# Chairman's 2022 AGM Statement

The past twelve months have been an extraordinary twelve months in our industry. No-one could have predicted the extreme volatility we have seen in both oil and gas prices. No-one could have expected the sudden Russian invasion of Ukraine. No-one could have foreseen the introduction of an ill-conceived and penalising Energy Profits Levy just as the UK wakes up to the need to encourage domestic supplies and energy security. And all of this came on top of the Covid-19 pandemic and the operational challenges that entailed.

It has been a topsy-turvy world for the industry and for investors and that is likely to continue but I am pleased to say that Serica has been able throughout to demonstrate the strengths of our business. We have reported a strong set of profits for the year, a virtual tripling of the dividend and continuing balance sheet strength with increased cash resources and zero debt putting us in a good position to increase shareholder returns further whilst also having the cash resources to increase investment. This is the result of our cautious approach to acquisitions at a time of highly volatile oil and gas prices and unpredictable government policies.

How to summarise the events of the past year? First the question of oil and gas price rises and the Energy Profits Levy.

Due to a long period of relatively low prices in recent years and with emphasis placed on transition to newer forms of energy there has been relatively little encouragement for the investment needed to maintain a robust oil and gas market. In the UK, Government policies have tended to discourage domestic investment in oil and gas and encourage greater reliance on overseas supplies even though, in the case of gas, these have a significantly greater carbon footprint than domestic supplies. As economies adjust to meet the demand build-up and the world emerges from the Covid-19 lock-downs the resultant shortage of energy supplies has created a very volatile price market for oil and gas which was evident well before the Russian invasion of Ukraine.

It is virtually impossible to predict oil and gas prices – if we were able to do so we would be very rich indeed – but it is not difficult to foresee the need to maintain supply security and anticipate demand as far as is possible and this has been lacking in government policies.

As we said at the AGM last year, oil and gas will be needed for many years. It is not in the UK's interest to see a valuable resource base such as the UK's offshore oil and gas reserves being brought prematurely to an end and we believe that, notwithstanding the confusing and contradictory messages and increasing taxes, the government is now waking up to this. The Russian invasion of Ukraine and the over-reliance of certain European countries, particularly on Russian gas, has brought this home with a bump and has underlined the importance for the UK to maintain a strong indigenous supply to complement a build-up of new technologies and investment in renewables. The need to maintain our offshore supplies is of strategic importance as is the encouragement of British companies such as Serica with the proven expertise and capability to play a leading part.

In early April this was recognised by the Government with the publication of the British Energy Security Strategy. This put a long-needed framework on the UK's future energy policy and recognised the importance of North Sea oil and gas not only as strategically important to the UK's energy supplies but also as important in supporting the UK energy transition to renewables.

This welcome, albeit belated, recognition of the importance of the UK North Sea industry to the UK economy and security has, however, been undermined by the sudden and arbitrary introduction of the Energy Profits Levy on North Sea companies, a particularly penalising Levy which has brought back with a bang a major question mark over the future of Britain's offshore industry just at a time when stability and encouragement was needed.

The implementation of the Levy has a far greater impact on the smaller independent companies than it has on the larger integrated companies, which is counterproductive as it is the independents who will extend the life of reserves and keep production flowing, just as Serica is doing. You only have to look at Serica's share price movements over the past few weeks to see the effect that sudden tax changes can have on investor confidence in what is a long term, capital intensive business such as offshore oil and gas production which requires predictability and a stable environment in order to attract investment. The Levy also makes no allowance for the fact that it is often not solely the producer who is making the profits targeted by the Levy as the independent producers hedge actively (just look at the margin calls that Serica has to meet by way of example) and they do not have major trading departments where the profits on large price movements are often made.

We live in a very volatile world. Oil and gas prices can swing wildly and often in opposite directions. Windfall profits in one year can become windfall losses in the next. Serica is largely a gas producer, a product that is vital to many British homes and industry. In recent weeks we have seen prices as low as 10p/therm and as high as 224p/therm. Planning with these swings is hard enough but it is made more difficult if Governments send mixed messages and the fiscal environment in which we have to operate is unstable.

The new North Sea levy raises the rate of tax paid by producers to 65% - far above the rest of industry. The UK offshore oil and gas industry with three layers of taxes and two layers of ring fenced allowances is now the most micro-managed and over-taxed industry in the UK and the UK's tax policies are amongst the most draconian. Many companies who purchased assets in recent months will have seen the investment assumptions on which they based the acquisitions severely undermined as will companies who have been investing during the long period of low prices just as their investments start to come onstream. Serica has been lucky to avoid these problems but we, like others in the industry, have been hit hard by the tax and are urging government to make it clear when the tax will end and to shorten the time of its imposition as, without clarity and a shorter time frame, the tax will become to be seen as permanent and investment will be negatively impacted to the long term detriment of the UK.

The current three and a half years is far too long for the levy to be termed a windfall tax and the talk of removing the levy when conditions revert to "normal" is far too ambiguous. Serica is wholly endorsing industry efforts to get greater clarity on the period intended for the tax and to try to shorten the period in order to prevent that happening but we are also looking to see if we can take steps to offset the immediate impact of the tax.

We are in a strong position to do so. We are cash rich with no borrowings and a profitable cash flow stream on which we are already due to pay significant tax this year. We have the capital and technical resources to invest to offset some of the effects of the tax but we will only do so in projects that would be commercial without the new levy. Fortunately we already have many of these projects in-house. Mitch will be talking about our investment plans in his presentation but our planned 2022 expenditure on the North Eigg well and the Light Well Intervention Vessel campaign on Bruce together with additional candidate projects on the Bruce complex can be offset against the new levy.

In summary, there are some major consequences of what we believe is an ill-conceived tax wrongly targeted and wrongly structured but we expect to be able to weather the near-term effects. However, it does not take away the penalising nature of the tax in the longer term and we shall continue to lobby for its early removal. If British companies like Serica are expected to flourish, be entrepreneurial and inventive and compete with foreign companies we need a strong and predictable home-base from which to do so. We intend to continue to look for new opportunities in the UK but, if the Levy proves to be anything but short term we shall be looking overseas in the longer term.

Now on to shareholder return.

Whilst we strongly believe in Serica's future and in our ability to continue the sort of growth that shareholders have come to expect from the Serica team we are also well aware of the need to maintain a balanced and ongoing return to shareholders reflecting our growth. Serica paid its first dividend in the depths of the pandemic when many companies were cancelling theirs. It was a brave step when oil and gas prices were hitting rock bottom – indeed, I think, oil hit negative prices at the time that we announced that dividend. That was in 2020. In 2021 we increased it marginally as the outlook improved. This year we have announced a virtual tripling of the dividend to 9p per share subject to approval of shareholders at this meeting. It is hard to appreciate how quickly we have grown. We are 100 times larger than we were seven years ago and this has been achieved without any new funding. It is not solely due to commodity prices. It has been largely due to the skills and commitment of the Serica team, many of whom are here today.

This year our cash resources have taken another big step-up. This is partly due to increased oil and gas prices but is also due to the investments we made in R3 and Columbus when prices were low and to the major increase in net cash flow following the end of the net cash flow sharing agreements with BP, TotalEnergies and BHP at the start of this year. Whilst I have said earlier that it is impossible to foresee unforeseeable events we expect the cash generative nature of our assets to continue. Our growing cash balance, with no current borrowings places us in a strong position to re-invest for future growth and that is what I believe we are expected to do on behalf of shareholders. We do, however, have the strength to achieve that whilst also having a progressive dividend policy. To-date, Serica has only declared a final dividend at the time of our full-year results. Today, I would like to announce that it is our intention to introduce an Interim Dividend at the level of 6p/share at the time of our Interim Results in September with payment before year end. This will add to the final dividend for the current year which we would aim to declare in April as usual with our final 2022 results.

By these means our dividends will keep in line with our anticipated earnings growth and the growth of the Company and will maintain an appropriate balance with the need to retain sufficient cash reserves to achieve that growth through new investment.

Today we are also seeking shareholder approval to enable us to buy back Company shares in the future should the Board feel that it would be in the interest of shareholders to do so. At the moment we do not have plans to implement buy-backs and we would only do so if it was in shareholder interest. With the need to retain capital for future investment, now would not be the time but the Board will keep it under review. To enable us to do so however, the Board requires the approval of shareholders and this is why it is on the list of resolutions for approval today.

Finally, on Board succession. In April this year Ian Vann retired after serving 15 years as a Board member. Ian was a huge presence on our Board and was instrumental in helping the Company lay the bedrock for its current success. We wish to extend our warmest thanks and the thanks of shareholders to him. I have already mentioned that Richard Rose stepped down last week so that he could take up a new executive role in the sector. He has now taken up the post on the Board of Ineos Energy as its new Chief Financial Officer. We wish him well in his new position and look forward to maintaining close contact.

We are continuing to ensure that our Board evolves as the Company grows and its strategic needs broaden. David Latin joined the Board in December last year in anticipation of Ian's retirement. David is brimming with new ideas and we are delighted to have him with us. Last week we announced that Jérôme Schmitt will be joining the Board. Jérôme brings a huge amount of complementary knowledge to our deliberations and we are all looking forward to working with him. He joins officially from tomorrow but is here today and, with the rest of us, will be available to chat after the formal proceedings. It is always healthy for a Board to evolve. In the next few months we hope to add one or two more Non-Executive directors to the Board, including a successor to Richard, and in doing so will be looking to add diversity as well as experience.

As to my own role. I shall be assuming the role of Non-Executive Chair instead of my current Executive position. This change is to recognise that, under the leadership of Mitch, Serica now has a strong Executive Team and no longer requires my role to be Executive. I joined the Board as Non-Executive Chairman in 2004 and have been on the Board throughout the Company's journey from a pure exploration company to the successful production company that it is today. I have seen it through the peaks and troughs, sometimes hanging on by my finger-tips, and had to take up the Executive role around 8 years ago to steer the Company through a changed strategy. When we announced the acquisition of the BP, TotalEnergies, BHP and Marubeni interests in the BKR fields in November 2017 and completed the transaction a year later we recognised the enormous transition from a company comprised then of a four person team into one of the leading offshore companies that we are today and it was felt appropriate that I should remain Executive to assist Mitch and the new team in the transformation. That Mitch and his team have been so successful pays testament to their considerable skills. With the Company now a fully dividend paying company, and a fully established, leading offshore operator, reverting to my original role as Non-Executive Chairman brings the Board balance more in line with good boardroom practice.

I hope that this has given shareholders a good flavour of the world in which we live. Mitch will now give his appraisal of the Company's achievements and future plans some of which do assume, of course, that the Government is able to temper the most serious effects of its recently announced Levy. After Mitch's presentation we will then return to the formal business of the day.

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