Operator

Good day, everyone. Welcome to the Kosmos Energy Fourth Quarter and Full Year 2014 Conference Call. Just a reminder, today's call is being recorded.

At this time, let me turn the call over to Neal Shah, Vice President of Finance and Treasurer at Kosmos Energy. Please go ahead.

Neal Shah

Thank you, operator, and thanks to all of you for joining us today. This morning, we issued our fourth quarter earnings release, which is available on the Investors page of the kosmosenergy.com Web site and we anticipate filing our 10-K for 2014 with the SEC later today, which will be available on our Web site at that time as well. Joining me on the call today are Andy Inglis, Chairman and CEO; and Tom Chambers, Chief Financial Officer.

Following our prepared comments, we will have a question-and-answer session. Consistent with prior calls, I request that you only ask one primary question and one follow-up question. This will help ensure we get to everyone on the call today. If there are questions that we aren't able to get to within our 45 minute timeframe, please contact me later today. Before we get started, I'd like to mention that this conference call includes certain forward-looking statements based under current expectations. The risk associated with forward-looking statements have been outlined in the earnings release and in our SEC filings.

We may also refer to certain non-GAAP financial measures in our discussion. Management believes such measures are important in looking at the Company's historical and future performance, and these are commonly referred to industry metrics. These measures are provided in addition to, and should be read in conjunction with the information contained in our financial statements prepared in accordance with GAAP and included in our SEC filings.

At this time, I'd like to turn the call over to Andy.

Andy Inglis

Thanks Neal and good morning everybody. As I go through my remarks today, there are three messages I want to emphasize. First, the strong delivery of our business plan in 2014. Second, the quality of our current portfolio, both our production and development assets in Ghana as well as our exploration portfolio. And third, our sound financial strength and favorable positioning for 2015.

I'll start with our solid 2014 results. Performance remained strong at Jubilee in the fourth quarter and the field continues to exhibit good reservoir characteristics as demonstrated by our reserve replacement ratio. The Jubilee field averaged gross production of 102,000 barrels of oil per day sales throughout the year and approximately 100,000 barrels of oil per day sales in the fourth quarter of 2014. This led to Kosmos lifting its 9th cargo for the year in December, slightly ahead of expectations.

In addition an important milestone was reached in the fourth quarter as the Ghana and National Gas Company completed construction of the gas processing plants at Atuabo, and first gas was exported from the Jubilee field to support commissioning of the plant. As we continue to ramp up gas exports from Jubilee and increase the FPSO gas processing rate, we expect to be able to further increase oil production toward the FPSO capacity.

We have recently been exporting approximately 50 million cubic feet of gas per day, and uptime of the gas explore system has been relatively good. The TEN project is now greater than 50% complete and remains on budget and on track to deliver first oil in the second half of 2016. The TEN wells plan to be on line and first oil have all been drilled, de-risking initial production. Plant activity levels at TEN are expected to increase this year as completions of scheduled to begin. MTA also remains on track with appraisal completed at the end of last year. We plan to integrate the learnings from our appraisal program into the creation of a development plant, the Greater Jubilee area which we expect to submit the Government of Ghana in the middle of this year.

On the exploration front, we executed our 2014 plan with precision. We took delivery of the Atwood Achiever in September and began drilling the Al Khayr prospect offshore Cap Boujdour in mid-December. Operations are ongoing and we expect well results in early March, consistent with a timeline we previously announced.

Additionally in 2014 we added licenses in Senegal and Portugal which is obviously scale and quality of our portfolio. We have already completed a 7,000 square kilometer 3D seismic shoot in Senegal and the preliminary results look promising. At this point let me pause for a moment to speak about the quality of our portfolio. The current environment with depressed oil prices has reaffirmed our corporate strategy of focusing on world class assets at the low end of the cost curve. The combination of scale and good fiscal terms are necessary to achieve low cost high value barrels and remain the driving course of our exploration strategy. The high value barrels and quality of cash flow out of Ghana exemplify this. On a full cycle basis, the breakeven of Jubilee is in the low $40 per barrel range. That said, since a majority of the CapEx requirements have already been incurred, ongoing cash costs are very low around $20 per barrel. This means our production is in line vis-à-vis the marginal barrel that will be shut in to rebalance the market.

Similarly on the exploration front, we have previously communicated that our Second Innings portfolio is expected to have very low full cycle breakevens in the $40 to $60 per barrel range. However these were based on cost in $100 per barrel world. Low oil prices should translate into lower service costs, but the industry has yet to fully see the benefits. We expect that in a sustained lower oil price environment, we should be able to realize substantial savings on development costs that could reduce the full cycle breakevens in our exploration portfolio to approximately $30 to $50 per barrel. This is why we believe our differentiated exploration strategy executed with discipline can create significant value even in this current oil price environment.

Lastly, I'd like to comment on how well positioned we are looking forward into 2015 from both a financial and operating perspective. On the financial side we've been ahead of the curve enabling us to continue to fund our plan regardless of commodity prices. In August of 2014, we accessed the high yield market to term out some of our existing debt and raise capital ahead of our needs. In May, we reorganized the Company ahead of the oil price drop and when combined with increased [several] charge-outs resulted in an approximately 33% reduction in net cash, general and administrative expenses.

As a result our balance sheet remains strong and we ended 2014 with $1.9 billion of liquidity and only $213 million of net debt. We maintained a robust hedging program to protect our cash flow. As of last month we've hedged 12.2 million barrels of production over 2015 and '16, further reducing our exposure to lower commodity prices. We've been resolute about defending our balance sheet over the past few years. We are now seeing the benefits of this proactive management of our financial position. We are well prepared for a world where prices remain at their current levels.

On the operational side, the growth plan in Ghana continues to live, as demonstrated by our 336% reserve replacement ratio. As we've said before, big fields get bigger. In Jubilee alone, we replaced 115% of production with new reserves added through field performance. We also booked our initial reserves related to the TEN project this year. With an increase in gas processing and explore at Jubilee, we anticipate that we should be able to produce at the FPSO capacity by the end of the year. Along with the delivery of TEN, we have clear line of sight to 200,000 barrels per day of gross production out of Ghana in 2017.

On the exploration side, 2015 will be a critical year for Kosmos. We are in the midst of our multi-well multi-year drilling campaign designed to test our Second Inning exploration portfolio. As I mentioned earlier, we are currently drilling CB-1 well targeting the Al Khayr prospect and expect results in early March. After the Atwood Achiever departs from the CB-1 well location, the rig will go to Mauritania to drill two high quality prospects, Tortue and Marsouin. Earlier this quarter we announced the farm out of 30% of our Mauritania acreage to Chevron. Consistent with our business strategy, we will retain operator shift through exploration, appraisal and Chevron will become operator, provided as we enter development phase.

We believe the success of the farm out process, especially in this market demonstrates the quality and potential of this asset which we've held since 2012. Each of these prospects have significant follow-on prospectivity which could be unlocked as a result of initial exploration success. Our other exploration projects are progressing well and given our financial position and portfolio quality, we believe we are positioned to create significant value through the drill bit.

I'll now turn over the call to Tom to update you on the financials.

Tom Chambers

Thanks Andy. As Andy mentioned, we entered in 2014 in a favorable financial position. Total corporate liquidity was $1.9 billion at year end including cash and cash equivalents of $555 million. This is nearly a $650 million improvement in liquidity over year end 2013. We finished the year with nine crude oil liftings, of which 2.5 occurred in the fourth quarter slightly ahead of expectations. This drove full year oil revenues to $856 million.

Fourth quarter revenues were down compared to fourth quarter 2013 as a result of lower oil prices. At the end of the year we were in an under-lifted position, having solid approximately 99,000 barrels less than our entitlement. For 2014 we generated net income of $279 million or $0.72 per diluted share and in the fourth quarter generated net income of $129 million or $0.33 per diluted share. Excluding the impact of unrealized commodity derivatives, the Company generated net income of $114 million or $0.29 per diluted share for the full year 2014.

On the cost side operating expense in the fourth quarter was $46 million or just under $19 per barrel sold, higher than our normal run rate, primarily due to the fact that the fourth quarter saw our largest amount of work over activity during the year. For 2014 we averaged operating expense of $11.48 per barrel, in line with our annual guidance.

Exploration expense of $94 million was significantly below 2013 expense of $230 million, as we benefited from the BP carry on, the Fa-1 exploration well in Morocco. Exploration expense of $36 million for the quarter was larger related to our large 3D seismic program offshore Senegal which was completed in early January of 2015.

Full year general and administrative costs including non-cash equity based compensation came in at $135 million which is a 15% reduction from 2013 levels. More importantly, we were able to decrease net cash G&A from roughly $90 million to $60 million, a reduction of 33%, reflecting the benefits of our mid-year restructuring and increased technical charge outs.

Fourth quarter DD&A per barrel was favorably impacted by the addition of proved reserves at year-end which was the result of positive field performance at Jubilee. This benefit will also impact the rate going forward in 2015. Booked taxes showed an increase in 2014 largely as a result of the mark-to-market gain in commodity derivatives in the fourth quarter. Excluding this impact, taxes would have been in line with guidance of around $22 a barrel. The value of our unrealized commodity hedges at year-end is approximately $250 million before tax. A robust hedging program is a part of our strategy to protect our cash flows and balance sheet liquidity. This program is integral in allowing us to continue to execute on our strategy despite the current price environment.

At this time, I'd like to transition to our expectations for 2015. Consistent with the operators' guidance we anticipate average Jubilee production to mirror 2014 levels, resulting in Cosmos selling a total of eight cargos of crude oil from Jubilee during 2015. This variation from 2014 is primarily due to the timing of cargos as we lifted an extra cargo in December of 2014. As a reference 2014 average sale was approximately 970,000 barrels per cargo.

On the cost side we anticipate total production operating expense in the range of $9 to $11 per barrel. G&A cost for the year are expected to be slightly lower than the full year 2014 as a result of the decrease in equity-based compensation expense. We also expect that DD&A should average around $20 per barrel. Bearing in mind the challenge of giving guidance on taxes, we project total tax expense to be approximately $10 million per lifting, assuming Brent remains at the $55 per barrel level. We expect two-thirds of this amount to be current tax and one-third to be deferred tax.

Today we announced our expected investment program for 2015 of $800 million with around two-thirds of this targeted for the development activity in Ghana. Exploration investments based on a current CapEx guidance are expected to be approximately $300 million for the year. A majority of this cost is associated with drilling operations, giving our increased activity in

2015. Also included is spending related to seismic processing and interpretation activities across our portfolio.

Our 10-K to be later today will contain the details of our hedging position which totals 12.2 barrels with approximately 6.2 million barrels hedged in 2015 and 6 million barrels hedged in 2016. Our 2015 hedging program reduces commodity price exposure for approximately 75% of 2015 production with floor prices above $85 per barrel.

If Brent oil prices average $50 per barrel over the course of 2015 we expect to net just over $80 per barrel. We have been proactive in reducing our commodity exposure for the next couple of years and we plan to continue to this approach as more opportunities arise. Maintaining adequate financial is critical to our business strategy as it provides the capacity to internally fund our development and growth programs in Ghana, as well as our high impact exploration program even in a depressed commodity price environment.

It goes without saying an improved balance sheet provides flexibility to capture attractive new opportunities as they arise. With Ghana's high margin cash flow and our solid financial position, we remain well positioned to execute on our strategy as a self-funded exploration Company. Thank you and now with that operator, we'd like to open up the call for questions.

Question-and-Answer Session

Operator

Thank you. At this time we'll be conducting a question and answer session. (Operator Instructions) Our first question comes from Brendan Warn from BMO Capital Markets.

Brendan Warn

One question please, and I think you've already answered one in terms of sources and use of the cash flow. But just a question -- I don't want to sound bearish. I'm quote up beat on the back of a holiday for a week. But if I have to think forward 12 months' time and if we think that you P&A your four wells this year, can you talk to me about the strategy going forward? Is it maintaining call it the reselling of the Hopper and drilling another sort of handful of wells in 2016, and just in terms of your cash flow from Jubilee at around a 120,000 barrels a day and with the TEN development only six months away from the end of this year?

Tom Chambers

Yes thanks Brendan, yes it's a good question. I think if you get back to the sort of fundamental position we stand in today -- we stand in a position of very low net debt $230 million. We have very strong liquidity going forward and we have a growing production profile as you said. We have growth from Jubilee South as we ramp to the FPSO capacity and as you say in the back half of 2016 we have the growth coming through from TEN, and in that time period over the next two years production is doubling. So really we do have the liquidity and the cash flow to be able to continue with a very high quality exploration portfolio. We're targeting as it has always been the fundamental strategy of the Company, opportunity towards [ph] the low cost of the development curve that sit in a world that are we believe economic in that $30 to $50 per barrel range assuming some deflation. And therefore it is about continuing to drill out. Now depending on exploration success, we will channel funds from exploration to appraisal and optimize the capital deployment that way. But we stand in a position today where we can execute on the strategy that the Company has had since it started and has it kept it in great shape, because ultimately Ghana is the example of a field where you have a world class asset. It continues to grow and it's at the low end of the cost curve.

Operator

Thank you. Our next question comes from Ryan Todd from Deutsche Bank.

Ryan Todd

Maybe one question on MTA. Any thoughts at this point -- I know the full development plan was due later this year, but any thoughts on the scope of the development at this point? Is it a confirmed tieback to Jubilee? Is there the potential for it to be a Company by an increasing capacity of the facility? Or will it likely be developed as olage backfilling as Jubilee declines?

Andy Inglis

I think what we can say is it did -- it will be tied back to Jubilee. That's the basis on which we're working with the Jubilee Partners and it will be part of an expansion of the Jubilee facility. So I think both of those things are the basis on which we're preparing the development plan and as a result of the appraisal results.

Ryan Todd

Okay. And maybe on Jubilee as well, can you walk you through over the course of the next 12 months maybe the timeline of the potential for debottlenecking, now that the gas export solution is up and running?

Andy Inglis

Yes I think what you're going to see really is, as your question is probed really are sort of two factors. One is what I would call a large scale debottlenecking, which is as you said really is accompanied around just economic justification for that. It's built around the additional resources that will come through from MTA that will also allow us to accelerate Jubilee barrels. And then I think in the short-term, it's about really the gas process -- gas export ramps up as the GOR issues therefore become easier control gas handling increases, we should see an increase oil rate. And what we'll do then is incrementally debottleneck the system as we test the various bottlenecks on the FPSO capacity and that will be done on an incremental sort of quarter-by-quarter basis. The FPSO has a designed capacity of around 120,000 barrels a day. We should now be able to test potentially a 10% increase in that with very relatively low expenditure, and that will occur over the medium term, with a larger step-up as a result of the ability to integrate both Jubilee acceleration and MTA.

Ryan Todd

And is there anything on the -- well from the onshore gas handling facility that we should see as kind of -- I guess are there any thresholds that need to be cleared there that would allow you to -- I guess the timing on the increasing that from 50 million cubic feet a day gas potential?

Andy Inglis

Yes, the plant has operated reasonably well. The reliabilities have been pretty good. The real issue now is about reliability of gas uptake at the power station. That obviously would demonstrate a reliability around that 50 million scuff level. The objective is to sort of test it at a 100 plus, probably in the second half of the year and that's about the gas plant stepping up and also the ability to take additional gas to the power plant.

Operator

Thank you. Our next question comes from Edward Westlake from Credit Suisse.

Edward Westlake

I guess just on the Chevron farm-outs, you kept Tortue out of that. Maybe just talk a little bit about how you think about the involvement of Chevron across the broader Mauritania Senegal acreage?

Andy Inglis

Yes look it's sort of relatively simple. Both ourselves and Chevron see the potential for Tortue structure extending into Senegal. We haven’t completed the Senegal 3D at time of the farm-out. And that -- well that data wasn’t available. And we didn’t really want to pursue any farm-out of Senegal at that point. Therefore its simplest for all parties is to just to keep Tortue separate. And we do have as part of the agreement that they have the ability to come back in to Tortue at a significant promote. But clearly the arrangement that we have with Chevron was therefore focused on Mauritania itself. And that way we kept it pretty straight forward and simple.

Edward Westlake

And then in terms of any seismic reprocessing or any extra delineation that you've done obviously -- it takes a long time. So quarterly calls are probably not the best for any of this, but just wondering if there have been any changes in views since the last quarterly update?

Andy Inglis

No the --what would I say Ed, as you know you sort of have -- the world is now fast tracks upon fast tracks. We've shut the Senegal seismic. And obviously through year end, we've had the ability to fast track the data over the Senegal side and it continues to sort of confirm Tortue as a very solid prospect. So I think other than that really, you then have the further work that we will do in Western Sahara, the further work that's obviously ongoing in Ireland, but nothing that I would say to sort of cause -- any other comments other than we see the prospectivity continuing to develop.

Edward Westlake

And presumably I mean there's a lot of jumping off points in terms of success or otherwise at the program this year in terms of deciding what you might do next other than lease expiry?

Andy Inglis

Yes absolutely. The jump off points as you say are dependent on success in one of the initial play opening tests, did we come back to appraisal, what's the timing of that appraisal, and so how do we mix and match the exploration program we've set out versus the potential for appraisal. So they're all jumping off points.

Edward Westlake

And just if I may, the $30 to $50 is quite an aggressive statement obviously reflective of I guess some cost deflation, but that's also the fiscal terms that are available in these regions because its frontier exploration, but how confident are you that that is going to be the right range?

Andy Inglis

Clearly so we talked about 40 to 60 in the past, we've talked about 30 to 50 here with what we anticipate to be the impact of deflation in deepwater, which we are starting to see. But again just sort of -- it's really a statement about [indiscernible] model outcome but -- and it's dependent on the size of prospects. We are chasing prospects that have materiality as you know. And we do have good fiscal terms because we've entered the basins at a very early stage. So it is a model outcome, but it's a model outcome on the basis of the prospects that we're targeting and the fiscal terms which we know to be good. So I think it's a genuine reflection of the quality of prospects that we're drilling.

Operator

Thank you. Our next question comes from Jeb Bachmann from Scotia Howard Weil.

Jeb Bachmann

Just a couple of quick ones. First, any kind of additional details can you guys give on the Chevron farm out? Dollar amounts, maybe percentages on disproportionate share that Chevron will pay on that first exploration well?

Andy Inglis

No. Again, as you know, the finance arrangements are confidential. So there isn't any other detail. It is 30% there across all three blocks. They will pay a disproportionate share on the first well and potentially on a second contingent well.

Jeb Bachmann

Okay, and then just on the timing of the cargo liftings. Should we expect maybe 1, 1.5 in the first quarter then maybe jumping to 3, 2 and 2 for the rest of the year to get to eight, or how should we think about that?

Andy Inglis

Well, that's a really good question, Jeb. I think that the first quarter we planned for two liftings, and then just got two in each quarter and then we will give you an update as we go along.

Operator

Thank you. Our next question comes from Al Stanton from RBC.

Al Stanton

I was just wondering if we could just be a little bit clearer on what you get for the $300 million of exploration spend this year, whether you do get four wells which was suggested in one of the earlier questions. So can we just put the wells in each quarter so we can see where we are?

Andy Inglis

Yes, that's the basis on we we're planning, its four wells. So clearly we're on Al Khayr at the moment. The rig then would move to Tortue which is in Mauritania. There is been actually a farm-out playings, then it will move to Marsouin, which is the third well in Mauritania and then depending on what happens, we have fourth well in the fourth quarter, it could be another exploration prospect it could be an appraisal well.

Al Stanton

But there won't be a well in Suriname?

Andy Inglis

It could be.

Operator

Thank you. Our next question comes from Pavel Molchanov from Raymond James.

Pavel Molchanov

Of the year-end reserves can you break that out between Jubilee and TEN?

Andy Inglis

TEN was about 28 million barrels and the balance was Jubilee.

Pavel Molchanov

28, okay, got it. And then on the CB-1 prospect, recognizing that you're weeks away from potentially getting some results, any latest thinking on the predrill estimate?

Andy Inglis

No, nothing's changed that number.

Operator

Thank you. (Operator Instructions). Our next question comes from John Herrlin from SGB.

John Herrlin

Regarding the gas production in Ghana, will there be any seasonality once things are fully up and going Andy?

Andy Inglis

Good question John. Fundamentally the answer is no, and I think if you ask the question behind the question is, given this hydro, where is the swing? I actually believe from the country's perspective today it requires all the power that it can get. Therefore I don't see any seasonality there. Now as sort of if you look forward five years and the power gets built out, potentially there could be some, but I suspect at that point that will swing it around the hydro rather than the gas.

John Herrlin

Well that's why I was wondering whether there was going to be hydro factor in swing.

Andy Inglis

Good question. Today it's sort of it's not rig on anyone's write-off because it's all about we need all the power we can get, and actually is the expansion of the available capacity. We haven't reached the limit yet. And I actually believe through time John that given the expansion of the economy the actual gas capacity, the power capacity in the country will lag. The needs therefore is always going to be ability have everything fully turned on.

John Herrlin

Okay, great. One other one for me on the CB-1 wells, coming along in terms of where you expected, given your seismic modeling, is the structure being firmed as you go or can't say?

Andy Inglis

The well is operational and what I don't want to do is say anything more than that, we will give you full update in March when we get the results.

Operator

Thank you. At this time we have no further questions. I would like to turn floor back over to Neal Shah for closing comments.

Neal Shah

Thank you operator. We appreciate all of you joining us on the call today, and your interest in Kosmos. If you have any further questions please don’t hesitate to contact me. Thank you very much.