

Operator

Good day, everyone. Welcome to Kosmos Energy's Second Quarter 2014 Conference Call. Just a reminder, today's call is being recorded.

At this time, let me turn the call over to Jon Cappon, Manager of Investor Relations at Kosmos Energy.

Jon Cappon

Thank you, Operator, and thanks to all of you for joining us today. This morning, we issued our second quarter earnings release, which is available on the Investors page of the kosmosenergy.com website and we anticipate filing our second quarter 10-Q with the SEC later today, which will be available on our website at that time and as well.

Joining me on the call today are Andy Inglis, Chairman and Chief Executive Officer and Greg Dunlevy, Chief Financial Officer.

Following our prepared comments, we will have a question-and-answer session. Consistent with prior calls, I request that participants to ask only one primary question and then one follow-up question. This will help ensure we get to all who are on the call. 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 would like to mention that this conference call includes certain forward-looking statements based on our current expectations. The risks 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 would like to turn the call over to Andy.

Andy Inglis

Thanks, Jon, and thanks to everyone for joining us today. Going through my remarks today, there were three topics I want to touch on before handing the call over to Greg for the financials. First, our solid second quarter

operating performance. Second, progress on execution of our business plan, and third, our continued financial strength.

During the quarter, we delivered solid results due to strong production at Jubilee as well as sound operational execution. Production from the Jubilee field remained above expectations producing at a gross rate of over 104,000 barrels of oil per day sales through the quarter. This in production was underpinned by our ability to flare a limited volume of gas on the FPSO.

In my visits to Ghana during the second quarter, I reviewed firsthand the production infrastructure related to our Jubilee operation, both the FPSO offshore and the Ghana National Gas Company's construction of its gas processing plant and associated pipeline infrastructure. I remain confident that all parties involved recognize the importance of resolving the challenge of handling the associated gas, which is limiting oil production from the field. With this alignment, the Jubilee partners and the government of Ghana are working alongside the various stakeholders with the objective of resolving this issue around year-end.

Shifting from operations to the delivery of our business plan, we continue to work closely with co-venture partners in Ghana to address both, the TEN development and MTA appraisal program. The TEN project is around 30% complete and remains on budget and on track to deliver first oil in the second half of 2016.

Today, we have drilled 8 of the 10 wells planned to be operational with first oil and the remaining two wells should be drilled by year-end. All major contracts are in place, the conversion of the TEN FPSO is ongoing and the subsea installation is scheduled to begin next year.

Our MTA appraisal program also remains on track. We expect to complete our appraisal of Mahogany, Teak and Akasa discoveries by year-end, providing the opportunity to advance these assets towards development beginning in 2013.

Turning now to exploration, I believe we have and are continuing to build the Second Inning exploration portfolio with the potential to create tremendous shareholder value. First, Cap Boujdour, we remain encouraged by the significant potential of our Cap Boujdour acreage, a potentially giant unexplored hydrocarbon province with substantial exploration prospectivity.

Several play fairways have been defined within the basin and we have identified multiple prospects within each fairway ranging in size from 0.5 billion barrels to more than 1 billion barrels of oil equivalent.

Gargaa will be the first of these prospects to be tested. It's a very large structure with a mean reserve size of over 1 billion barrels of oil equivalent. Operational planning is underway and we plan to spud the well in the late in the fourth quarter using the Atwood Achiever drillship. The Achiever is currently scheduled for delivery later this month to begin our plan 90-day mobilization to northwest Africa.

Second, Mauritania, last year we acquired both, 2D and 3D seismic across offshore acreage position. Interpretation of these seismic volumes has continued yield encouraging results, including well-defined channel systems and AVO supported features with seismic conformance disruption.

Most importantly, our acreage is down dip of a proven hydrocarbon system. As a result, we've high-graded the number of well-defined prospects moving Mauritania forward in our drilling schedule. We expect to seek a partner later this year ahead of spudding our first exploration well in Mauritania in mid-2015.

Third, Agadir Basin, offshore Northern Morocco, we recently completed a large 3D survey providing continuous seismic coverage across the three adjacent licenses that together cover the core part of the Agadir Basin. The seismic will be incorporated into already robust data set ahead of an exploration well planned for the second half of 2015.

Finally, let me remind you of our financial strength. We have a strong balance sheet and robust liquidity. Both are key components of our strategy to prepare for an exploration success. Our business model is built on the principle of being a self-funded explorer with expected cash flow from Ghana able to completely fund our ongoing Ghana developments as well as planned exploration program.

Our financial strategy has created strong corporate liquidity of around \$1.9 billion after our recent high-yield bond offering. We are in the strongest financial position in the company's history at exactly the right time and we are building momentum to drill out our Second Inning exploration portfolio.

In conclusion, we remain focused on what creates the most value for our shareholders, building production and reserves in Ghana, delivering exploration success through our industry-leading portfolio and maintaining our financial strength. Jubilee, TEN and MTA are the foundation stones of our self-funded exploration strategy. They are well-defined world-class resources with significant potential.

As the saying goes big fields get bigger and we believe there is a lot more value to be created in will Ghana. Our Second Inning exploration program continues to gather momentum. It is high upside potential with three player

inning test planned in 2015. Cap Boujdour, Mauritania and the Agadir Basin, each of which could unlock a multi-billion barrel play fairway. Finally, we have the financial strength and the right team in place to execute our plan and deliver success.

I would now like to turn the call over to, Greg, to update you on the financial side of things. Greg?

Greg Dunlevy

Thanks, Andy. Good morning, everyone. In my prepared comments this morning, I will review our financial results for the second quarter and then provide a brief update on our expectations and guidance for the remainder of the year.

Overall financial performance for the second quarter was strong based on the sale of our third Jubilee cargo and results were therefore generally ahead of analysts' expectations. Oil revenue was \$328 million, generating income of \$57 million or \$0.15 per share. Included in these results are the previously announced non-cash derivatives mark-to-market charge of nearly \$22 million and a restructuring charge of approximately \$12 million. Absent these, net income would have been approximately \$82 million or \$0.22 per share.

Cost related performance was solid in the quarter, with production expense, exploration expense, G&A and DD&A, all showing improved performance in last year's quarter. Production expense was \$23 million or slightly less than \$8 per barrel sold, with no workover operations conducted during this quarter.

Exploration expense was \$24 million in the quarter, includes nearly \$3 million for the FA-1 well in Morocco, demonstrating the benefit of the well carry. The balance was associated with seismic costs for two large offshore 3D programs. One is still underway at quarter end and costs related to advancing various exploration-based initiatives.

G&A cost of \$32 million represents a decrease from last year and a slight increase over the first quarter, which was positively affected by several unusual items. Depletion and depreciation of approximately \$24 per barrel continue to be favorably impacted with the addition of proved Jubilee reserves at the end of last year.

Tax expense of \$81 million is a result of higher revenues associated with having both, being third cargo in the quarter and higher oil prices. We expect the non-cash mark-to-market charge related to commodity derivatives to vary quarter-to-quarter with the recent quarter's charge

associated with an approximate \$5 per barrel increase in increase in rental prices during the second quarter.

Having successfully completed inaugural high yield offering, total corporate liquidity is approximately \$1.9 billion as of June 30th, pro forma for the high yield transaction. Including in liquidity at quarter end are unrestricted cash and cash equivalents of \$622 million.

At this time, I would like to transition to our expectations for the remainder of 2014. Our forecasted investment program remains at approximately \$575 million, with around 70% or \$400 million of this targeting for activity in Ghana, and the remaining allocated to exploration activities. Just over half of the Ghana's spend is directed to TEN development with the rest targeted toward ongoing Jubilee Phase 1A development and MTA appraisal.

Included in the exploration spend are initial cost for the Gargaa exploration well scheduled to spud late this year. We sold five cargos of Jubilee oil in the first half of 2014, but have nonetheless retained our annual sales forecast at a total of eight cargos, net to Kosmos during the year. This is based on the fields' operators 2014 production forecast of 100,000 barrels of oil per day.

During the second quarter, our lifting has averaged \$970,000 barrels each. On the cost side, we anticipate yearly production expense in the range of \$10 to \$12 per barrel, inclusive of workover expenses. There is a workover operations planned in the third quarter.

G&A cost for the year is expected remain slightly down from full year 2013 levels, DD&A should average around or just under \$25 per barrel. 2014 exploration investments based on our current CapEx guidance are expected to be approximately \$175 million and we have used as a proxy for exploration expense.

Interest expense should increase to reflect the cost of the recent \$300 million notes offering. This note offering was an opportunity to locking long-term capital at historically low cost. Our hedge position at the end of the quarter totaled \$10.2 million barrels with around 3 million barrels remaining in 2014 and the balance directed toward 2015 and 2016.

As part of our ongoing price risk management, we expect to add to our 2015 and 2016 positions. Bearing in mind the challenge of giving guide on tax as well as recent high oil prices that are supporting higher revenues we project per quarter tax expense to be approximately \$25 million per lift.

Thank you, now operator we would like to open the call for questions

Question-and-Answer Session

Operator

Thank you. We will now be conducting a question and answer session. (Operator Instructions) Thank you. First question comes from the line of Ed Westlake with Credit Suisse Group. Please proceed with your question.

Ed Westlake - Credit Suisse

Yes. Good morning. You mentioned that one of the things for the second half of the year was MTA appraisal. Maybe just if there's been any updated sort of reserve estimates for the MTA sort of blocks and what you are hoping to get out of the appraisal program for the second half of the year. Thanks.

Andy Inglis

Yes. Hi, Ed. It's Andy. I think, we talked data MTAs is having a resource size of somewhere around 75 million barrels and I think that estimate remains good. The work that we have done so far this year and additional well that we drilled sort of underpins I think more in two-thirds of that bit of work to finish off to put together the development plan that will underpin the full 75 million barrels, but the [work] as we said is going to plan.

Ed Westlake - Credit Suisse

Right. Then as you have drilled any of the 10 wells in the development plan, I mean, any updates in terms of obviously get extra information as well in even development wells? Any changes to TEN based on the wells that you have drilled?

Andy Inglis

No. Actually what I would say is actually 8 of the 10 wells that we would have on production at the beginning. I think all I would say is, with the data from those wells, we are confident that that wells stock will fill the FPSO, so if you like that initial gain that you get from having the trees really certainly bearing fruit.

Ed Westlake - Credit Suisse

Then obviously far way or to the south of your acreage that the (Inaudible) well was announced, dry this morning. I mean, any geological read across? It seems like it's relatively far away from where you would be drilling.

Greg Dunlevy

Yes. It is. If you remember, I think what they were targeting, I think it it's a Jurassic carbonate. It's a very different play, where we are obviously

outboard. This is cretaceous target, which we are chasing here, so very deepwater prospect, so very different, so I think there is absolutely no read across.

Ed Westlake - Credit Suisse

Thanks so much.

Greg Dunlevy

Thanks, Ed.

Operator

Thanks you. The next question is from the line of Anish Kapadia of TPH. Please proceed with your question.

Anish Kapadia - TPH

Hi. Good afternoon. Just the first question on the exploration side, it's interesting Mauritania being prioritized, but just looking at Ireland, one of your partners recently put out [CPR] by some of the preliminary seismic data that was out there for Ireland, which showed greater probability of gas and also the oil leads as they put out that were relatively small. I was wondering if you could discuss your interpretation of the data you are seeing today and your confidence in terms of moving forward on Ireland.

Andy Inglis

Yes. This is an independent study, so it's not one that we were involved in, so I would say a couple of things. You know, the first is funding your exploration that was always a phase risk. I would say this was a new knowledge. The phase risk remains. We are clearly targeting oil and actually, the most direct analog for us would Dunquin well, which is the Exxon Mobil, which was drilled I think around a year ago and it had all shows in the cretaceous. In terms of hard fact, I think that's the thing that I would probably put up mirror against that study.

Anish Kapadia - TPH

Bit more of a question, I mean, being at - for few months now, I was wondering if you envisaged any significant changes in strategy and also what do you see to close the gap between the equity market valuation Kosmos and as well as your view of the value of the assets.

Andy Inglis

Yes. Okay. We could spend all day, Anish. That's a big question. I think the things that are important, I would point out are following which is, I have been at the [home] as you say just under six months now. The thing that struck me most is that time period is the quality of our exploration portfolio and the progress we made in maturing that whether it would be in the Western Sahara, whether it would be the Agadir Basin to the North, Mauritania, Ireland and Surinam, you know, this is a world-class portfolio and I remain stronger in that view than actually when I joined. That's the first I would make.

I think, in terms of the valuation gap going forward, I think we clearly have to deliver on our promises in terms of Ghana, which is still about reserves and about production. I think, this year we have done that. I think, we will continue to do that. The plans are very clear and the progress is being made in line with those plans.

Then, I think, the second big issue then clearly is the valuation around the exploration portfolio. It's quite difficult to do. It's in the eye of the beholder, but from our perspective it will be about being able now through 2015, 2016 and 2017 deliver in aggregate three to four wells per year, each of which has significant prospectivity in terms of opening up a play fairway.

I believe there is a significant value gap, but that can only be delivered I think through demonstrating the delivery of that exploration portfolio, so that remains the core strategy. The company has a world-class asset in Ghana. It's self-funded both the Ghana development and exploration program and continuing to grow. That cash flow is clearly the first step.

Then second step now is to embark on the drill out of a world-class portfolio in the Second Inning and that has really start to continuous program with the arrival of Achiever and the spudding of the first well, Gargaa offshore Western Sahara.

Anish Kapadia - TPH

I was just wondering, in this market clearly there is a very negative view from the equity marketing in terms of exploration should allow you to actually pick up exploration opportunities relatively cheap. Are you looking to maybe utilize a very strong balance sheet and further enhance that exploration portfolio in the coming months or so take advantage of that value gap?

Andy Inglis

It's a great question, Anish, but I think if I get it back to the core strategy, Kosmos is a very rigorous exploration company and this is all quality

through choice. We have opened up significant acreage positions in the areas that I have talked about earlier. We have done the work in terms of the 2D leading to the 3D, leading to high quality prospect ability to farm out those, drill at very low cost.

We need to be very careful about buying something in the market at higher value and lower cost. We obviously scan the horizon continuously of opportunities out there and if we see something from within our portfolio, then we would do that, but that's the market today and it should also give you a sense of the quality that we think we have versus what other people have, so no. It's very challenged. We are looking at it very hard, but we are setting a pretty high bar in terms of, it has to be better than what we have today.

Greg Dunlevy

Anish, this is Greg. We do have a lot of liquidity, but liquidity is there for strategic reasons as part of maturing the company, funding sources and to be ready for success. We do look at a lot of things out there, but as you know the record for exploration has not been good the last year-and-a-half and in large part we think there's just not a lot of things that we have looked in other people's portfolios, so we are going to go back to we do hear issues a lot which is discipline and we are not going to pursue things just because we have money. We are only going to pursue them, because they had, in our view, significant shareholder value potential.

Anish Kapadia - TPH

All right. Thanks so much.

Greg Dunlevy

All right. Thanks, Anish.

Operator

Thank you. The next question is from the line of Al Stanton with RBC. Please proceed with your question.

Al Stanton - RBC

Yes. Good morning folks. You mentioned a couple of times that you are self-funded through the near-term, so I was wondering if you could provide any guidance on where CapEx development and exploration spending are going next year. I am assuming, both are going to be up year-on-year. As part of

that, I was wondering, Greg, whether you would say that you are refinanced or you are refinancing.

Greg Dunlevy

Well, let me answer. We have, if you want to call it refinanced. We have extending maturities considerably this year as we have looked to mature a capital structure as the company and we are maturing, one, because we are growing as company. We continue to grow in, but two we are preparing for exploration success. That is an as an integral part of our business strategy and to be ready for it is critical to us. We are not as ready in 2007, when we discovered Jubilee. We will be ready at this time around.

In terms of CapEx for next year, I think the significant change will be that TEN will pick next year in CapEx spend among the partnership, so I would expect 2015 CapEx to be up somewhat on the back of TEN, but I would expect exploration to be in the same neighborhood. Obviously, I am talking about exploration and I am excluding any success based CapEx from that.

Al Stanton - RBC

On the exploration spend, is there any assumption that you didn't drill with the current stake. Obviously, there is Mauritania, former plant, but also you got a big second Ireland.

Greg Dunlevy

What's your assumption on exploration stakes?

Al Stanton - RBC

Our strategy has been clear that we do before we drill, but after we do our 3D. We seek a partner here to come into the blocks as we did in Morocco with the both, BP in the North and Mediterranean capital we drew license. It's fundamental part of our strategy is it's an organic-driven model, so we will seek to bring in partners in our internal planning we assume ground floor formats even though historically we received significant promotes from our format initiatives and we generally called on average target levels in the third to a half-ish, in that range.

Al Stanton - RBC

Thanks, guys.

Greg Dunlevy

You are welcome.

Operator

Our next question is from the line of John Herrlin of Societe Generale. Please proceed with your question.

John Herrlin - Societe Generale

Yes. Hi. Mauritania, have you opened up the data room yet?

Andy Inglis

Yes. Hi, John. No, we have not to be precise on the answer, but shortly. We anticipate opening up the data room in the third quarter.

John Herrlin - Societe Generale

Okay, Thanks. With the well that you will be drilling at year end, offshore Morocco, have you incorporated the new seismic you have just acquired or is this still too early?

Andy Inglis

No. It's too early that's I was in a different area from where the Gargaa prospects. The Gargaa is fully described and actually what we have very high quality data set up across Gargaa and really the additional 3D that we would shop there is about actually the extension of that play and what would be following on exploration success, so the amount of success we would then be able to incorporate on it.

John Herrlin - Societe Generale

Okay. With the Canadian gas, you mentioned at the end of fourth quarter you then think you will have to step up next year for oil volumes with greater gas takeaway or with the initiation of gas take away?

Andy Inglis

Yes. That's right. In a way that I think about it is, so to say that it is going to be around. I talked about by the around year end we will start, I think, to move gas. At that point you got well capacity of the FPSO with an excess of the core FPSO may imply to 120. It's down 125 already, probably with a little more, so you can probably re-use reasonably quick ramp up to at least the 125 level and the ability probably to do a little better than, so that's the way you should think about sort for the 2015 production.

John Herrlin - Societe Generale

Great. Thank you.

Andy Inglis

Great. Thanks, John.

Operator

Our next question is from the line of Pavel Molchanov with Raymond James. Please proceed with your question.

Pavel Molchanov - Raymond James

Thanks for taking the question guys. To ask about kind of unpleasant topic, but Ghana is obviously not in the upper - in the vicinity at least of a public health crisis in West Africa. I was wondering whether you received any instructions or directives from the local regulators about moving personnel or equipment or anything like that associated with health issue.

Andy Inglis

No. It's is an important question. We are clearly monitoring situation very closely. We are obviously in contacts with the health authorities in Ghana and today there will no cases recorded. We have in place full contingency plans if they were to be an issue, so it's something as you say which is huge unfortunate, but so far Ghana has not been impacted but we have very robust plans in place should not be an issue.

Pavel Molchanov - Raymond James

Okay. Then let me switch gears to ask you about hedge being mentioned that your starting at looking to hedge all the way out to 2016, given that brand is in pretty significant backwardation I guess how you thinking about sort of modeling that in another word how long would you agree to go on your hedges out 18 to 24 months?

Andy Inglis

Yes. We actually have hedge I mean 2016 ready 2 million barrels. We intend to look at hedging as insurance or defensive tools so what we do is we put puts in place generally around \$85 up to \$90 we sale a call spread on the upside just to recover some of the cost to put.

If you look at it more practical in terms, we are selling some of the far upside in place for the higher upside it return for buying some floors underneath it. By designed, the strategy is expected give us very low cost and less oil prices really went up substantially generally north of 115.

Pavel Molchanov - Raymond James

Okay. Appreciate color on that. Thanks very much.

Andy Inglis

Great. Thanks, Pavel.

Operator

Our next question is from the line of [Pritesh Gajjar] of JMP Securities. Please go ahead with your question.

Unidentified Analyst

Hi. I had just a question regarding the rig contract. I mean, your contract for the Achiever provides you a lot of flexibility in case of success. What I am trying to understand is, how you plan to utilize the rig given that you have already given two rigs to three slots to Freeport for drilling offshore Morocco in 2015. Should we assume the remaining slots to be with you for Morocco, Mauritania drilling or are you looking for some more subletting or being more opportunistic in farming opportunities in West Africa?

Andy Inglis

No. I think you should regard. The whole purpose of having the Achiever is first to be in control of our destiny. It's a high-quality rig and it's one which we believe will be both, safe and efficient. As you say, we found out two slots.

As we look across '15, '16 and '17, there are probably 11 slots in total to be found out, which means it gives the opportunity to drill three for slightly more efficient potentially four. We have a prospectivity across Morocco, Mauritania, Ireland, Surinam to fully underpin that, so this is about us retaining the discipline and showing the we can use our rig to our best advantage across our portfolio. The two are absolutely synced up in terms of the number we have available and the wells we plan to drill and the quality of the portfolio.

Unidentified Analyst

Thank you.

Andy Inglis

Thanks, Pritesh.

Operator

Our next question is from the line of Brendan Warn of BMO. Please proceed with your question.

Brendan Warn - BMO

Good morning, gentlemen. Most of my primary questions have been answered, but just follow-up on Mauritania. Then lot of colors were result - just any change of thinking or latest thinking about your targeted play concept. With sort of play diversity your three blocks...

Andy Inglis

Again, I think, it's very different target. I guess, it's cretaceous, it's outboard and I will just come back to the word design that I used in the my remarks. You know this has been baking in the oven for some time. Last year it was 2D and 3D. We got encouraging results from that 3D.

We got very well-defined channel systems and it's AVO supported with seismic [conformance] structure, so we feel we develop very strong prospectivity. This is our first re-entry back into the West Africa transform margin, but it's well underpinned now with the seismic work that we have done. As a result, we feel this is a very high quality prospect, so that's why we have moved it forward in our drilling schedule.

Brendan Warn - BMO

Okay. Just follow-up to that. What you know that pressure regime and expected low complexity just in lot of cost...

Andy Inglis

It's good question. No it's - earlier this morning. Relatively conventional.

Andy Inglis

Yes. We are not in a high pressure, high pressure temperature regime.

Brendan Warn - BMO

Okay. Appreciate that. Thank you. That's good. All right. Thanks.

Operator

Since there are no further questions at this time, I would like to turn the floor back over to Jon Cappon for closing comment.

Operator

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