Harbour Energy plc
2021 Half-year results - Transcript
23rd September 2025

Linda Cook - CEO

Good morning. I'm Linda Cook, CEO of Harbour Energy, and thanks for joining us this morning for Harbours first full year results presentation and it's really nice to see some of you here in person. I'm going to get us started with some performance highlights and then turn it over to our CFO, Alexander Krane. Alexander will cover the financial results and guidance and after that we'll have some time for Q&A during which we'll be ably assisted by our two business unit leaders, Bob Bennell, who runs the North Sea for us, and Stuart Wheaton, who's in charge of international. So if we could go to page 4, please think we're there.

So 2021 was a transformational year for Harbour Energy. The key highlight was, of course, the merger with Premier completed almost one year ago today, so a little bit hard for some of us to believe and we've accomplished a great deal since, although we did admittedly have some operational challenges during last year. We did maintain safe and responsible operations with annual production of 175,000 barrels per day. And we importantly ended the year with a strong fourth quarter with production well above 200,000 barrels per day. I think highlighting the quality and the potential of our portfolio. Operating costs and CapEx both came in a bit under guidance, which is good. With COVID becoming more manageable, we were able to complete a number of material maintenance campaigns in the second and third quarters and successfully ramped up drilling activity in the second-half of the year. And now we're realising the benefits of both of those programmes.

At Tolmount, I'm pleased to say that good progress has been made in spite of the latest COVID variant and the series of bad weather, bad winter storms that swept across the UK over the past few weeks. We're in the process now of starting up as we speak and very close to first production. The project is of course, an important milestone for Harbour and also for UK gas supply on a gross basis, Tolmount is expected to deliver an increase of 6% to the UK's domestic gas production. Also during 2021, we took steps to align the portfolio with our strategy exiting exploration in Brazil as well as the Sea Lion project in the Falkland Islands. As I said before, we believe there are lower risk and lower emissions opportunities to replace our reserves and grow than through frontier exploration or multi billion dollar. New developments in remote areas.

Harbour is now in a solid position operationally and financially. That's not by accident. We've always been focused on prudent capital allocation and risk management. I think the importance of this has never been more evident than it is today, with the triple impact of a global pandemic, an uneven path towards a lower carbon economy and more recently the terrible events we've seen unfold in Ukraine. In 2021, we generated almost $700 million of free cash flow, reducing our net debt to 2.3 billion at year end. In the two months since then, our net debt has reduced further to 1.9 billion at the end of February. This continues our track record of deleveraging quickly following completion of major acquisitions. With our strong balance sheet and production outlook for 2022, we have significant near term optionality over capital allocation.

One thing we don't plan to do, however, is to increase spending. CapEx is already set to be about 30% higher than it was last year. And as we said at our Capital Markets Day in December, we think that's about right for our portfolio today. We like the discipline this enforces. We like the fact that it challenges us to high grade our projects. So we'll remain focused on delivering within our existing CapEx guidance. For the year. Beyond that, with the extreme volatility we're currently experiencing, oil price swings of $10 per day haven't been unusual recently, UK natural gas prices were more than 600p few days ago and now they're at 1/3 of that. And then we have the uncertainty around the global economy in general. It's just hard to predict where we'll end up at year end from a cash flow standpoint. Having said that, in the event that commodity prices remain elevated and we continue to de-lever, shareholder returns in 2022 beyond the $200 million dividend announced in December will be considered as we move through the rest of this year, all within the context of our existing capital allocation framework. Next page please.

Now turning to safety. Something near and dear to my heart and our company's number one priority. History has shown that safety incident rates increased during times of change and distraction. We had those conditions in spades during 2021 with the combination of dealing with the pandemic, completion of a merger and combining 2 operating organisations in the UK. Given all of that, while never completely satisfied, as long as we're having a single incident. I do feel good about some of the progress we've made. We had no serious injuries during the year and we worked hard to protect our offshore workforce from a major COVID outbreak. This required quarantine periods for people before heading offshore and then longer offshore shifts. Both meaning sacrifice by our by our staff and their families. For the year, our recordable injury rate was comparable to 2020 even though maintenance and drilling activity were significantly higher.

We also had a number of notable achievements, some of which are listed on the chart. One in particular. I'd like to highlight is at the Greater Britannia area, where we took over operatorship in 2019 just prior to the outbreak of COVID. During the year, we completed an extensive maintenance campaign at Greater Britannia. Yes, this impacted production. We all saw that, but it enabled us to reach a record low maintenance backlog on the Britannia facility. Completing this maintenance improved reliability, and since then Greater Britannia has been averaging 97% reliability, top quartile by any standard. Even more important, though, is that completing all of this maintenance improves asset integrity and protects the safety of our workforce. Now on to page 6.

The merger with Premier made us the largest oil and gas company in the UK by production and market cap and resulted in us becoming a public company. With that listing came a lot of interest in our shareholder register given the initial Premier creditor position and the lockups associated with the IG investment investors. So an update on this is in the upper right. The shareholder register has evolved over the year with our stock available to trade increasing from 18% on day one to 63% today. The last remaining lockup, which is over EIG's 37% stake, expires now in just two weeks. While we can't speak for EIG's intentions, what we can say is that they continue as a private equity firm to invest in oil and gas and they remain supportive of our management and our strategy.

While the merger itself was a complex transaction, the integration process that comes afterwards can be equally challenging. Especially if doing it while everyone's working from home during a global pandemic. I'm pleased to say we're now returning to our offices and all the various integration streams are more or less on track. The reorganisation was completed late last year. We're now in one office instead of two in London and will soon be in two offices instead of three in Aberdeen. The new EMS, scalable to accommodate additional acquisitions, has been designed. We're already loading it with data and we expect implementation to be complete before year end. The work to consolidate the supply chain by combining and renegotiating contracts, capturing benefits of scale is also underway. These and other synergies will increasingly flow to our bottom line as we move through the year.

With respect to the portfolio, the merger brought together 2 complementary businesses and diversified our asset base. Our 2P reserves increased to 488 million barrels of oil equivalent, reflecting a reserve replacement ratio of 157% for the year. Even with the impact of the previously announced revision at Tolmount as a result of the findings from one of the wells in last year's development drilling programme. This performance is in line with our strategy. We aim to keep production flat in the near term by investing in our existing asset base. And we aim to grow and diversify longer term through acquisitions, which is exactly how we built the company over the last few years.

We understandably get a lot of questions today about what the current environment and high commodity prices might mean for our strategy and in particular for further M&A. Our strategy was set for the long term since we made our first acquisition in 2017, we've seen we've seen Brent range from $35 per barrel to 130 and UK gas prices range from around 20p to over 600p. The large transactions that we make can take months, if not a year to analyse, discuss and negotiate, agree and complete. So while of course it's more difficult to reach a shared view on value, when there's this much volatility in the market, we still see the potential for interesting opportunities in the coming years, but as always will remain very disciplined. Turning now to production on page 7.

Production in 2021 averaged 175,000 barrels per day, split roughly 50/50 between oil and gas. Our production level last year reflected 3 things. First, the addition of the Premier assets from March 31st, 2nd, the impact of a low level of drilling activity as a result of our COVID drilling pause during 2020. And 3rd, significant downtime for maintenance, including to address maintenance deferrals from 2020 when we were minimising offshore staff in order to protect them from COVID during the early stages of the pandemic. As we move towards the fourth quarter last year with the maintenance largely behind us and the widespread availability of COVID vaccine, we were able to return to more normal operating levels. As a result, production in the fourth quarter averaged 214,000 barrels per day, reflecting limited downtime and improved efficiency, benefiting from the maintenance work as well as from contributions from new wells such as Buzzard Phase two and the EIG well at Elgin Franklin. Next page please.

The strong operational performance has continued into 2022 with production to the end of February averaging 219,000 barrels per day. Our guidance for the year remains unchanged at 195 to 210,000 barrels per day, which at the midpoint is an increase of about 15% over last year. We expect to become a bit gassier as we move through this year, ending at an average of around 55% gas, 45% oil. We're benefiting in 2022 from a full year's contribution from the Premier acquisition and higher production efficiency as we have more normal maintenance plan with the only significant campaigns being at Catcher, Elgin Franklin and J-Area. Production is also supported by the higher level of investment in the second-half of last year and throughout 2022, primarily targeting high value short cycle investment opportunities within our existing producing fields. We've had some positive performance recently from a number of wells including Callanish F5 at Britannia, which came on stream in 2021 and continues to outperform improved results from the ongoing drilling programme at Claire and more recently at Jade South, which was brought on stream in February at levels higher than we previously thought. In addition, of course, we expect Tolmount on stream very soon.

Page 9 please. The project's made considerable progress since our Capital Markets Day in December, even though hampered by the latest COVID variant and multiple storms over the past weeks, all of the electrical inspections are now behind us, and the necessary repairs complete. The testing and commissioning of the platform is also essentially complete and the various start up activities are well underway. These include acceptance of the systems from the E&C contractor by ODE, the duty holder, and a vast majority of these have already been achieved. The remaining steps will be the start of the back gassing of the pipeline with gas from shore, which is imminent, and then the well to pipeline testing followed by first production. All of this will take a couple of weeks. So we're really now in the home stretch. Once on stream, the project will increase UK domestic production by about 6% to timely addition. Our share of productions expected to be 20,000 barrels per day. About 95% of that gas.

Turning now to our capital programme. We have significant opportunities in our asset base to support production at current levels in the near term, while continuing to generate material free cash flow. The majority of our CapEx is allocated to these lower risk high return investments with over 90% of our 2022 drilling and development spend breaking even at less than $35 per barrel and 35 pence per therm. Today we have 4 rigs actively drilling, including one that recently arrived at the Catcher area where we continue to see strong reservoir performance. The rig will bring on stream the Catcher North and Laverta satellite tie backs and add production from the Bergman field. We also currently have two rigs at J-Area, one drilling the JM development well and the other drilling the RD well. Our first target from the JRPG Judy platform. Meanwhile, Talbot, which was successfully appraised last year, is being progressed to an F ID later this year. The number of rigs across our portfolio will double to 8 by mid year with the return to drilling at barrel and the addition of three rigs in Southeast Asia. So a busy second-half of the year for us from a drilling standpoint and all of this will help support our production levels into 2023 and beyond.

On the next page you see I mentioned 3 rigs in Southeast Asia. One of those will arrive in just a few weeks time to drill the Timpan prospect in Indonesia. We, along with our partners BP and Mubadala, will be testing a very large gas prospect and the heart of a region with significant growth in gas demand. However, as excited as we are to drill the well, of course it is an exploration well called that for a reason. So we just need to wait and see. We have two other material international growth opportunities, Tuna in Indonesia and Zama in Mexico. At Tuna following last year's successful appraisal campaign, we're now in the midst of assessing the data from the new wells and finalising the development concept. We aim to submit the development plan later this year and if all remains on track could reach FID in 2023.

Similarly, at Zama, we're working with Pemex and other partners on the unit operating agreement and the development plan. We expect the unit operating agreement to be finalised soon and assuming alignment with partners of possible FID next year as well. These two projects, Zama and Tuna, are key components of our 2C resource base of 460 million barrels of oil equivalent. While our business outside the UK today is relatively small, it has embedded in it options to serve as a potential platform for future growth and diversification.

Moving forward. Finally, on page 12, a few words about our environmental performance focusing on greenhouse gas emissions. We had a busy year on this front as well. As you can see by the list of achievements on the slide. Most importantly, we set a goal to achieve net zero by 2035. There's no silver bullet for this. It will take commitment, significant effort on many fronts, including reducing our own emissions, considering investments in things like electrification and carbon capture and storage, both of which will likely require government financial support and acquiring offsets. We made progress on all of these fronts during 2021 and our emissions came in under our internal target. We set our investment criteria to include various scenarios for the cost of carbon. We're screening all M&A opportunities based on emissions intensity and we incorporated targets into our incentive pay and our senior lending facility. Our two CCS projects also continued to progress. The ACORN project in Scotland was awarded reserve status under the UK Government's phase one process to select projects to fund as part of their country's own net zero goal. And at our V Net Zero project which we lead, we were granted the licences to store CO2 offshore in the depleted Viking fields and we reached agreement with Vitol, Phillips 66 and other Humber area emitters to be their preferred CO2 storage and transport solution. Finally, we took our first steps in the greenhouse gas emissions offset market last year. Today, we've entered into commitments to acquire 1.2 million tonnes of offsets across a wide range of projects in Latin America. Of these offsets, we retired 400,000 tonnes, 1/3 of the total. With respect to our emissions in 2021, this led to an improvement in our net greenhouse gas intensity to 17 kilogrammes of CO2 equivalent per barrel, well below the UK offshore average. Still, though, quite a journey ahead of us, but I think a good start along the path and now I'll turn it over to Alexander to talk about financial results and guidance.

Alexander Krane - CFO

Thank you, Linda. Good morning, everyone, and especially to the folks here in attendance in our office. It is just fantastic to see people face to face again. So for my presentation today, I'll start by reminding you of our capital allocation priorities, which we are delivering against. I'll talk you through our hedging position in our 2021 financial results. I'll then provide some colour on the cash flow potential of our business and how we plan to allocate that cash flow in line with our capital allocation policy. Before I'll finish just talking about the 2022 outlook and guidance. So first, how do we think about capital allocation now? As a reminder, we aim to generate robust and resilient cash flow through the cycle and we have 3 competing equally important priorities for our cash flow. Namely safeguarding the balance sheet, ensuring a robust and resilient asset base and delivering shareholder returns. So let's start with #1, safeguarding the balance sheet. Just by looking out the window, in reading the daily news, we are reminded about the volatile environment that we operate in. It's a cyclical industry, so ensuring that we have a robust balance sheet that can withstand this volatility and make sure we always have sufficient liquidity through the commodity price cycle, it's just imperative for us.

We upsized our RBL and we increased our leverage to finance the Premier merger. We were comfortable in doing so as we had good visibility on the forward deleveraging path supported by the hedging programme. By year end, we had reduced net debt by 600 million down to 2.3 billion, excluding amortised fees, and our leverage was down to 0.9 times. A significant improvement on our position as of March 31st and in line with the target of having less than 1 1/2 times that leverage through the cycle. This is evidence of our countercyclical approach in how we manage the balance sheet, where we seek to pay down debt when realised commodity prices are high, reducing our leverage such that we will be well positioned to take advantage of market opportunities when commodity prices are low.

The second priority is to ensure a robust and diverse portfolio. We look to continually invest in our portfolio and allocate capital to the highest return projects to ensure that we have a resilient and diverse asset base supporting near term cash generation. More than 90% of our 2022 development and drilling CapEx is delivering break evens of less than $35 per barrel or £0.35 per therm. Our existing portfolio has embedded in it sufficient attractive low risk drilling and other opportunities that are enabling us to maintain production levels in the near term and delivering positive cash flow.

Ultimately, however, as Linda mentioned, we seek to grow and diversify through disciplined and value are creative M&A. In 2021, we received 157 percent 2P reserves replacement primarily driven by the Premier merger. And in line with our strategy, whilst keeping our leverage broadly flat year on year, while our reserve life is perhaps a little lower than where we would like to see it, we are certainly not targeting 15 years plus of reserve life.

And then thirdly, shareholder returns, we do believe a commitment to shareholder returns is an important part of our equity story. We announced at the CMD at the end of last year an initial 200 million per annum dividend. We look forward to paying the first distribution in May, which will be the 100 million dividend with respect to 2021. This represents a 15% payout ratio. As it says here on this slide, as Linda has already mentioned, we will consider additional shareholder returns in line with our capital allocation policy as we rapidly deliver throughout the year. Turning to the next slide.

We have an active hedging programme in compliance with the minimum and the maximum hedging volume requirements set out in the RBL. This hedging programme has served us well in the past, while today we have an unrealized loss position for our 2022 to 2024 hedges as both oil and gas prices are significantly higher than our hedge prices. However, as you can see, we expect the bulk of this to unwind over the next 18 months or so. With an exposure to commodity prices increasingly significant over that period. Specifically, we've hedged 70% of our production in 2021, 60% this year, 40% next year and so far only 20% of 2024. All of our hedging is carried out at the corporate level and then pushed down into the operating companies based on forecasted production at the time each hedge is placed. But we do not hedge individual assets. The chart here is similar to what you saw at our capital markets, though the only difference is that we've split out liquids production into oil and NGLs and our gas production. We've split by UK and international. We do not hedge the NGLs and we've currently not hedged any of our international gas. You can see that for 2021 we had hedged pretty much right at the maximum limit as determined for our RBL.

In particular, we ended up being almost 100% hedged on our actual UK gas products. In part, the higher hedging was deliberate in order to lock in the returns from the Premier deal, maintaining our borrowing base, protecting our balance sheet and in part also driven by the lower actual gas production that had been originally forecasted. For 2022, you can see from this charge that we are forecasting liquids production to be around 5 to 6% higher and gas production to be almost 30% higher. Here we will of course be benefiting from Tolmount coming on stream, plus a few other new wells which are predominantly targeting gas. As such over 20kboe per day of our production is exposed to UK spot gas prices. We've also taken advantage of the recent increase in commodity prices to put on some additional hedges. For 2024, we've sold forward around 4,000 BOE per day of UK gas and around 10,000 BOE of oil at prices above 100p per therm and $80 per barrel respectively. In doing this, we did consider other structure option structures, including straight puts, given where our leverage and where our balance sheets is. But these structures were just very, very expensive by way of context. The equivalent from at the money put option in 24 is around $17.00 per barrel or 56 pence per therm. Likewise, the skew on the collars we also deemed unattractive. As we mentioned at our Capital Markets Day, we have removed the minimum hedging requirement in year 3, which is helpful especially on the crude side. Where hedging that far out on the curve is now not attractive due to the lack of liquidity there.

If we move to a review of the 2021 full year financial statements, I'll start with a couple of thoughts on the income statement now. Do keep in mind that the reported 2021 figures here, they're made-up of 12 months of legacy Chrysaor and only nine months of legacy Premier from April 1st until the end of the year. The comparative figures you see here from 2020 though are those of Chrysaor alone. As this entity is deemed as the acquirer for accounting purposes. You'll see here that revenue and other income is up 50% year on year, increasing from 2.4 billion to 3.6. In here we had crude sales that accounted for around 2 billion. This is up 40% on the prior year with higher sales volume more than offsetting the slightly lower post hedge realised price. Gas sales accounted for 1.3 billion, that's up around 60% from the prior period. This came as a result of significantly higher post hedged realised gas prices, more than offsetting the lower production volumes. Specifically, we realised 54 pence per therm for our UK gas and the equivalent of 83 per therm or $11.70 per MCF for our international gas. Condensate sales and tariff income was around 0.2 billion.

Now as you will have seen from the previous page, around 5% of our production is NGL's where we tend to realise a 30% discount to Brent. We also had some one off items recognised this year as other income. This included a gain on EU emission derivatives of 51 million and a settlement of 40 million from Conoco Phillips, which related to adjustments to the consideration price paid for Conoco Phillips’ UK business back in 19. Operating costs were 976,000,000, which equates to $15.20 per BOE in line with our previous guidance. Costs are a bit higher as we added the Premier portfolio and we carried out extensive maintenance in 2021 compared to 2020 when all non safety critical maintenance was deferred into this year. Furthermore, we had some planned outages and we also had an unfavourable move in the UK, sterling versus dollar FX rates. G&A amounted to 103 million, up from the prior period, would say about 1/4 of this is deal cost related. However, by the end of Q4 2021 we had implemented a single integrated organisation which in turn should allow us to realise G&A savings across the group going forward. We had EBITDAX of 2.4 billion for the year. This is up around 35% on the prior period. DD&A amounted to 1.4 billion. This is equivalent to $21.00 per BOE on a unit basis. The increase per BOE compared to 2020 is per the higher so the increase compared to 2021 is primarily due to higher depreciation rates on the acquired right of use lease assets which is Catcher and Chim Sao. We had impairments this year of 117 million. This is split broadly evenly between the East Irish Sea and Clair at East Irish Sea. We took the decision not to restart production from Millom, which was shut back in 2020. While the small impairment on Clair reflects the poor drilling results in 2020, we've subsequently seen improved performance from the Clair drilling programme in 2021. Furthermore, we expensed a number of unsuccessful exploration wells this year. The expense exploration costs of 305,000,000 include includes the Dunnottar well here in the UK and the Norwegian wells Jerv and Ilder. In addition, also reflected in this number is the right of our carrying values for Sea lion and our Brazilian exploration acreage of 74 million and 56,000,000 respectively. This follows the decision to exit these projects.

Net financing costs amounted to 0.3 billion. There's a pretty good Note 5 in the financial statements that provides all the detail on these costs. In that note, you'll see that the main items they include interest payable of 102 million, quite similar to the previous year, despite borrowing levels going down. But this is offset by a lower interest rates. There you'll also find various bank fees of 63 million and you'll find an accretion expense related to decomm of 78 million. When it comes to the tax expense this year, we have an effective tax rate of around 68%, which is elevated primarily due to the aforementioned Brazil and Falklands write downs within the pre tax profit which had no associated tax relief. There are also other one time impacts related to items such as transaction costs. If I were to adjust for these one time items, the normalised effective tax rate would be closer to 40%. After deducting the tax expense of 214 million net profits for the for the period was 101 million compared to a loss of 778 million last year.

Turning to the balance sheets on Slide 17. Here they show total assets have increased quite significantly from 9.5 billion last year to 14.5 billion, again driven by the merger with Premier. There's an extensive note 12 on business combination that contains all the detailed information on the purchase price accounting. But in summary, after accounting for all the additions into PP&E and other intangible assets, we booked 300 million to goodwill. As part of the merger and movement, since we have a 1.9 billion deferred tax asset at the end of the year. This includes 1.3 billion in respect of UK tax losses. Again, Note 8 provides a full breakdown of the goodwill balance of 1.3 billion, and it describes the its build up over the three transactions that Chrysaor and Harbour have undertaken. Plus also details around the full review we've done on impairment testing at the end of the year. Provisions for decommissioning liabilities increased to 5.4 billion with the Premier merger. Now, it's important to note that this is a pre tax number and it's estimated using a risk free rate of return. Applying a higher discount rate like 10% and looking at this on a post tax basis will both materially adjust this liability downwards. And again as a reminder this will unwind over the next decades and we estimate around 300 million in spending per year in the medium term. In other liabilities, we've included the unrealised loss position of the group's commodity hedges booked pretax with a corresponding post tax debit to equity. In addition to the commodity hedges, trade and other payables make up this balance of the 5 billion number.

Now let's move to slide 18 and have a look at cash flow. This slide describes the change in net debts together with the cash flow movements for the period. Net debt at the end of 20/20 was 1.5 billion, which increased over the year to 2.3 billion, primarily driven as a result of the drawdown of 1.3 billion to fund the merger. Operating cash flow before decommissioning, spend and tax payments for the year was 2.1 billion, up 24% on the prior year and reflecting a negative working capital of approximately 0.6 billion. With most of our sales done on a 30 day payment terms, this was primarily driven by the ramp up in production from around 165,000 barrels per day in December 2020 to well in excess of 200,000 barrels per day in December a year later. This was of course combined with significantly higher commodity prices. Investing cash flow comprised of CapEx, decomm of 889 million offset by cash balances from Premier of 97 million. In financing activities. Excluding the movements in debt principle of course this amounted to 519 million. In this number we have included things like bank interest and fees of 205 million and lease payments of 160 millions primarily related to the FPSOs. Tax paid was 280 million, around 36 million of this was international, with the rest being UK tax paid. As a result, we generated 678 million of free cash flow for the year. This was up 21% on the prior year where we had 562 free cash flow.

Slide 19. As a result of the combination of higher production and if we assume a continuation of recent stronger commodity prices, we currently see significant improved cash flow generation in 2022 which could result in us rapidly deleveraging the balance sheets. This would be in line with our capital allocation priorities to repay debts when commodity prices are high. We've had a very encouraging start to the year, both operationally and financially and this is reflected in our net debt reducing from 2.3 billion, which excluded unamortised fees at the end of 2021, to 1.9 billion at the end of February. We would, however, normally expect January and February to be strong cash flow months for a number of reasons, but primarily because there is little planned maintenance and these months are therefore relatively light CapEx months. Based on commodity price sensitivity of 100 barrels for crude and UK gas of 200 pence per therm free cash generation post 200 million dividend would be in the range of 1.5 to $1.7 billion. So coming at midpoint of our production guidance. Each $10 per barrel changing crude would move this around by 150 million and a £0.20 per therm change in gas. Would move this around by approximately 90 million. Our capital structure is simple but diverse. We have a secured RBL facility of 4.5 billion, including a 1.25 billion carve out for letters of credit. In October, we completed our debut $500 million bond issuance using those proceeds to repay the junior Shell that facility providing us with additional flexibility over the future marketing of our hydrocarbons. At year end, we had significant liquidity of 1.6 billion.

Slide 20, we showed this slide in our Capital Markets Day in December and we've updated it to reflect commodity price sensitivities. Specifically on this one, the Navy blue bars, they show our cash flow and CapEx expectations. As at the Capital Markets Day price assumptions of $70 per barrel, 90 lbs per therm in 2022, then moving down to $65 per barrel and 60p in 2023. And then $60.00 and 55p in 2324. Sorry. Then the Navy plus the grey or light blue bars on top, show our expectations at the current price sensitivity of $100 per barrel and 200 pence per term. As you can see from this illustration, at higher oil prices we are not planning on increasing our capital spending. We will continue to invest through the commodity price cycle, but as Linda said earlier, our current CapEx is about the right level for a portfolio of our size and we do like the higher grading prioritisation of capital that this enforces.

Finally, we announced an initial 200 million per annum dividend in December, which we have not changed. As a result, we expect to generate materially more cash flow if prices stay elevated with the potential to be net debt free in 2023. If commodity prices do remain elevated and we continue to deliver our balance sheet, then we will consider additional shareholders returns as we progress through the year. In short, we have significant optionality over our future capital allocation, including additional shareholder return.

This final slide shows our summarised out turn versus 2021 guidance and our guidance for 2022. So naturally, starting with a wrap up of 2021, production was 175,000 barrels of oil equivalents per day, which is in the middle of the previous guidance of 170 to 180. This does reflect a strong operational performance at the end of the year with improved uptime and new wells coming on stream, helping to offset the natural decline. Operating costs were towards the favourable end of the previous guidance of 15 to 16 barrels dollars per barrel, ending the year at 15.2. CapEx and decomm totalled 935 million compared to previous guidance of 1.1 with savings and released contingencies across the board with no specific single event. Strong finish to the year together with the lower CapEx and OpEx benefited our free cash flow generation for the year and our net debt position. For 2022, we are reiterating our guidance from the Capital Markets Day.

Production is expected to be between 195 to 210, so approximately 15% increase on 21 due to improved uptime, less planned maintenance programmes and there's a number of new wells coming in on stream including toll mount as we continue to invest in our portfolio to maintain production while generating material cash flow. We're guiding to 15 to $16.00 per barrel in OpEx this year. With Tolmount coming on stream total expenditures are expected to increase. However, the field contributes to lower OpEx per Boe with the CapEx elements of Tolmount tariffs classified as lease costs. This is offset by higher unit operating costs as some of our more mature fields such as AELE where OPEX is largely fixed. For 2022, we expect production and development CapEx of around 800 million and exploration and appraisal spending of around 200 million. Most of the 2022 P&D spend is in the UK, with international only accounting for around 100 million. E&A is a mix of activities and wealth across the portfolio, including the Timpan well in the Andaman Sea, which is scheduled to spud in the second quarter this year. I would also just add that we continue to monitor inflation closely and unlike in some parts of the world, we are currently seeing limited impact on our drilling rig costs, most of which were contracted before the start of this year. We are however, seeing some pressure on steel costs, subsea equipment and certainly longer lead items than in the past. With that, I'll turn it back to Linda for some concluding remarks. Thank you.

Linda Cook

Thanks, Alexander. Just a couple of slides now to wrap it up on this page, we have a summary of our outlook for 2022. We've covered all of this already, so I'm not going to go through it in detail. I think our main messages are that we ended 2021 in a strong operational and financial position. We're now back to more normal operating conditions and off to a good start in the new Year. Alexander updated you on our outlook for cash flow. As we all know, commodity prices remain very volatile and there's a lot of uncertainty with respect to global supply and demand in the economy in general. And we need to keep in mind it is still only mid March. If we find commodity prices remain elevated and continue to deliver, we'll consider what this might mean for shareholder distributions as we move through the year. And I realise now this is the fourth, if not fifth time we've said that this morning, but I think we're just anticipating that this will be one of the key questions. So we wanted to be very clear. But in the mean time, we're doing what we can to address energy supply concerns. Production in 2022 is so far up over 20% from 2021 levels in Harbour and we're continuing to invest in our existing assets to support production in future years. The last page please. Finally, just a summary of our value proposition. Our rationale for why we believe we present a unique investment opportunity. We're a pureplay upstream oil and gas company. No investments in downstream chemicals or renewables. We have a large diverse portfolio of producing assets, generating considerable cash flow and with increasing exposure to commodity prices. And finally, a strong balance sheet and optionality around future capital allocation, including the potential for increased shareholder returns. It's been a busy year for us in Harbour Energy and as I said earlier, hard to believe our first year is nearly behind us and we remain. I hope you can see that very excited about the future, so I'm going to leave it there. We hope you found this helpful. We're now going to take questions from those of you who we're so pleased we're able to join us in person. For those of you listening, and if you have questions, please do submit them to our Investor Relations and we'll be sure to get back to you. And as I mentioned at the start, joining us for the Q&A are two business leaders, Bob Fennell running the North Sea and Stuart Wheaton responsible for International. And for those in the room, please just raise your hand if you have a question, someone will bring a mic to you. And please if you could just introduce yourself first, especially for the people who are listening. And that would be great. Thank you.

Nathan Piper - Investec

Morning. Thanks so much for the presentation. It's Nathan Piper from Investec. Just a few quick questions if I may. First of all on the shareholder returns and you've already reached your net debt target to within that or below that range. You've outlined you're going to make 1 1/2 to $1.7 billion this year. I mean, how much of free cash flow, how much of that money that do you need to keep? I mean what kind of kind of scale of shareholder return could we be thinking about whether that's buyback or dividend? It's the first question, maybe I'll go all three. Secondly, and I guess one of the worries or concerns or thoughts on Harbour is around your ability to convert 2C to 2P and therefore maintain the production base. Can you give a kind of a sense of scale of the of the prospective FID through 2022 in terms of what reserves you could book from the back of that. Then maybe last one on Tolmount. Are we really in the sort of predictable final stages of startup at Tolmount or are there any significant projects left to complete in order for that gas to start flowing in the next few weeks as you outlined? Thanks.

Linda Cook

Great. Thank you. I'll, I'll let Alexander talk a bit about shareholder distributions, but then I'll take the other two. Maybe with some help from Bob. But my only comment on the first one is I'm just reminded of this phrase about not counting chickens before they're hatched. But anyway, let me turn it over to Alexander.

Alexander Krane

There's a couple of points probably to make on this. I mean the 1 1/2 time leverage it's you know the target is to be well Below It and all of this starts with the capital allocation policy of, safeguarding that balance sheet. And I think although we're illustrating here a $100 crude and 200 pence per tHerm scenario, that's not necessarily what we're planning on, this is a sensitivity to show what we think the potential here is. I think we just need to be mindful and just look at where we are and the volatility that we're seeing these days. Commodity prices going up and down. Inflation reaching record levels that

that we haven't seen, more and more sanctioning, self sanctioning happening every single day it's a fairly difficult and unpredictable world we're living in. Not to mention there's a full on war going on in Europe. So it's not the responsible thing we think to increase that dividend level now. So we're going to the annual general meeting and asking for an authorisation to potentially do buybacks and if this commodity environment remains with us then yes, we'll not have much debt by the end of the year and potentially debt free next year. That's when we'll reassess and see if it makes sense to either increase dividend levels, institute buybacks and. We think the responsible thing is to have a few months and see, how 2022 develops. It's just, insane volatility sort of thing. So the point is the number one out of the three capital allocation principles of having a robust and safeguarding that budget has probably never been more, up in the day and been more important than what we're seeing today.

Linda Cook

Good. Thanks, Alexander. On the question about resource, our resource base. As we said at Capital Markets Day, we do have line of sight to the production to the projects that we would invest in to help us maintain production more or less for the next two or three years. And I think that hasn't changed. Our reserves ended up exactly about where we thought they would. At the end of last year, they've been audited now by our independent reserves auditor, who came in within 1% of those. So we feel we have a really good solid understanding of where we're starting the year. Of line of sight in terms of exactly which projects I'll let Bob talk a bit about the things we're either spending on this year or taking FID on this year in the UK. But as I mentioned, Tuna and Sam are both in our 2C resource base. They're about 1/3 roughly of that resource base and we're hoping if those stay on track that one or both could reach FID next year. So those will be significant movements for us outside of the UK. But Bob, do you want to say a few words about some of the things you’re excited about?

Bob Fennell – EVP North Sea

Well, Linda, there's plenty to be excited about. There really is in a portfolio like this. I think first of all, there's a certain amount of capital has been allocated to the North Sea and we've seen from last year that we tend to underspend that and there are various reasons for that. So what we've wanted to do and I should also say that when we didn't drill in 2020 for COVID reasons, we saw the impacts last year. It's really good to continue drilling as long as the values there. So, things that we're looking to convert from 2C to 2P this year would be in the Callanish area around Britannia. There's more to do in the J-Area. And Talbot is the obvious one that we're bringing forward this year as well there's also a field in the Britannia area called Leverett, which is across two blocks. It's very interesting looking and we're looking to a joint development with the other owners around that area. If we then look further out, we look into the barrels with the tertiary development. And also more on Britannia and J-Area, we're seeing with J-Area that recovery factors in certain horizons are lower than analogues. So there's subsurface work being done there to see what could be done to improve recovery factors and then. There's other things in the non operated portfolio with clear phase three and things like that coming through as well. So, you know, very fortunate with the with the sort of the large portfolio that there's, there's heaps of opportunity that we're accelerating.

Linda Cook

I think Bob made a good point about the drilling slowdown and the impact that that has and it's a little bit hard to quantify, but how do we increase reserves from our existing portfolio? We it's not just a reservoir engineer. Sitting there and deciding one day that maybe they're going to, he's going to assume that they're higher. They need data. And how do they get the data? Two ways. One is through just continued production performance. We're continuing to get that, of course. But what we were missing was a lot of the data you get from the drilling programme because we put a complete pause on our drilling activity when COVID broke out, for all the right reasons. And then so we had limited drilling towards the end of 2020 and then through at least the first half, if not 1st 3/4 of last year. And so we had this gap and being able to accumulate data and continuing to do the analysis required. So now we're back, as I said, 4 rigs running today, 8 by the middle of this year. We're excited about that from a production standpoint, but also because with each of those wells you drill, we're gaining new information about the reservoir and that will certainly help us sort of continue to assess and see what can be either added to or moved from one category to another. On Tolmount, I'll let Bob talk about the remaining couple of big steps coming, the de-gassing. And the lining up of the wells and testing, but just to say we can't be precise at this stage, it's very difficult to be at any stage. It's difficult to be precise, but there's a few steps that need to get to that need to happen. It's very difficult to predict exactly what new thing you're going to find one day or another. But it's going extremely well. We're very pleased with the progress and somewhere around the end of the month plus or minus, we should have first gas. But Bob you want to explain back gassing of the pipeline and the wells.

Bob Fennell

Yeah, sure. I think everyone's aware, you know, the issue we had middle of last year with ATEX, which of the electrical connections and that work that needed to be to be done. So that's all done for start up there's a little bit of follow up work but that's startup, it's done. Now we're in the process of when you bring up a new project, it's dead Steel that you're making live, and we're in that process of making everything live at the moment. So switching things on, making sure that if a sensor over here see's something that a valve over here closes and there's there's a lot of communications connectivity. So making the plant live. So we're right the way through that at the moment a bunch of systems, 20 odd that need to be handed over. We're vastly through all of that. Again, towards the final hurdles of that. So once once that is finished, Ode who the appointed duty holder, then take control and we can start introducing hydrocarbons into the pipeline. So at the moment the pipeline from shore to the platform is full of nitrogen. We need to fill that full of gas. So that would be the next step. That we do once the gas then gets to the to the platform, the right pressure, we then open everything up and start flowing the other way and then obviously the important bit is getting up to plateau production because that's where the money is.

Linda Cook

Thanks Bob. Next questions, mic's coming.

Mark Wilson - Jefferies

Thank you. It's Mark Wilson from Jefferies. Two Questions please. First is when is the AGM, is it in June like it was last year? Just check on that. And then Linda, I just want to talk with you. You mentioned the volatile times. We've moved from a world focused on energy transition to a world reminded of energy security and things like this. Do you see any change in the way that IOC's would look at asset M&A or divestitures given what we're seeing?

Linda Cook

Yeah. Thanks. One question easier to answer than the other AGM I think May 11th. So a bit earlier than last year. We're working on as we move through this year and next year being able to do a lot of things a little bit more quickly than we were able to do during what was a complicated year last year. So that's one of them. Yeah, major oil companies. Yeah, 40 years in the business, a lot of that's spent with a major oil company and you think you've seen it all and then you see what's happened just in the last two years and even last 8 to 12 months. I can't see, especially the European majors changing course. I mean, I can't speak for them obviously, but I think it'd be very hard for them to change course and we have to keep in mind just because prices are high now, it doesn't mean that's where they're going to be in six months. People get this mentality of connecting the last two dots and thinking that's the trend that we're going to see and so much volatility and where's the global economy going? What happens in the Ukraine and I just can't predict it. And the majors take a very long term view on things, they're much better at it usually than the normal or other businesses, so I can't imagine they changed course. Are they enjoying the cash flow they're getting today from their upstream assets that they may otherwise be thinking about divesting at some point? Well, of course they are, absolutely a lot of them will plough that back into other areas of the business, though not into exploration or not into major new multi billion dollar oil and gas developments that may not pay out for 10 or more years because I don't think their investors were going to reward them for that. So are they enjoying increased cash flow? Yes. Will they change long term strategies? My own guess, of course, just my own personal thoughts are probably not. So what? What does that mean for us? I think is the corollary to that question and part of our strategy or long term strategy around growth is continuing to do acquisitions like we've done in the past. We still think major oil companies will be the most important, probably sources of opportunities for us. And we remain optimistic about that. Thanks Mark.

Sasikanth Chiluruku – Morgan Stanley

Hi, it's Sasi from Morgan Stanley. Sticking to the theme around energy security. I was just wondering if there's been any talks of increasing your share of gas production in the UK portfolio? Whether it's possible for Harbour diverting the gas used for reinjection for oil. To cater to more gas production. And then coming back to shareholder distributions again, trying to get a handle on the magnitude of increase, you've highlighted a payout of 15% of free cash flow for 2021. I was just wondering if that was indicative of a payout ratio that we should expect or. Will the payout ratio increase because of better balance sheet strength? And slightly related to this, you mentioned buybacks as well. I was just wondering if there's been any talks with legacy shareholders on the potential for introducing a buyback as well, whether there's been anything on that front.

Linda Cook

Thanks, Sasi. I'll let Bob answer a bit about is there a way to increase gas production? I mean, I think you probably know the answer to that on a material level. This I don't know of any oil and gas company these days who just sits there outside of OPEC, maybe who sits there with production that we can just automatically turn on necessarily. So for us, there's nothing material. The best thing we can do, of course, is which we're hoping to do in the coming days is after all Tolmount on stream, which will add a significant amount of gas to our portfolio. But and I've heard other companies talk about whether or not they should reconsider reinjection of gas into reservoirs and produce more. But that sacrifice, I mean, the trade off is right. You're probably sacrificing long term oil recovery, whether or not we have anything material. I don't think so, but.

Bob Fennell

On the material side obviously Tolmount and LAD is the is the well in the North Everest area, which is which is primarily gas that's about to come on as well and boost production in that area. But on the on the gas reinjection, Catcher is the area that we we're doing that and every month we look at the gas we're putting in and what the break even would be on price to make it worthwhile producing the gas rather than injecting it. And at the moment it's about 5 lbs a therm. But that gas goes in and it's very effective at recovering more oil. So it's not only accelerating oil, it's also recovering additional oil. So we do look at that monthly. At the moment it's a it's a no brainer just to carry on injecting that gas on Catcher so.

Linda Cook

Thanks, Bob. I'll let Alexander talk a bit about distributions.

Alexander Krane

Yeah, thanks for that Sasi. And though I am afraid you'll be underwhelmed by my answer, yes, the math works out in a way that it's 15% if you take that 100 and you divide it currently, but when we set the initial dividend policy, it was based on the longer term view and it was based on what we saw and business plans and what we think is through the cycle good starting point. So we just need more experience and see how macro environment and how things develop through the year when we're setting a potential new level. As for specific discussions with legacy shareholders, I think we've been pretty active in meeting investors. When you're on the topic of shareholder return and in what shape or form, it's typically a topic that people have opinions on and I think we're humble folks that listen to input that shareholders have. But it's not a topic where we're sitting down specifically and discussing buybacks from select investors, we can't do that and. So it's more a topic that pops up naturally, meeting yourselves and other analyst as well. So it's again going to the shareholders and asking to have that possibility to do it in the future.

Linda Cook

Yeah, I think a lot of investors will raise it. When we mentioned to them some of them hate them, some of them love them, some of them prefer dividends, some like them. I mean, they're all over the page, really. And we thought well, especially given where cash flows going let's secure the option, do it at the AGM and continue to listen to investors as we think through capital allocation as we move through the course of the year.

Werner Riding – Peel Hunt

Hi, I'm Werner riding from Peel Hunt. First of all, another ops question for Bob if that's all right. In the UK, just looking at the J-Area work programme, you've got three months of JM sidetrack pencilled in there. So I was just wondering what that's targeting and you know is it something similar to Jade South, which obviously sounds like it's come on ahead of expectations, could it be something similar to that or just talk a little bit about that work programme?

Bob Fennell

Yeah, if anything that well is a higher chance of success than Jade South was appraisal-ish development. So we were really happy when that that came on at the rates it did. JM is it's a tough well to drill but the prognosis is, there's a higher chance of success, of the well, and that's why it's such a long programme because. The difficulty of the world we have to go through, not to bore you with it, but we have to go through low pressure to get to higher pressure below and that causes certain drilling challenges but yeah it's looking forward to that.

Werner Riding

OK, right thanks, and on the Beryl Area you've got platform drilling and subsea drilling is that just infill drilling, could you explain what that?

Bob Fennell

Yes. So the platform drilling is infill drilling and the semi drilling is the is the follow on store well so there are you know different prosepctivity around the Beryl Area so that the semis are doing the prospectivity around the area whereas the platform wells are doing the infill running.

Werner Riding

Got it. All right. Thanks. Just a separate question on you know the events, what we're seeing in Ukraine are obviously shocking and the international response in terms of sanctions on Russia, where does that leave you with your JV with Zarubezhneft, you mentioned self sanctions earlier on Alex you know is that a project that you could walk away from. Or how what are the implications for you with that project and that partner?

Linda Cook

Yeah. Thanks for the question. So we do have a Russian partner in our Tuna project in Indonesia which is pre development. I'll let Stuart Wheaton say a few words, but we have no direct impact from what's happened so far. We're not like the majors, so we don't have investments in Russia, we don't have investments in Russian companies. So ours is a little bit of a second order third order sort of situation. But let me let Stuart update you on that, but thanks Werner.

Stuart Wheaton - EVP International

Yeah, just to add at the moment, they're able to pay their bills. They've been paying their bills. They're not sanctioned as yet. Statement of the obvious, there is no production, there is no revenue. We're working our way through the plan of development. All of the data from last year's appraisal wells, but absolutely, we're looking at options as to where we go in the future depending on how things develop. So we are talking to the Indonesian Government about should the project potentially have a free stage in it. But at the moment I would like to emphasise we're carrying on with moving towards plan and development and then yes, ultimately, if they were sanctioned or they were unable to pay their cash calls, then we have various contractual rights under the original farm-in agreements with respect to their share. So part of me kind of hopes that we don't get to that place, but we're certainly keep our options all open so that we'll enforce them if we need to. But yeah, it's not helpful for the overall schedule of the project obviously, but that feels like a small issue compared to the bigger thing that's going on.

Dan Slater - Arden

Hi there. Dan Slater from Arden. I was just wondering if you could give us a little bit more on the movement in the Tolmount reserves. I know it's on the back of the development drilling, but I was wondering if you could just give a little bit more detail around what exactly it is that you have or haven't encountered in the wells that's moved the reserves in the way that it has. Thanks.

Beb Fennell

So the four wells have been drilled on Tolmount. So three were pretty much the prognosis and there was one that that basically found the water gas contact higher. So that's changed the volumetrics across the field so that as we said in the Capital Markets Day that was the reason for the write down in reserves. Is the volumetrics in the field that that was discovered with the with the fourth well

Linda Cook

Yeah, Mark.

Mark Wilson - Jefferies

Yeah, thanks. Can I just have one follow up, can you if we dare to dream, can you remind us about the size of the Timpan and whether it's multiple layers, etc.

Linda Cook

No, we cannot dream. Go for it, Stuart. Yes, but remember, it's an exploration well, I just want to be clear. Thank you. And get back to my phrase about counting chickens before they hatch applies here too. But go ahead, Stuart.

Stuart Wheaton

OK. Well, you got to have some enthusiasm in life and optimism. So just to give you a bit of colour about Timpan and Andaman Sea. So where are we at? All things being equal, the drill ship is in the shipyard at the moment for its planned refurbishment and recertification exercises in Malaysia, so should be out at the end of April and so sometime in May we would plan to spud. OK, so about a 60 day well to the reservoir including coring. All things being equal, then we can stick to plan around the end of Q2. In the success case there's a drill string test as well or either case. So it's a 1.4 / 1.5 TCF P50 type structure by itself. I think in previous presentations we've given a few seismic lines and other excitement as well to sort of tempt people. The story of the area, very exciting. 1300 metres of water. All doable up on the coast there you have the original Arun LNG plant and the onshore field that was, produced 13 TCF over the years, now virtually depleted and the LNG plant closed down. But all the infrastructure is there. So, yeah, dreaming the success case leads to quite a lot of follow on prospectivity in the area. Our partners with Mubadala with BP and ourselves, we've got a mingling of various equities, et cetera in the area, but I'll be brave enough to say if you have one success, then there's multiple prospects that lead to the very big numbers, Mark. Yeah. It's who. Who knows? I think the main risks really are all about reservoir deliverability and gas composition. OK, So what quality reservoir section will we drill into? And we clearly don't know that until we're down there. There are a few legacy wells in the area from the past over in the Thailand side in the play. And they give you enough encouragement to go and give this a go. We've looked at commercialisation opportunities that would be there in the success case for early gas to tie ourselves into shore and make use of the infrastructure. And then the final thing I would say is the real clincher is there's some really beautiful connections to CCS that you can do carbon capture and storage into the depleted fields as well. So if you think about future oil and gas projects that people would want to finance. Gas obviously helps, but there's some really very sort of mutually beneficial sort of almost net zero type development schemes there. And I think that's clearly import. For us to want to do projects like this in the future, so we've very much got our eye on that as well.

Linda Cook

It's all of that is why it's the one sort of Greenfield exploration well we've decided to continue to pursue this year out of the out of the portfolio just because of everything Stuart mentioned about it.

Stuart Wheaton

So we're 40% on this well. And then move Mubadala operate the block to the South of us as well, which we're 20% non operated in.

Linda Cook

OK. I think we're about out of time unless there's any last pressing question. I don't see any hands up, but thank you again really, for joining us in person and for those of you who are listening, thanks for dialling in. And as I said, we're off to a good start this year and looking forward to what the rest of the of the. Year might bring. Thank you.