



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

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Linda Cook - CEO

Good morning, everyone. Thanks for joining. I'm here with Phil Kirk, President and CEO, Europe and our CFO, Alexander Krane. We're glad to have you with us for what is Harbour Energy's maiden financial results presentation. As you might imagine, the first half of the year has been a very busy time for us. We closed the reverse merger with Premier just under six months ago, which made us a public company. Of course, that was all very exciting, but clearly the work doesn't stop at completion of the transaction.

Since then, we've been engaged with the integration of people and assets and also addressing some operational challenges over the summer. We're the first to admit the first few months weren't perfect, but we feel good about the progress we've made. We've delivered strong cash flow. We're executing against our strategy. And as I think you'll see in today's presentation, we've built some solid momentum going into the second-half of the year.

On the next page you can see our disclaimer. Of course, very important and of course I won't go through it.

So if we can move on to the next page, please. You'll see our agenda. After I get us started, I'll turn it over to Phil to talk about operations. I'll then update you on our portfolio outside the UK before turning it over to Alexander to go through the financials. And after that, I'll wrap it up and hopefully we'll have plenty of time left for questions. One more thing before we get started. The fact that we closed a merger halfway through the first half of the year does complicate our reporting because there are different ways to look at the period, whether on a pro forma or reported basis. What we'll focus on today are the reported results, which include six months of Harbour and only three months of Premier, and if anyone has questions about this, I just encourage you to save those for Alexander. Before jumping into results and since we are a new company, I would like to start by reminding everyone of our strategy. To the next page please. Thank you.

We started about five years ago with the aim to build a strong, diverse global independent oil and gas company. And establish ourselves as a reliable and responsible operator. We've made a lot of progress on the journey and given everything going on in the sector, we believe our strategy remains relevant to this day. We've gone from zero to 200,000 barrels a day of production. And build a large portfolio of reserves that generate significant cash flow as evidenced by our first half results. Even though Harbour has completed three multibillion dollar acquisitions during the last five years, which isn't an easy thing to do, we've done so carefully, leaving us with a strong balance sheet and material liquidity. Today we're reinvesting in our existing asset base in order to sustain production, in particular in the UK and at the same time, we're continually assessing a wide range of organic and inorganic investment options. Next page please.

Here we have what we refer to as our list of Harbour dos and don'ts. We include it because I think it can be helpful to bring strategy to life a bit, not just by talking about what we will do, but also by what we won't. So let me cover just a few of the points. We're an oil and gas producer and for now we don't have the intention to divert a lot of capital to infrastructure or renewables. This doesn't mean we don't have a commitment to be responsive to the energy transition. We're aiming for net zero by 2035 and we'll say more about that later.

Next, given the size of our company and the natural limitations of the UK North Sea, we do feel it's important to consider adding scale in another region. This will provide diversification and broaden our reinvestment options. But we're not in a hurry. We'll be very deliberate and disciplined and focused first and foremost on long term value creation, just as we have been over the past few years as we've built our position in the UK. Another point is that we favour a certain degree of operational control. We've demonstrated an ability to create value from past acquisitions by driving efficiency, allocating capital to low risk near field drilling opportunities. These projects typically have very high returns and they also serve to extend field life. Without operational control over the assets, these things would be much harder to do. Next, we do not intend to spend much money on high risk Greenfield exploration or multibillion dollar developments. In today's environment, it doesn't make sense for our company to allocate large sums of capital to projects that won't deliver first revenue for 10 years or more. We feel we have better value opportunities to pursue instead. Finally, we'll keep our focus on maintaining a strong balance sheet and a conservative approach to risk management. I hope this was helpful because as a new company we do get a lot of questions on strategy. We're planning to share more on this and other topics including capital allocation and a dividend policy at our first Capital Markets Day, which we've decided to accelerate from next year into early December. Next page please.

So now turning to the first half of the year, during which we made significant progress on many aspects of our strategy. 1st, we completed the acquisition of Premier on schedule on March 31st and the integration effort is well underway. We're now in the heavy lift part of merging of two organisations aiming for this work stream to be largely complete by year end. Even though there's still a lot to do, the work is on track and we're already starting to realise synergies, in particular on the financial side. Turning to operations, like others in our industry, we've had challenges related to COVID. When the pandemic broke out in early 2020, Harbour took the decision to reduce activity levels offshore as a way to protect the health and safety of our workforce and our assets. That was, without a doubt the right thing to do. But the impact was the deferral of a lot of non critical maintenance from 2020 into this year and also a reduced level of drilling activity. The result was lower production and higher unit costs this year, but the good news is the heavier than normal 2021 maintenance programmes are now behind us. And as you'll see later, production and drilling activity are now both rebounding. In spite of these

challenges, financial performance was good. As Alexander will illustrate, we generated positive cash flow and we reduced net debt in the three months since merger completion, putting us in a strong financial position. Finally, we've already taken firm steps to align the combined portfolio with our strategy, including decisions to exit a number of positions while at the same time continually assessing a variety of potential growth options. Next page.

Earlier I mentioned our commitment to net zero by 2035, a summary of all we are doing is shown on this page. Our most important priority is to do all we practically can to reduce emissions from our existing asset base. We helped drive that by incorporating the cost to offset emissions in our investment guidelines and screening all investment opportunities for emissions intensity. Where we can't fully eliminate our emissions, we have a plan to acquire high quality offsets over time, so that by 2035 will be carbon neutral. We believe this is important and the right thing to do and we're incentivised to act. Emissions reduction targets are embedded in our incentive pay programme as well as into our cost of financing through the RBL. In addition to all of this, we're playing a leading role in projects that have the potential to deliver a step change to our emissions in the UK. Including through electrification of our assets in the Central North Sea as well as through CO2 capture and storage, and Phil will say more about one of those projects in particular in a few minutes and I'll turn it over to him now.

Phil Kirk – President and CEO Europe

Thank you, Linda. Good morning everybody. I'm going to take us through a little bit on the operational and safety performance and talk through some of the assets. You probably look forward to more detail in in December.

We'll start with safety, which is everybody's responsibility, but primarily something that I look after. And making money safely is top of our list. You can see two charts here. We can show incident frequency and you can also see our process containment record. Historically Harbour performance has been good, generally better than the global averages. And that's continued into this year, but we have seen in common with a lot of heavy industries such as mining and oil and gas an uptick in some of the minor incidents. So we really do stay focused on trying to keep people safe and aware of their surroundings, the work that they're doing and what's going on. This year, our outside operated portfolio incident rates are running significantly higher than us and we're working to see what lessons we can bring from our own portfolio and keep people safe across the piece. If we move on to the next slide, please.

I'll talk briefly about production performance and where we were versus last year. Linda has already explained that we have both pro forma and we have reported, so I'll quickly take you through. We have a number of 187 for the first half of 2020, you can see where we think our natural decline is running just over 10 to 15%, let's say that's where that is.

We had our Premier merger numbers, which is only one quarter so again you just you have to remember that and as we head to the full year, there'll be 3/4 of Premier numbers and a full year of Chrysaor, which does take some working out. And then you can see we've split between unplanned outages and then the planned and deferred maintenance and we have some commentary on this in the update and you see just a little bit of a contribution from new wells. The first half of the year, we were just over 150,000 on a reported basis. And then we've begun to step up, which is our key message to you today. And as Linda said, through 159 in July and the mid 180s in August and fingers crossed touch wood, month to date in September we're at 210,000 BOE per day. You can see we're looking at keeping that rate for the rest of the year. And we'll talk a little bit about bringing Tolmount on around year end later. If we go to the next slide please.

Just want to show you another set of statistics. Two looks at operating efficiency. On the bottom you can see excluding planned maintenance. So all the days that we expected to be up and producing and on the top you can see it taking account of those planned shutdowns and you can see the delta between. Traditionally, the J-Area's performed really strongly and you can see that that has actually, improved. Britannia has always been around top quartile and Elgin Franklin has traded places with Britannia as first and second in the UK, so generally really strong performances. The international portfolio recently as well performed really well. But you can see then the gap when you look with planned maintenance and also particularly Elgin Franklin and the unplanned hits that we've had with the Forties shut down the Gale and Unity issues that have been well publicised. Hopefully that that gives you a little bit of comfort and an understanding of the underlying performance - what was unplanned and what was planned.

OK. If we move to the next slide please, this is just reinforcing where we are our growth over the last few years, which Linda's talked about through acquisitions, where we are in this first half, where we're looking for the for the second-half. And you can see a map which people always like, showing the split of oil and gas production in the UK, where it comes from and the diversification of the portfolio. Not really reliant on any one piece of infrastructure with quite a few offloaded or offshore loaded oil cargoes.

If you move on to the next slide, I'm going to walk quickly through some of the things that are happening on the hubs. I'm not going to dwell on this and you'll get more detail later in the year. J-Area, busy time at the moment we're now running two rigs as we speak. Just finished the appraisal drilling on Talbot just about to spud the Dunnottar exploration well. Cautiously optimistic on Talbot. Jade South drilling ahead at the minute and we're looking at an active programme over the next couple of years that we've discussed with the market before. Britannia positive news at the moment and brought the Callanish well on, and looking forward to bringing the third party volumes from Finlaggan. Catcher area, we've managed successfully at the Calcium Naphthenate

and I can't help but touch wood as I say that and some good performance and you'll have heard that we've approved three further wells for 2022 and the team managing that asset really well at the moment. Armada, Everest, the AELE hub, we've just got the LAD well down to TD and again optimistic about what we'll see from that well, when we bring on it onto production. And we remind you that those wells not only make a good money, but also deferred decommissioning on these assets, which really goes hand in hand with the story.

If we go over the page, I will skip us through our non operated portfolio. We've talked about Elgin Franklin and I just want to remind you that. Elgin Franklin normally is really top quartile performance, but has been hampering by not just the Forties planned shut down but unplanned outages on Gale and the Unity valves, we're drilling there at the minute, got a big well, EIG, which we look forward to completing and bringing on soon, but a really great flagship asset. Claire, we've had good news through the last few months, after couple of disappointing ones. We've had some really strong wells recently, but don't forget we're only maybe 12 wells through a three dozen well programme. So that's going to keep generating news and additional volumes over the next few years. Buzzard, we're waiting for two well to come on, the phase two wells that'll be later on in the year, so we'll update you on that. And some interesting times on Quad 9 and the Apache operated asset around Beryl, got the store well going down at the moment with a couple of exploration targets and a development leg, and again cautiously optimistic about that and what we're seeing on the tertiary inject type play cross-border.

If we walk on to the next slide, I'll just update you all a little bit on Tolmount where we've reiterated that we're expecting start up around the end of the year. We're probably around 3/4 of our way through our inspection campaign. The team working well in parallel with drilling at the moment. So there's quite a lot going on. Once we've finished the drilling campaign, we'll bring another unit in to help with accommodation, which is why I'm now pretty happy to say around the end of the year for first gas from Tolmount. We have such sanctioned Tolmount East, which is the tie back with the partners and that is pretty good rates of return and we'll talk more about that later in the year. If we go over the page, this is just to remind everybody, which Linda has already said how much we've stepped up in terms of operations from last year. You can see that big lump of white space and on J-Area, AELE, Britannia and with the Tomount drilling and how we've restarted, we now have 5 operated rigs working in the UK another two operated rigs working internationally and we probably have another four or five outside operated rigs drilling at the moment at various levels of equity. It's a very busy programme and a significant step up from last year and even the first half which you'll see through in CapEx and also hopefully in results as they come through.

If you go over to the next page, we've got a very nice picture of the S7000 Saipem vessel. Just reminding you how successful we're doing at the moment on our decommissioning programme in the UK, where we've got a pretty consistent level of execution for the next few years. We just finished a safe, heavy lift campaign in the southern North Sea with the logs complex and we're now probably past 2/3 of the way through, just about 2/3 of the way through the heavy lift and we're 120 odd wells through our P&A campaign which is 150 wells. So a really strong set of execution results. We're finished the McCulloch, P&A programme and we moved Balmoral off location and are already investigating the P&A wells which will just fit into the timeline and the team's workload.

If we go over the page, I'll talk just quickly about synergies. Where we are, we're bringing the company together. This is something that we've been through a couple of times before. We're still pulling things together, this as an exercise that will take us into next year. We're still dealing with COVID and the return to the office and people working from home, but actually really good progress on integrating the organisations. We're already beginning to see what we may be doing in the supply chain with contracts, logistics and materials and some of the back office. So again, when you look at some of our numbers, our operating numbers, you must remember we have slightly more offices and more back office costs than we may have in a in a year's time. Good work with aligning operating models that will take a while, but then we'll eventually see efficiencies and we've also begun to move some of our assets around the group, particularly to reinforce some of the weaker Premier subsidiaries that have perhaps been in loss making positions and we've strengthened their balance sheet and we should begin to see us burn through some of those tax loss positions as a corollary of those moves. That's probably all I would say on this and then as Linda said, I'll give you a little bit of a flavour about one of our carbon capture projects that we generally have made a lot of public statements about this, but this is one of the most interesting things for the organisation.

So we're in ACORN, as you know, around 7 Fergus, the Scottish Cluster. But we also have the V net zero cluster based around the Humber where we have a group of really significant emitters and we're looking to handle up to around about 50% of the region's emissions. And this is the highest level of CO2 intensity in the UK is around the Humber, the North and the South. Working with P66 who run the Humber refinery and the Vitol with the VPI Immingham Power plant who are already entering to FEED with government money and now we've been joined by EP UK and Prax with the Lindsey Oil refinery. We're waiting to hear what the government does next with a really strong robust project. Not only to reuse infrastructure that's fit for reuse, but lay new pipelines where that's the best and safe or most economic thing to do. But watch this space. Really exciting project. Thank you, Linda. I'll hand back to you.

Linda Cook

Thanks, Phil. So now just a few words on our assets outside the UK, our producing assets are in Indonesia and Vietnam. Together, they contributed 14,000 barrels a day in the second quarter following completion of the merger. The assets are high quality and our local teams do a really great job. As Phil mentioned earlier delivering over 95% operating efficiency this year in spite of the challenges of COVID, which in particular have hit Indonesia pretty hard. In addition to these assets in Indonesia, we're currently drilling the second appraisal well on our Tuna discovery following a successful first well. We're also making preparations to drill the Timpan well next year with our partners BP and Mubadala. It's a large exploration prospect which, if successful, has the potential to be a new source of natural gas in a region with continued demand growth. Moving to Mexico, we have a 12% interest in the Zama discovery, a development with fairly robust economics. But before we get to an investment decision, we do need to reach agreement with Pemex and our other partners on the unit operating model and a development plan. Our teams actually in Mexico this week for a series of meetings, which we hope will help move the project forward.

On this next page we have a summary of some steps taken to align the portfolio with our strategy. As I said earlier, our strategy does not include greenfield exploration or exploring in areas where we don't have an existing producing presence. Consistent with that, we recently took decisions to exit exploration licences in the Burgos basin in Mexico and the Ceara in Brazil. And also, after a thorough review, we decided to look for the options to exit the Sea Lion discovery and other licences in the Falkland Islands as pursuing development of these resources just was not deemed a strong fit with our strategy. These are never easy decisions to take, but we are committed to being very disciplined in our approach to capital allocation and execution of our strategy. And Speaking of capital allocation over to Alexander.

Alexander Krane - CFO

Great. Thank you, Linda. And again, a very good morning to everyone dialling in this morning. So we're on slide 22 and I will start by reminding everyone about our financial strategy before we dive into the financial statements for the period. Our aim is to balance 3 equally important priorities. First, maintain a strong balance sheet. We recognise that we're in a cyclical volatile business where it's important to have leverage under control and the proper available liquidity. Then second, keep investing in profitable projects to maintain production and cash flow. We have a robust and diverse portfolio and we want to keep it that way. And thirdly, shareholder return. I expect to implement a dividend policy next year. For anyone waiting to see a lot on capital allocation and dividend policy today, I am afraid you might be underwhelmed. We are still in the process of conducting a thorough internal review of the combined portfolio going through the proper budgeting and planning exercises. We will therefore not be

giving any guidance on 2022 today, but we do want to provide more details on the portfolio and our thinking around balancing these three priorities and we have therefore pushed forward our Capital Markets Day from first quarter next year to early December this year. So we will talk more about capital allocation in just a few weeks. But as Linda just mentioned, we are now already making the decision to not move forward with a large Greenfield project in Sea Lion and we are exiting some exploration blocks in frontier areas both difficult. But strategic actions that do say something about capital allocation and prioritisations.

Let's then move into a quick review of the 2021 half year financial statements, starting with the income statement on page 23. Now do keep in mind that the reported figures here are made-up of six months of legacy Chrysaor and then just the three month period from April 1st to June 30th for legacy Premier and the comparative period from last year or the year end 2020 balance sheet, those are only legacy Chrysaor. Starting at the top, revenues are up about 250 million to 1.5 billion. Crude sales accounted for around 900 million as the high liftings offset by lower post hedge realised prices. Gas sales were lower than last year and accounted for almost 400 million. Here the lower production was offset by higher post hedge realised prices. Additionally, we have condensate sales of 72 million in tariffs of 13 million. We also had some one-off items recognised this quarter as other income, namely a gain on emission derivatives of 61 million and a settlement of \$40 million from Conoco Phillips related to adjustments to the consideration paid for the Conoco Phillips UK business in 2019.

Two lines below you will see other operating expenses come in which is the change from under lift position last year to an over lift position this year. We lifted crude of around 5000 barrels of oil equivalent per day more than we produced in the first six months. Operating costs are booked at 500 million. This is up quite a bit from last year, mainly as a result of added installations from the premier combination lower production due to both COVID-19 deferred maintenance programmes from 2020, and the fact that some fields took longer to come back on stream after the shutdowns. We also had some unplanned outages and higher sterling to U.S. dollar FX rate also contributed negatively. After taking the emission hedges into account, we are at \$15.60 in OpEx per BOE and we are still forecasting to be within our guided range of 15 to \$16.00 per BOE.

G&A amounted to 37 million, that's higher than last year due to one off deal costs that we saw this year. This leaves us at EBITDAX of \$843 million for the first six months of the year. DD&A amounted to \$545 million, of which \$523 million is related to oil and gas assets. This leaves DD&A per BOE at 19.1, lower than prior periods due to impairments taken in 2020 lowering the assets to be depreciated. We expense 2 dry wells in Norway and we had other seismic and exploration costs for a total of 61 million. Net financing costs amounted to 107. There's lots of detail in Note 6 to the financial statements on financial items. You'll find that the main items here are interest payable of 48 million,

down from last year due to lower interest rates now seen, various bank fees of 31 million and accretion expenses related to the decomm of 40 million. After deducting a tax expense of 34 million, we get a net profit for the period of 87.

If we turn to the balance sheet on the next page, we will see that total assets have increased quite significantly from 9.5 billion to 14.3 billion. Again, the main reason for the increase is the accounting for the Premier combination. There is a quite extensive note 12 on business combination that contains lots of information on this quite technical accounting. After accounting for additions to PP&E and other intangible assets, we booked 250 million to goodwill. Sea Lion is now booked at \$53million, not the historical cost of more than 500 million. It is also worth noting that we booked a 1.5 billion deferred tax asset as a result of the UK tax losses now sitting in the combined company.

You will also see that we have borrowings of 3 billion and cash of 400 million and net of 2.6 and if you read the fine prints in the financial statements, you will see that the accounting net debt after netting against the amortised fees is lower at a little less than 2.5 billion. Provisions for decommissioning spend increased with 1.6 billion, with the premier merger. This provision is pre tax and is using a very low risk free interest rate. In other liabilities, we've included the unrealised loss position of the company's commodity hedges booked at 1.3 billion with a corresponding debit to equity.

Now moving to slide 25. Starting with the funding of the company on the left hand side, the cornerstone of our funding is the 4.5 billion reserve based lending bank facility with our borrowing base set at 3.3 billion now at June 30th. That's unchanged from previous redetermination. At the half year mark, we had around 1.1 billion in cash and undrawn facilities. On a proforma basis, this gives us net leverage of 1.2 times. Net debt was 2.6 billion, with 2.6 billion drawn on the RBL, 400 million drawn on the Shell Junior facility and then offset by our cash position of 400 million. So a simple capital structure after the combination of the two legacy companies and we will continue to develop this capital structure going forward.

When it comes to commodity hedging, we've illustrated our position to the top right on this slide. For the second-half of 2021, we've hedged 22 million barrels of oil equivalent or around 120,000 barrels of oil equivalent per day. Based on this hedge book and the production guidance for the remainder of the year, we are hedged on average approximately 60%. A bit higher on gas and a bit lower on crude. For 2022, we have then hedged also around 120,000 barrels of oil equivalent per day. Clearly, the hedged prices here are below current spot prices causing the significant debit to our equity as I mentioned on the previous slide, as opposed to our large credit last year when the company was hedged at commodity prices much higher than the spot prices. When it comes to hedging in the medium to long term, we are in the process of reviewing this. We have hedged some gas out in future period to satisfy the hedging requirements in

the RBL as it's easier to get decent pricing on gas compared to crude. Now the strategy of the company has been to carefully assess balance sheet impact and financial risk management when inorganic opportunities materialise. So we are OK to increase our borrowing facilities, but as illustrated at the bottom right of this slide, we've stayed below the 1.5 times threshold historically. When we assess M&A opportunities, commodity hedges has been and will be key, making sure there's predictability in our revenue streams. Historically, we've had a strategy of hedging more than 50% in the short term. And as I mentioned, this is something we will review.

On Slide 26, we've made a simple illustration of the cash flow movement in the first half of the year. At closing of the merger, we drew down 1.3 billion to repay creditors. Then we had gross operating cash flow of almost 1 billion. We invested approximately 400 million in our asset base. We had transaction costs, interest payments and other financial costs of approximately 300 million and with the label here of investing activities other, we have split out the 100 million in cash sitting in legacy premier upon the merger. Finally, we had tax payments of 206 million earlier this year related to legacy Chrysaor's fiscal year 2020 but payable now in 2021. Following the combination of the two legacy entities, we would not expect any such material tax payments now in the second-half of the year. On my final slide 27, we have summarised our 2021 guidance. The overall message here is that there are no changes from our previous market updates. As Phil explained a little while ago, we are currently producing at solid levels and making up for the lower reported and proforma production levels seen in the first half of the year. As such, we make no changes to the production guidance. Operating cost is also expected to stay within the 15 to \$16.00 per BOE range. CapEx spending is also expected to come in at around 1.1 billion as drilling activity has picked up in the third quarter as Phil showed a few minutes ago. And finally, we provided a bit of detail on an asset level to the bottom right for anyone interested. So with that, I will pass it back to Linda for some closing remarks.

Linda Cook

Thanks, Alexander. So just wrapping up now on this page, you see our priorities for the remainder of the year. We've talked about all of them already, so I won't go through them in detail, but just a few key points. Of course, we'll have a lot of focus on safe and reliable operations, as we did in the first half. As you saw from Phil, we do have some production momentum building already in the second-half and the same goes for progress related to our integration efforts and the execution of the strategy. And finally, as you saw from Alexander, we're fortunate to have a strong balance sheet. And an overall financial and a strong overall financial position. And then on this last page, it's really just a repeat of our strategy. There's nothing new there. So we'll go ahead and use the rest of the time for questions. Thank you.

Operator

Thank you. If you would like to register to ask a question, please press * followed by one on your telephone keypad. If you change your mind, you can press *2. The first question comes from Sasikanth Chilukuru from Morgan Stanley. Please go ahead.

Sasikanth Chilukuru – Morgan Stanley

Hi, thank you very much for taking my questions. My first question was related to the current oil and gas price environment essentially and if it was possible to get some guidance on the impact of the current oil and gas prices, especially the very strong gas hub prices on realisations. I recognise they had just placed in the second-half, but I was wondering if there's anything else that was preventing you from realising these high spot prices? The second question was on the on the M&A market. I was wondering if it was possible to comment on the current environment, on the quality of assets that are currently available in the market and whether you have seen any material change in this in in this environment since the start of this year, thanks.

Linda Cook

So I'm going to let Alexander say a little bit about realised prices going forward and then I'll take the M&A question after that.

Alexander Krane

Yeah, sure. Thanks, Linda. Thanks, Sasi. On the natural gas prices, I think we had a bit of detail then shown on one of the slides where we pretty much just spelled out the hedged volumes and we split it by it by crude and natural gas. So yes, we're hedged. If you do the math, it's around 70% or so on natural gas for the remainder of the year. So the spot price exposure as such would be probably more in the 30% area. So, that's what we've entered into. I don't really see us doing anything more on the short term, and also on 2022, quite a significant hedge position there as well with all the details there shown on that slide 25 at the top there. So that then you'll see the exposure we have to spot prices. I think it equates to in total around 120ish thousand per day. With a little more gas than crude going into 2022.

Linda Cook

Thanks, Alexander. On the M&A question. It's interesting when we got started a few years ago we had this strategy to be contrarian and everyone was investing a lot of money in the US we decided to do the opposite and buy producing properties instead of undeveloped shale properties. We were going to buy producing properties outside the US and assets that we're already producing cash flow. So our strategy has remained the same and it's just as relevant if not more relevant than it was then, but for slightly different reasons. Given everything going on in the sector today, it just means there are a lot of opportunities for a company like ourselves. We have majors looking to divest

upstream assets and for strategic reasons. Oil and gas prices are high, a lot of them are making billions and billions of dollars of cash flow, they don't necessarily need the cash, but they're selling because they're actually changing their corporate strategy, they're shifting capital allocation inside the company and you have companies like BP, who actually have targets to decrease production. I've been in the sector a long time and I wonder if I need to clean my ears out, if I'm hearing it right when I hear things like that. But that creates opportunities for us. There are small companies who used to be happily listed publicly and now they're being told they lack scale and they need to be bigger in order to be relevant and attract the interest of investors. So smaller companies looking to consolidate. And then we have private companies out there who have been planning on an IPO for their exit and now finding it a bit challenging and not sure when that may or may not ever be possible for them. So all of these dynamics, I think play to our favour. We're one of the few well capitalised independent oil and gas companies who have a record of completing large scale complicated transactions. So not a surprise that we're finding the market pretty good and you know the great thing for us, as Alexander said, we have a strong balance sheet, a lot of flexibility and we can be very selective. And that should in the long run, help us when it comes to returns. Thanks for the questions.

Sasikanth Chilukuru

Thank you.

Operator

The next question comes from Mark Wilson of Jefferies. Mark, your line is open.

Mark Wilson - Jefferies

Thank you. Good morning. I think I've got a question for each one of you here, if I may, Lind firstly, if you could speak to the differences between Sea Lion and Zama? Because considering Zama 12% non-operated stake and no current production in the Gulf of Mexico, could you speak to how that fits within the Harbour strategy, and then Phil, good to see production ramping up back over 200,000. You speak also to a natural decline of 10 to 15%. So could you just outline again the longer-term production expectations for the portfolio currently out to 2025, I think that was to maintain around 200,000 barrels of oil a day. Is that still the expectation? And then finally, Alexander, you say you're not going to guide to 2022, but given where we stand now, the increase of of CapEx and production in a very clear line of sight on your hedging for the second-half of the year, where would you expect to exit the year on that net debt? Thank you.

Linda Cook

Thanks, Mark. We'll take those questions in order I think. I'll start with comparing Sea Lion to Zama. So it's an interesting question. When we look at Sea lion, clearly there are resources there, it's the same in Zama, very high quality subsurface reservoirs have

been found. But with respect to Sea Lion, its multibillion dollars, our share of the development over time, in a remote part of the world, there's no existing oil and gas infrastructure in the area, there's no local service sector to support us. And all of those factors add to CapEx and risk and unit operating costs and break even prices overtime. When we look at Zama, on the other hand, it's in an oil and gas neighbourhood, plenty of infrastructure around strong service sector. Well established transportation routes, contracting workforce, etcetera so from that standpoint, we look at it a lot differently and plus it's a 12% interest for us, so not as substantial when it comes to CapEx requirements. So as I said, today we're working towards continuing to advance the project towards an FID, and that's an option for us as we go forward as to ultimately what we're going to do. But for right now, you know we're excited about it and the economics look fairly robust. Phil's next.

Phil Kirk

Thank you, Linda. Thank you, Mark, for that question. We're going to talk more about future production levels at the Capital Market Day in December. But you are right, we have said we'll try and maintain existing levels by sustaining investment, particularly in Europe and our core assets. So that is the to do, but we'll give a bit more. Over the next few years in the sorry.

Alexander Krane

And then I was third. Expectations on net debt levels at the end of the year. And again, we've tried on a couple of other slides here to be just a bit granular on all the hedging and production coming up and OpEx. We also do not expect to have any significant tax payments. So what you saw there in the first half of the year, that's related to the fiscal year 2020. So we wouldn't expect that to incur in the second-half of the year. Then there's obviously tonnes of drilling going on at the moment. There's also a bit of timing as to the CapEx on the side of Christmas versus the others. So it does depend a bit on where we do end out on that one. So but of course we've seen a deleveraging happening so far this year and with current prices where they are hedge booked where it is. We do expect to continue to deliberate towards the end of the year.

Operator

The next question comes from Chris Wheaton of Stifel Institutional. Chris, your line is open.

Chis Wheaton - Stifel

Bethany, thank you very much indeed. Like Mark, a question for each of you, if I may, please. First to Linda on strategy, I thought the most interesting strategic changes, strategic actions taken by any of the big oil companies at the beginning of this year was BP's decisions and ENI's decision to merge businesses in Angola. So they are

concentrating minority stakes or minority parts of their portfolio, merging them together. I'm interested if you see potential for Harbour to play a role in that kind of activity as not just as being an asset resolution solution, if you like for legacy assets, not just individual assets, but potentially much larger bases. I just wondered if your sights are as high as that kind of level of M&A. And my second question to Alexander, please the G&A cost in the first half 58.8 million, I wonder if you could help us understand how much of that is exceptional related to either transaction costs or integration costs, and what the growing level of integration cost might be over the next two or three years, given that obviously there's a complex and three-way integration going on between Chrysaor, Conoco and Premier at the moment. And my last question to Phil if I may, V Net Zero and I think this is really interesting, did I understand you correctly that you had said you were already in FEED with one of your industry partners I actually looking at the engineering solutions already for V Net Zero. I'll stop there those are my three. Thank you.

Linda Cook

We'll take those in order. So I'll start with the strategy. As you said, we're seeing some very interesting transactions and structures happening in the marketplace. We have a history ourselves of doing complicated and creative things. If we look back at how we structured some of the transaction with Shell originally for example, so this is fertile ground for us to kind of sew in terms of presenting unique and creative opportunities to some of these larger companies that result in things that are sort of mutually beneficial, if you will. Specifically taking some assets in one country or region and merging them with another, on the face of it we're not necessarily against it theoretically, but what I struggle with a little bit is what is the end in mind here, what are both companies objectives? Could you structure things in a way that result in value creation for both partners? Is there going to be strategic alignment? So if a company wants to put assets in to a joint venture yet they don't want to allocate capital to it. And the structure is such that they can control the annual budgets and we think we can create value by drilling some additional wells. We're going to be misaligned and we're not going to be able to create value the way that that we're able to create value. And so we get stuck then. So I think the devil would be in the details, but certainly, we're open to all sorts of creative discussions around how to do a variety of things, especially given the strategic moves some of these larger companies are making. Hopefully that made sense. So that was #1.

Alexander Krane

Yeah. On #2, Chris, your question was around G&A. And you're right, if you look I think there's a bit of detail in note disclosure #5, you'll see that we ended up first half of this year of close to 59, I think was 58.8. this year and the comparative figure was 29 in the previous year. You'll see that out of those 58.8 I think it was around 20 or 21 million

that's amortisation, depreciation of non oil and gas assets so typically your IT equipment software quite a bit, leases on buildings, stuff like that. So that leaves 37 million left in, G&A cost. Now I think quite significant part of that was deal costs that came through. So that would be deal costs with anything that's not bank related so. Your lawyers, your auditors, all kinds of fees going through. So I think in general when I look at it and I add those together to get to the 59 million we saw this this quarter, I'd say around half would be deal related whereas half would be more the underlying G&A there.

Phil Kirk

Good question. Thank you. I think I said that P66 and Vitol VPI were just starting feed on their carbon capture pieces because obviously these projects involve the emitters, transportation, storage. So that's started in FEED with government money, which demonstrates their commitment and the government's commitment to those emitters. We're obviously trying to marry many bits together and you may see us saying something in the near term about shipping and an agreement we've reached with the Immingham port, but there's plenty of things happening at the moment. Thank you.

Linda Cook

Thanks Chris. Next.

Operator

The next question comes from James Hosie of Barclays. James the line is open.

James Hoseie

Yeah. Thank you very much. Good morning. I have a couple of questions from me. And just firstly on the decision to exit Sea Lion, can you say if there's any potential costs of you exiting and do you still have obligations to your partners or the government down there? And then just, Alex, your comments on reviewing the hedging policy, is that an indication you intend to be less hedged in future years or are you talking more about changing the type of hedging instruments you're going to use going forward?

Linda Cook

Thanks, James, for the questions. On Sea Lion, a bit early to say exactly if there's going to be costs or actually you know the opposite upon exit. There are very minor remaining obligations for us there in the country. All the wells that were drilled have already been P&A'd. So the expectation is that, if there are any costs for us, it's not material for us. So on the order of less than \$10 million. But a bit too early to say really, because it will be determined by exactly how we end up exiting those positions. Alexander.

Alexander Krane

Yeah. And on the hedging, James, now as you know there is hedging requirements today in the RBL which states that for the next 12 month period were hedged at the minimum of 50 and the maximum of 70%. And then this goes down to 40 and 60% a year out and then down to 30 and 50. So that's where we are and that that has served us well and there's a purpose and a reasoning behind that hedging. But you know naturally with the company developing, the balance sheet developing, and the robustness of the company also developing it is just natural and prudent to have a look at this again, revisit again and review both levels but also the type of instruments that we're using so its all part of just actively managing the balance sheet and thinking about financial risk management in the business.

Linda Cook

Thanks James. Next.

Operator

The next question comes from James Carmichael of Berenberg. James, your line is open.

James Carmichael - Berenberg

Hi, morning, guys. Just a couple of quick ones. I might have misunderstood on the tax point, I think so there's no material tax payments due in the second-half. So I mean, I guess the question is that the, does that mean you're now fully utilising or is your UK production base all sort of fully utilising the tax losses that came in through the merger and how quickly do you think you would use those up at current prices, and then the second one. I'm just on the strategy again, I guess you know one of the slides you talk about focus on up to more on gas with no investment in midstream or infrastructure. So just wondering how that sort of squares with the recent investments in ACORN and obviously the V Net Zero project you've talked about.

Linda Cook

Let me take the last one first and then let Alexander have a go on the tax question so. Yeah. When we look at the do's and don'ts, we do say we're not going to spend a lot of money on the midstream. At the same time on the left, we say we're committed to net zero 2035. So we have to square those at some point on the carbon capture and storage projects in the UK. Part of this is us being seen demonstrating that the oil and gas sector can be part of the solution. Most people agree that CO2 capture and storage, has an important role to play going forward. We happen to have essentially got for free this infrastructure that's no longer being used around V Net Zero. So the offshore pipeline is already there, the depleted gas fields are already there and so why not use those if they have the ability, to help the UK and more broadly meet our emissions reductions in our

carbon capture goals. So early stage, we're spending small amounts of money pre development. Studies on this working with the government to see whether or not there'll be government support in terms of funding. Ultimately, if the projects go forward, there are banks and other financial institutions practically falling over themselves to provide financing for projects of this sort. So ultimately equity required might be smaller than one might think and ultimately what our role is you know is all yet to be determined, but we're being constructive. Participating in this process, given that we have this infrastructure available. And nearby big emitters, who are anxious to work with us so. Tax now.

Alexander Krane

Yeah. No, James you caught that correctly. A bigger tax payment earlier in the year as that relates to 2020 fiscals. We are making good progress in setting up the corporate structure for the company and moving some assets between the different the different entities now within the group. So we're starting to see the synergies and the effects of that, as you indicated. Now naturally, it's not going to be a perfect match. So there may be some, some smaller tax payments coming through, but we do not expect to see material tax payments coming through this second-half of the year.

Linda Cook

Thanks again, James. Other questions?

Operator

The next question comes from Anish Kapadia from Palissy Advisors. Anish, please go ahead.

Anish Kapadia - Palissy Advisors

Good morning. I had a question just kind of thinking over this year, Premier has had a quite a disappointing track record on underperforming assets. With big decommissioning liabilities and delays to its projects, and, you know, slightly worryingly, we've seen the same year to date with Harbour, given we've had downgrades to production guidance and delays on Tolmount and [inaudible] looking like it's slipping.

So just really a question on you know, why should investors have confidence that Harbour won't be yet another UK E&P with an over promise and under deliver strategy. And then related into this, since the merger since the 1st of April, Harbour shares have fallen despite a much improved macro environment and also underperformed the peer group. So just wanted to know how would you justify doing any acquisition using equity in in this kind of environment and you know would it make actually more sense to do buybacks given the high commodity price prices that we're seeing? And then one final quick one, just wanted to get your confidence around the book of decommissioning liabilities given the inflationary environment we're saying. Thanks.

Linda Cook

I'll try to take the first couple and then let Phil say a word about decommissioning. So I mean I, you know, we accept the challenge and we get the comments about the operational challenges in the first half. I mean, one thing that's not part of our strategy is delivering multi billion dollar major. Projects. Not because I don't like them. I've done a lot of them in my past. I find them very exciting. But there are, you know, wide range of risk around those sometimes. And today we just don't see that it's necessary to take that kind of risk when we have other what we see as lower risk opportunities ahead of us. And we have a good track record. Growing that way through acquiring producing properties. And then taking over the operations, yes, a few hiccups in the first half of this year, some of it COVID related. We think it's largely behind us. And as you may have seen from the production chart, you know we have a lot of good momentum now building in the second-half of the year. On the share price under performance you know, I think there are a couple of things going on. One we did have about 18% of our shares in the hands of creditors immediately following the close of the merger on April 1st. Many of those, over half of those, the ones who were less natural holders of equity, have sold their positions over the past few months. So we've had that kind of headwind. The second thing we lost a bit of the correlation we might have otherwise had with commodity prices, because as Alexander explained, the hedging strategy and commitments that we had in place mostly related to the RBL position and our strategy over the longer term of protecting the balance sheet. Of course, this served us very well last year when Brent was \$13 and we were hedged at 60. So the hedge book was the complete opposite about a year ago today. We'll be, as Alexander said, revisiting that whole strategy going forward now that we're a larger company, we have more flexibility. And options and cash flow. So it's timely to have a look at that again. And Phil a bit on decomm.

Phil Kirk

Thank, thank you, Linda. And so far we're not really seeing tremendous inflationary pressure across the supply chain, particularly in the decommissioning side of the business. We've got a multi year programme. We've been executing a multi year programme and doing that pretty successfully. We have other operators come and talk to us about whether we could execute on the on their behalf. We increased some of the provisions that we saw on Premier books for some of the decommissioning work to what my team and Harbour were more comfortable with and we have a track record of materially getting more efficient over the years in well P&A time and in cost, even in inflationary periods. What we have is a more material portfolio which allows us to contract it for a longer term and also we don't dip in and out of the market for small contracts, which tends to produce the wrong result. You are held hostage to fortune. What we have is longer term relationships, where we'll often be dealing through the

company up to the CEO and setting up a relationship for the longer term which helps it tremendously helps them and it helps us deliver a much more efficient programme.

Linda Cook

Thanks, Phil. I think we have time for one more question.

Operator

The last question comes from Daniel from BNP Paribas. Daniel, your line is open.

Daniel

Thanks. Taking the time I have two questions on my side. The 1st is, do you think production will get back to the pro forma levels in 2020 of about 235,000 per day? And the second one is on the carbon capture, I see there's some value there from having spare capacity that can be used by other producers and would you be able to help us quantify the size of the opportunity on the carbon capture? Thank you.

Linda Cook

Daniel, I think on your last question, it's just far too early to say what the commercial framework for these projects is going to look like. We have the same question you do. Just take some time to figure that out. We'll see which projects go forward and hopefully we'll be part of that conversation. Maybe over to Phil a bit to say see if there's anything more to say about production than we've already said. And.

Phil Kirk

I don't think so, Linda. No, I'll, we'll talk more at the Capital Markets Day in in December. Sorry, much as I'm tempted to say something, I won't.

Linda Cook

Yeah. So we're reiterating our guidance for the year. We gave you some insight into what the first couple of months of the second-half looked like. So hopefully you'll find that helpful and you know, hopefully that momentum continues and we're feeling good about how we're positioned going into the second-half. So thanks again to all of you for joining us and all of the good questions, as you will have seen, we had a very busy first half during which we closed the major transaction. We've made progress with integration and operations and exited mid year with a strong balance sheet. And as I said, a lot of production and other momentum heading into the final push through the rest of the year. And I think it positions us well for the future. So thank you again for all of your time.