judgements concerning the timing of first oil from the Jotun FPSO.

Note 1.4: Foreign currencies and translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which each entity operates (the functional currency). Transactions in currencies other than the functional currency are translated to the entity's functional currency at the foreign exchange rates at the date of the transactions.

Foreign exchange gains and losses resulting from the settlement of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. All UK-incorporated entities in the Group, including Kistos Holdings plc, have a functional currency of pounds Sterling (GBP). All Dutch-incorporated entities have a functional currency of euros (EUR). Norwegian-incorporated entities have a functional currency of Norwegian Krone (NOK).

These financial statements are presented in EUR, a currency different to the functional currency of the reporting entity (which is GBP). All amounts have been rounded to the nearest thousand EUR, unless otherwise stated.

The results and balance sheet of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet (except for certain items in equity which are translated at the historical rate);
- Income and expenses for each income statement are translated at average exchange rates for the period; and
- All resulting exchange differences are recognised in 'Other comprehensive income'.

Note 1.5: Significant events in the current period

The financial position and performance of the Group was affected by the following events and transactions during the six months ended 30 June 2023:

- The acquisition of Mime in May 2023, resulting in additions of, among other items, €174 million of fixed assets, €105 million of current tax receivables, €28 million of goodwill and €200 million of debt (note 2.7); and
- An exploration write-off of €29.8 million following the Benriach well drilled during the period proving to be sub-commercial (note 2.4).

Section 2: Oil and gas operations

Note 2.1: Revenue

	Geographical region				
€'000	Netherlands	UK	Norway	6 months ended 30 June 2023	6 months ended 30 June 2022
Sales of crude oil and liquids	–	10,990	4,458	15,448	–
Sales of natural gas	40,111	49,590	–	89,701	137,502
Total revenue from contracts with customers	**40,111**	**60,580**	**4,458**	**105,149**	**137,502**

All revenue in the prior period was attributable to the Netherlands region.

Note 2.2: Segmental information

Note 2.2.1: Adjusted EBITDA

Adjusted EBITDA is used to assess the performance of the operating segments. Adjusted EBITDA is a non-IFRS measure, which management believe is a useful metric as it provides additional useful information on performance and trends. Adjusted EBITDA is not defined in International Financial Reporting Standards (IFRS) or other accounting standards, and therefore may not be comparable with similarly described or defined measures reported by other companies. It is not intended to be a substitute for, or superior to, any nearest equivalent IFRS measure.

Adjusted EBITDA excludes the effects of significant items of income and expenditure that may have an impact on the quality of earnings. These include non-cash charge such as provisions for impairment, depreciation, amortisation and share-based payment expense; and non-recurring items such as transaction costs, exploration expenses and development expenditure. A reconciliation of Adjusted EBITDA by segment to profit before tax, the nearest equivalent IFRS measure, is presented below.

€'000	Note	6 months ended 30 June 2023	6 months ended 30 June 2022
Adjusted EBITDA by segment			
Netherlands		31,113	131,760
UK		37,087	–
Norway		1,599	–
Head office costs and eliminations		(2,728)	(1,272)
Group Adjusted EBITDA		**67,071**	**130,488**
Development expenses		(382)	(2,137)
Exploration expenses		(257)	(281)
Share-based payment expense		(170)	(242)
Depreciation and amortisation	2.3	(46,606)	(14,877)
Impairments	2.4	(29,783)	–
Transaction costs		(305)	(467)
Changes in contingent consideration payable	7.1	3,297	–
Operating (loss)/profit		**(7,135)**	**112,484**
Net finance income/(costs)	3.2	1,919	(9,945)
(Loss)/profit before tax		**(5,216)**	**102,539**

Note 2.3: Property, plant and equipment

€'000	Assets under construction	Production facilities and wells	Other	Total
Cost at 1 January 2023 (audited)	**7,401**	**358,731**	**1,683**	**367,815**
Acquisitions (note 2.7)	–	166,033	167	166,200
Additions	11,981	16,242	159	28,382
Foreign exchange differences	–	8,432	5	8,437
Other movements including reclassifications	(18,740)	18,316	(80)	(504)
At 30 June 2023	**642**	**567,754**	**1,934**	**570,330**
Accumulated depreciation and impairment				
At 1 January 2023 (audited)	**–**	**(85,048)**	**(293)**	**(85,341)**
Depreciation charge for period	–	(46,381)	(189)	(46,570)
Foreign exchange differences and other movements	–	(1,259)	57	(1,202)
At 30 June 2023	**–**	**(132,688)**	**(425)**	**(133,113)**
Net book value at 31 December 2022 (audited)	7,401	273,683	1,390	282,474
Net book value at 30 June 2023	**642**	**435,066**	**1,509**	**437,217**

Assets under construction relate to wells drilled but not yet producing. Other includes office and IT equipment, including office leases held as right-of-use assets.

Disposals relate to the removal of fully depreciated assets following the conclusion of the abandonment campaign at the Donkerbroek Hemrik location in the Netherlands.

Note 2.4: Intangible assets and goodwill

€'000	Goodwill	Exploration and evaluation assets	Other	Total
Cost				
At 1 January 2023 (audited)	17,913	200,401	–	218,314
Acquisitions (note 2.7)	28,255	7,167	342	35,764
Additions	–	18,982	1,031	20,013
Foreign exchange differences and other movements	811	1,590	14	2,415
At 30 June 2023	**46,979**	**228,140**	**1,387**	**276,506**
Accumulated amortisation and impairment				
At 1 January 2023 (audited)	(7,000)	(157,063)	–	(164,063)
Amortisation charge for the period	–	–	(36)	(36)
Foreign exchange differences and other movements	–	(515)	–	(515)
Provision for impairment	–	(29,783)	–	(29,783)
At 30 June 2023	**(7,000)**	**(187,361)**	**(36)**	**(194,397)**
Net book value at 31 December 2022 (audited)	10,913	43,338	–	54,251
Net book value at 30 June 2023	**39,979**	**40,779**	**1,351**	**82,109**

Exploration and evaluation assets include the exploration licence portfolio acquired as part of the GLA acquisition, the Orion oil prospect on the Q10-A licence and exploration prospects in Norway. Amounts impaired in the current period relate to the Benriach licence following the exploration well drilled proving to be sub-commercial. The Group's licence interests are shown in note 2.6.

Note 2.5: Abandonment provision

€'000	Note	6 months ended 30 June 2023
At 1 January 2023		**126,088**
Acquisitions	2.7	64,642
Accretion expense	3.2	2,265
Changes in estimates to provisions		7,973
Utilisation of provisions		(247)
Effect of changes to discount rate		(6,801)
Foreign exchange differences		4,303
At 30 June 2023		**198,223**
Of which:		
Current		4,827
Non-current		193,396
Total		**198,223**

Abandonment provisions primarily include:

- In the Netherlands, the Group's share of the estimated cost of abandoning the producing Q10-A wells, decommissioning the associated infrastructure, plugging and abandoning the currently suspended Q11-B well, and removal and restoration of certain onshore pipelines and corresponding land from historic assets.
- In the UK, the Group's share of the estimated cost of plugging and abandoning the producing and suspended Laggan, Tormore, Edradour and Glenlivet wells, removal of the associated subsea infrastructure, and demolition of the SGP and restoration of the land upon which the plant is constructed.
- In Norway, plugging and abandonment of drilled wells on Ringhorne and Balder, and removal of the Balder FPU and Ringhorne platform.

The abandonment of the Q10-A wells and associated infrastructure is expected to take place between seven and nine years from the balance sheet date, in 2025 for the Q11-B well (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 concluded) and within one year for the onshore pipelines and land restoration.

The abandonment of the UK fields and associated infrastructure is expected to take place between 5 and fourteen years from the balance sheet date based on current production and commodity price forecasts and sanctioned development plans.

The utilisation of provisions in the period relates to the onshore abandonment of the onshore Donkerbroek-Hemrik location and activity on the Ringhorne Phase III and IV projects in Norway.

Abandonment provisions are initially estimated in nominal terms, based on management's assessment of publicly available economic forecasts and determined using inflation rates of 2.0 to 3.0% (2022: 2.5%) and a discount rate of 2.5% to 4.5% (2022: 2.5% to 3.5%). The changes in estimates to provisions arise primarily as a result of the increased inflation rate assumed in certain regions.

The Group has in issue €27.4 million of surety bonds as at 30 June 2023 and 31 December 2022 to cover its obligations under DSAs for the GLA fields and infrastructure. The amount of the bonds required is re-assessed each year, changing in line with estimated post-tax cash flows from the assets, revisions to the abandonment cost, inflation rates, discount rates and other inputs defined in the DSAs.

As part of the original acquisition of the Balder and Ringhorne Øst interest by Mime in 2019, KENAS is obliged to deposit to Vår Energi a post-tax amount of $12.7 million (plus interest accruing at LIBOR +3%) three months after the date of the first oil produced from the Balder and Ringhorne fields over the Jotun FPSO. This amount will be repaid to KENAS upon decommissioning of the fields.

Note 2.6: Joint arrangements and licence interests

The Group has the following interests in joint arrangements that management has assessed as being joint operations.

The operator of the licences held by Kistos Energy Limited is TotalEnergies E&P UK Limited. The operator of the licences held by Kistos Energy (Norway) AS is Vår Energi ASA.

Except where otherwise noted, the interest and status of licences is the same as at the end of the prior period.

Field or licence	Country	Licence holder	Licence type	Status	Interest at 30 June 2023
M10a & M11[1]	Netherlands	Kistos NL1 BV	Exploration	Operated	60%
Donkerbroek	Netherlands	Kistos NL1 BV	Production	Operated	60%
Donkerbroek-West	Netherlands	Kistos NL1 BV	Production	Operated	60%
Akkrum-11	Netherlands	Kistos NL1 BV	Production	Operated	60%
Q07	Netherlands	Kistos NL2 BV	Production	Operated	60%
Q08	Netherlands	Kistos NL2 BV	Exploration	Operated	60%
Q10-A	Netherlands	Kistos NL2 BV	Production	Operated	60%
Q10-B	Netherlands	Kistos NL2 BV	Exploration	Operated	60%
Q11	Netherlands	Kistos NL2 BV	Exploration	Operated	60%
P12b[2]	Netherlands	Kistos NL2 BV	Exploration	Operated	60%
Q13b[2]	Netherlands	Kistos NL2 BV	Exploration	Operated	60%
Q14[2]	Netherlands	Kistos NL2 BV	Exploration	Operated	60%
P911, P1159, P1195, P1453[3] and P1678 (Laggan, Tormore, Edradour and Glenlivet)	UK	Kistos Energy Limited	Production	Non-operated	20%
P2411 and P1453[2] (Benriach)	UK	Kistos Energy Limited	Exploration	Non-operated	25%
P2415 (Bunnehaven)[4]	UK	Kistos Energy Limited	Exploration	Non-operated	25%
P2594 (Cardhu)	UK	Kistos Energy Limited	Exploration	Non-operated	20%

Field or licence	Country	Licence holder	Licence type	Status	Interest at 30 June 2023
P2604 (Roseisle)	UK	Kistos Energy Limited	Exploration	Non-operated	14%
PL001	Norway	Kistos Energy (Norway) AS	Production	Non-operated	10%
PL027[5]	Norway	Kistos Energy (Norway) AS	Production	Non-operated	10%[5]
PL027C	Norway	Kistos Energy (Norway) AS	Production	Non-operated	10%
PL027HS	Norway	Kistos Energy (Norway) AS	Production	Non-operated	10%
PL028	Norway	Kistos Energy (Norway) AS	Production	Non-operated	10%
PL028S	Norway	Kistos Energy (Norway) AS	Production	Non-operated	10%

1. Following successful appeal against non-renewal (decision received in July 2023), the licence was re-awarded to Kistos retroactively from 30 June 2022.
2. Acquired or awarded during the current period.
3. Licence P1453 is split into the portion including and excluding the Benriach area.
4. In process of being relinquished.
5. Licence 027 comprises Balder and Ringhorne Øst fields. Kistos' share of the Ringhorne Øst unit is 7.4%.

Note 2.7: Business combinations

On 23 May 2023, the Group completed the acquisition of the entire share capital of, and voting interests in, Mime Petroleum AS (Mime) from Mime Petroleum S.a.r.l. (the vendor). The primary purposes of the acquisition were to gain entry into the NCS and to increase and diversify the Group's hydrocarbon production, reserves and contingent resources.

The acquisition consideration, management's assessment of the net assets acquired, and subsequent goodwill arising are as follows:

€'000	At acquisition date
Consideration:	
Cash[1]	–
Fair value of warrants issued	3,640
Total consideration	**3,640**
Net assets acquired:	
Property, plant and equipment	166,200
Intangible assets	7,509
Net working capital	(19,238)
Inventory	14,048
Tax receivable	105,054
Cash and cash equivalents	7,287
Bond debt	(200,045)
Abandonment provisions	(64,642)
Net deferred tax liability	(40,788)
Goodwill	28,255
Total net assets acquired	**3,640**

1. The cash consideration payable was $1.

The fair values of assets and liabilities acquired, the measurement of the consideration transferred and the subsequent goodwill arising on acquisition are considered to be provisional as management are assessing, or will need to assess, to what extent recent information disclosed by Vår Energi (the operator of Mime's licence interests) concerning the overall cost of the Balder Future project, and the 2024 Norwegian Revised National Budget (RNB) submission in respect of the life of field production and costs (which is due to be submitted by the operator in October 2023) reflect facts and circumstances existing at the acquisition date. Transaction costs of €0.3 million were incurred, recognised within 'General and administrative expenses' within the income statement, and within operating cashflows in the cash flow statement.

As part of the consideration, 5.5 million warrants over shares in Kistos Holdings plc were issued to the vendor with an exercise price of 385p. 3.6 million of these warrants can be exercised until 18 April 2028, and 1.9 million can be exercised only between 30 June 2025 and 18 April 2028, but are subject to cancellation as described below.

Upon completion of the transaction, the terms of certain Mime's existing bond debt were amended. A summary of the bonds acquired is disclosed in note 5.1. Included within the bond debt acquired is the hybrid bond, which carries no interest but payment of which is contingent on an offload trigger being achieved from the Jotun FPSO (part of the Balder Future project).

The hybrid bond will be settled in full ($45 million) in the event 500,000 bbl (gross) have been offloaded and sold from the Jotun FPSO by 31 December 2024. This will decline to $30 million if the milestone is met between 1 January 2025 and 28 February 2025, and to $15 million if the milestone is met between 1 March 2025 and 31 May 2025. If 500,000 bbl (gross) has not been offloaded and sold from the Jotun FPSO by 31 May 2025, the hybrid bond will be cancelled in its entirety and hybrid bondholders will instead be allocated up to 2.4 million warrants exercisable into Kistos ordinary shares at a price of 385p each, exercisable between 30 June 2025 and 18 April 2028. Simultaneously, up to 1.9 million of the 5.5 million warrants issued to the vendor as consideration for the Mime shares will be cancelled. The 2.4 million warrants embedded within the hybrid bonds are included within the fair value of the bond acquired and are not separated from the host debt instrument as the bond has been accounted for in its entirety at fair value through profit or loss. The fair value of warrants issued to the vendor, adjusted for the estimated probability of issuance, are recognised within 'Other equity' on the balance sheet.

Goodwill arises primarily from the requirements to recognise deferred tax on the difference between the fair value and the tax base of the assets acquired. This fair value uplift is not tax deductible and therefore results in a net deferred tax liability and corresponding entry to goodwill.

The acquisition contributed €4.5 million of revenue and a profit after tax of €4.5 million for the period. If the acquisition had completed on 1 January 2023, consolidated revenue for the Group would have been €285.1 million and the consolidated loss after tax is estimated to have been €19.2 million. The latter has been estimated as if the fair value adjustments to fixed assets recognised at the acquisition date had occurred at the beginning of the reporting period, but no changes to the timing or nature of debt restructurings that occurred in the pro forma period. The impact to the non-IFRS measures Adjusted EBITDA and EBITDA as if the acquisition had completed on 1 January 2023 is disclosed in Appendix B1.

Section 3: Income statement

Note 3.1: Earnings per share

€'000	6 months ended 30 June 2023	6 months ended 30 June 2022
Consolidated profit for the period, attributable to shareholders of the Group (€'000)	13,091	52,436
Weighted average number of shares used in calculating basic earnings per share	82,863,743	82,863,743
Potential dilutive effect of:		
Employee share options	26,752	137,782
Warrants	–	–
Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share	**82,890,495**	**83,001,525**
Earnings per share (€)	0.16	0.63
Diluted earnings per share (€)	0.16	0.63

The warrants issued during the period as part consideration for the acquisition of Mime (note 2.7) are not dilutive as the average share price from the issue date of 23 May 2023 to the period end was below the exercise price.

Note 3.2: Net finance costs

€'000	6 months ended 30 June 2023	6 months ended 30 June 2022
Interest income	2,624	–
Total interest income	**2,624**	**–**
Bond interest payable	(4,992)	(6,009)
Other interest payable	(21)	(73)
Interest on tax payable	(1,552)	–
Surety bond costs	(449)	–
Total interest expenses	**(7,014)**	**(6,082)**
Accretion expense on abandonment provisions and other liabilities	(2,265)	63
Accretion expense on lease liabilities	(52)	–
Amortisation of bond costs	(512)	(551)
Loss on bond redemption	–	(2,982)
Fair value movement on hybrid bond	1,226	–
Net foreign exchange gains/(losses)	7,912	(267)
Total other net finance income/(costs)	**6,309**	**(3,863)**
Total net finance costs	**1,919**	**(9,945)**

Section 4: Working capital

Note 4.1: Trade and other receivables

€'000	30 June 2023	31 December 2022 Audited
Trade receivables	6,553	–
Accrued income	5,021	47,962
Receivables due from joint operation partner	2,135	3,198
Other receivables and cash overcalls	3,806	1,594
Prepayments	4,359	679
VAT receivable	889	1,129
Total trade and other receivables	**22,763**	**54,562**

Accrued income represents amounts due in respect of gas and oil sales revenue that had not been invoiced at the balance sheet date. All accrued income amounts had been invoiced and collected in full within one month of the corresponding reporting date.

Note 4.2: Trade payables and accruals

€'000	30 June 2023	31 December 2022 Audited
Trade payables	9,601	7,271
Accruals	27,036	12,101
Payables to joint operators	10,831	1,945
Total trade payables and accruals	**47,468**	**21,317**

Trade payables are unsecured and generally paid within 30 days. Accrued expenses are also unsecured and represents estimates of expenses incurred but where no invoice has yet been received, and amounts accrued by joint operators but not yet billed. The carrying value of trade payables and other accrued expenses are considered to be fair value given their short-term nature. A reclassification to the prior period has been made in order to present 'Payables to joint operators' within 'Trade payables and accruals' (previously classified within 'Other liabilities').

Note 4.3: Other liabilities

€'000	30 June 2023	31 December 2022 Audited
Bond interest payable	7,675	831
Salary and salary-related liabilities	1,762	202
Contingent consideration	–	15,796
Lease liabilities	395	282
VAT payable	313	–
Overlift	2,988	–
Total other liabilities (current)	**13,133**	**19,056**
Contingent consideration	–	3,268
Long-term employee benefit liabilities	452	–
Lease liabilities	859	929
Total other liabilities (non-current)	**1,311**	**4,197**

Section 5: Capital and debt

Note 5.1: Bond debt

€'000	Bonds issued by KENAS	Bonds issued by Kistos NL2	Total
At 1 January 2023 (audited)	–	80,800	80,800
Acquisition of business (note 2.7)	200,045	–	200,045
Amortisation of bond costs and effective interest rate impact	1,610	206	1,816
Fair value movement on hybrid bond	1,226	–	1,226
Net foreign exchange gains and other movements	(5,812)	–	(5,812)
At 30 June 2023	**197,069**	**81,006**	**278,075**

Details of the bonds outstanding are as follows:

					30 June 2023		31 December 2022 (audited)	
Bond	Issuer	Currency	Nominal interest rate	Maturity date	Face value	Carrying amount €'000	Face value	Carrying amount €'000
KENO01	Kistos Energy (Norway)	USD	10.25%[1]	November 2027	$105,000,271	79,933	–	–
KENO02	Kistos Energy (Norway)	USD	9.75%[2]	September 2026	$121,574,725	104,797	–	–
Hybrid bond	Kistos Energy (Norway)	USD	n/a	March 2083[3]	$45,000,000	12,339	–	–
€90 million bond	Kistos NL2	EUR	8.75%	November 2024	€21,572,000[4]	21,006	€21,572,000[4]	22,706
€60 million bond	Kistos NL2	EUR	9.15%	May 2026	€60,000,000	60,000	€60,000,000	60,000
Total						**278,075**		**82,706**

1. Interest payable wholly in kind via issuance of new bonds.
2. Interest payable partly in cash (4.5%) and partly in kind via issuance of new bonds (5.25%).
3. Certain amounts of the hybrid bonds will be cancelled for nil consideration should offload and sales thresholds related to the Jotun FPSO are not met, starting 31 December 2024. In a situation where no crude oil has been lifted and sold from the Jotun FPSO by 31 May 2025, all outstanding hybrid bonds will be cancelled. See note 2.7.
4. At 30 June 2023 and 31 December 2022, net of €68.4 million of bonds held in treasury.

The Group has call options to redeem bonds in whole or in part as follows:

Bond	Call price	Period of call option
KENO01[1]	100%	From full discharge/redemption of KENO02 until maturity
KENO02[1]	100%	Anytime until maturity
Hybrid bond[1]	100%	From full discharge/redemption of both KENO01 and KENO02 until maturity
€90 million bond[2]	104%	Up to November 2023
	102.5%	November 2023 – May 2024
	100.5%	May 2024 – maturity
€60 million bond[2]	104%	Up to November 2023
	102.5%	November 2023 – May 2024
	102%	May 2024 – November 2025
	100.5%	November 2025 – maturity

1. Must be called in full, not in part.
2. May be called in part, but must be called pro rata to each other.

Note 5.1.1: Bond covenants

	Requirement	Effective date
€90 million bond		
Issuer minimum liquidity	€10 million	At all times
Issuer maximum leverage ratio (net debt to EBITDA)	2.50	Semi-annually from and including 1 January 2022
Consolidated group minimum liquidity	€20 million	At all times
Consolidated group maximum leverage ratio (net debt to EBITDA)	3.50	Semi-annually from and including 30 June 2022
€60 million bond		
Issuer minimum liquidity	€10 million	At all times
Issuer maximum leverage ratio (net debt to EBITDA)	2.50	Semi-annually from and including 30 June 2022
Consolidated group minimum liquidity	€20 million	At all times
Consolidated group maximum leverage ratio (net debt to EBITDA)	3.50	Semi-annually from and including 30 June 2022
KENO01 and KENO02		
Issuer minimum liquidity	$5 million	Until 31 December 2023
Issuer minimum liquidity	$10 million	From 1 January 2024 until first oil from Balder Future

The issuers and Group have complied with the minimum liquidity covenants at all times. On 30 June 2023, the Group had a leverage ratio of 0.09, calculated as follows:

€'000	30 June 2023
Group pro forma EBITDA for the 12 months ended 30 June 2023 (Appendix B1)	360,606
Net debt for leverage ratio test at 30 June 2023 (Appendix B2)	32,003
Leverage ratio	**0.09**

Section 6: Tax

Note 6.1: Tax credit or charge for period

€'000	6 months ended 30 June 2023	6 months ended 30 June 2022
Current tax charge	12,692	47,154
Deferred tax (credit)/charge	(30,999)	2,949
Total tax (credit)/charge for the period	**(18,307)**	**50,103**

The deferred tax credit in the current period arises primarily due to impairments recognised in the period reducing the carrying value of fixed assets in respect of which deferred tax liabilities had previously been provided. The effective tax rate and tax charge disclosed in the comparative interim period does not include the impact of the Solidarity Contribution Tax (note 6.2), which was substantively enacted by the Dutch government in October 2022 but applied retrospectively to the full year 2022 taxable profits.

Note 6.2: Uncertain tax positions

In October 2022, the EU member states adopted Council Regulation (EU) 1854/2022, which required EU member states to introduce a Solidarity Contribution Tax for companies active in the oil, gas, coal and refinery sectors. The Dutch implementation of this solidarity contribution has been legislated by a retrospective 33% tax on 'surplus profits' realised during 2022, defined as taxable profit exceeding 120% of the average taxable profit of the four previous financial years. Companies in scope are those realising at least 75% of their turnover through the production of oil and natural gas, coal mining activities, refining of petroleum or coke oven products.

The Group believes that there is an argument that Kistos NL2 BV may be out of scope of the regulations as, in its opinion, less than 75% of its turnover under Dutch GAAP (the relevant measure for Dutch taxation purposes) was derived from the production of petroleum or natural gas, coal mining, petroleum refining or coke oven products. Furthermore, the Group understands the implementation of the tax, including its retrospective nature, is subject to legal challenges by other parties. However, as there is no history or precedent for this tax being audited or collected by the Dutch tax authorities, the Directors, having taken all facts and circumstances into account, applied IFRIC 23 Uncertainty over Income Tax Treatments and made a provision of €46.9 million relating to the Solidarity Contribution Tax within the current tax charge for the full year 2022. This is the single most likely amount of the charge if it becomes payable. The Group expects to get further certainty around this tax position in 2024.

Section 7: Other disclosures

Note 7.1: Contingent liabilities

As part of the acquisition of Tulip Oil in 2021 the following contingent payments remain potentially payable to the vendor should certain events and milestones take place:

- Up to a maximum of €75 million relating to Vlieland Oil (now Orion), triggered at FID and payable upon first hydrocarbons based on the net reserves at time of sanction; and
- €10 million payable should Kistos take FID on the Q10-Gamma prospect by 2025.

Based on management's current assessments and current status of the projects and developments above, the contingent considerations above remain unrecognised on the balance sheet.

The gas price contingent payment relating to the GLA acquisition was settled in the period. Following the Benriach well proving to be sub-commercial, management believe it is now unlikely that the contingent consideration that would become payable upon successful development of that field will fall due. Therefore, the carrying amount of €3.3 million (being the estimated fair value of the contingent consideration) has been released in full to the income statement.

In substance contingent payments relating to the acquisition of Mime are incorporated via the hybrid bond and associated warrants (see note 2.7 and 5.1).

As part of the original acquisition of the Balder and Ringhorne Øst interest by Mime in 2019, KENAS is obliged to deposit to Vår Energi a post-tax amount of $12.7 million (plus interest accruing at LIBOR +3%) three months after the date of the first oil produced from the Balder and Ringhorne fields over the Jotun FPSO. This amount will be repaid to KENAS upon decommissioning of the fields.

Contingencies arising from uncertain tax positions are disclosed in note 6.2.

Note 7.2: Subsequent events

Note 7.2.1: M10/M11 licence appeal

On 20 July 2023, the Group received notification from the Netherlands Ministry of Economic Affairs that its appeal against the non-renewal of the M10/M11 licence in June 2022 was successful. As a result, ownership of the licence was restored to Kistos (retroactively effective from 30 June 2022).

Appendix A: Glossary

2C – best estimate of contingent resources

2P – proved plus probable resources

Average realised sales price – calculated as revenue divided by volumes sold for the period.

Bcf – billion cubic feet

boe – barrels of oil equivalent

boepd – barrels of oil equivalent produced per day

CIT – Dutch Corporate Income Tax

Company – Kistos Holdings plc

DSA – Decommissioning Security Agreement

EBN – Energie Beheer Nederland

EIR – Effective interest rate

FID – Final Investment Decision

FPSO – Floating production storage and offloading vessel

FPU – Floating production unit

G&A – General and administrative expenditure

GLA – Greater Laggan Area

Group – Kistos Holdings plc and its subsidiaries

kboe – thousand barrels of oil equivalent

kboepd – thousand barrels of oil equivalent produced per day

JV – joint venture

KENAS – Kistos Energy (Norway) AS

LTI – lost time incident

MEG – monoethylene glycol

Mime – Mime Petroleum AS

MT – metric tonne

MWh – Megawatt hour

NCS – Norwegian Continental Shelf

Nm^3 – normal cubic metre

NSTA – North Sea Transition Authority

RNB – Norwegian Revised National Budget

ROU – right of use

scf – standard cubic feet

SGP – Shetland Gas Plant

Solidarity Contribution Tax – A tax levied by the Dutch Government, following the adoption of Council Regulation (EU) 1854/2022, which required EU member states to introduce a ‘solidarity contribution’ for companies active in the oil, gas, coal and refinery sectors. The Dutch implementation of this solidarity contribution has been legislated by a retrospective 33% tax on ‘excess profit’ realised during 2022, with ‘excess profit’ defined as that profit exceeding 120% of the average profit of the four previous financial years. Companies in scope are those realising at least 75% of their turnover through the production of oil and natural gas, mining activities, refining of petroleum or coke oven products.

SPS – Dutch State Profit Share tax

SURF – Subsea, umbilicals, risers and flowlines

Appendix B: Non-IFRS Measures

Management believes that certain non-IFRS measures (also referred to as 'alternative performance measures') are useful metrics as they provide additional useful information on performance and trends. These measures are primarily used by management for internal performance analysis, are not defined in IFRS or other GAAPs and therefore may not be comparable with similarly described or defined measures reported by other companies. They are not intended to be a substitute for, or superior to, IFRS measures. Definitions and reconciliations to the nearest equivalent IFRS measure are presented below.

B1: Pro forma information

Pro forma information shows the impact to certain results of the Group as if the Mime acquisition had completed on 1 January 2023, and as if the GLA acquisition had completed on 1 January 2022. Management believe pro forma information is useful as it allows meaningful comparison of full year results across periods. Pro forma EBITDA information for the previous twelve months is also required for the purposes of calculating the leverage ratio covenant under the terms of the 2024 bonds and 2026 bonds issued by Kistos NL2.

€'000	Revenue	Adjusted EBITDA	EBITDA
Six months ended 30 June 2023			
As reported	105,149	67,071	69,254
Pro forma adjustments for period	14,734	1,542	(3,026)
Pro forma for six months ended 30 June 2023	**119,883**	**68,613**	**66,228**
Six months ended 31 December 2022	n/a	n/a	283,473
Pro forma adjustment for six months ended 31 December 2022	n/a	n/a	10,905
Pro forma for 12 months ended 30 June 2023	**n/a**	**n/a**	**360,606**
Six months ended 30 June 2022			
As reported	137,502	130,207	127,361
Pro forma adjustments for period[1]	149,494	131,190	130,390
Pro forma results for six months ended 30 June 2022	**286,996**	**261,397**	**257,751**

1. Minor adjustments have been made to comparative pro forma information following receipt of additional information after completion of the GLA acquisition and to align with the Group's accounting policies and methodology as used in the 2022 Annual Report and Accounts.

B2: Net debt

Net debt is a measure that management believes is useful as it provides an indicator of the Group's overall liquidity. It is defined as cash and cash equivalents less the face value of outstanding bond debt (excluding the hybrid bond issued by KENAS, which in management's view represents contingent consideration rather than bond debt due to the payment triggers associated with it). A positive figure represents net cash and a negative figure represents a net debt position. The difference between management's definition of net debt and net debt for the purposes of the leverage ratio calculation for the bonds issued by Kistos NL2 is reconciled as follows:

€'000	Note	30 June 2023	31 December 2022
Cash and cash equivalents		247,326	211,980
Face value of bond debt (excluding hybrid bond)	5.1	(289,589)	(81,572)
Net cash/(debt)		**(42,263)**	**130,408**
Difference between carrying value and face value of bond debt	5.1	23,853	(1,134)
Carrying value of hybrid bond	5.1	(12,339)	–
Lease liabilities	4.3	(1,254)	(1,211)
Net (debt)/cash for leverage ratio covenant		**(32,003)**	**128,063**

B3: Adjusted operating costs

Adjusted operating costs are operating costs per the income statement less accounting movements in inventory, which are primarily those operating costs capitalised into liquids inventory as produced and expensed to the income statement only when the related product is sold.

€'000	6 months ended 30 June 2023	6 months ended 30 June 2022
Operating costs	33,228	4,245
Accounting movements in inventory	(5,123)	–
Adjusted operating costs	**28,105**	4,245
Pro forma period adjustment	10,221	18,270
Pro forma adjusted operating costs	**38,326**	22,515

Appendix C: Conversion factors

37.3 scf of gas in 1 Nm^3 of gas

5,561 scf of gas in 1 boe

149.2 Nm^3 of gas in 1 boe

1.7 MWh of gas in 1 boe

34.12 therms of gas in 1 MWh of gas

7 MT of natural gas liquids in 1 boe

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