

Harbour Energy plc
“Harbour” or the “Company” or the “Group”
Trading and Operations Update
3 November 2022

Harbour Energy plc provides the following unaudited Trading and Operations Update for the nine months to 30 September 2022.

Operational highlights

- Production of 207 kboepd, an increase of 27 per cent on the corresponding prior period; full year production now expected to be in the upper half of 200-210 kboepd guidance
- Unit operating costs of \$14/boe, a decrease of 18 per cent on the corresponding prior period; forecast 2022 operating costs reduced to c.\$14/boe (versus previous guidance of the lower end of \$15-16/boe)
- Improved safety record with total recordable injury rate of 0.78 per million hours worked
- Successful drilling at J-Area and Catcher (UK) and Natuna Sea Block A (Indonesia) supporting production; eight rigs currently active including at J-Area and Beryl (UK) and Chim Sao (Vietnam)
- International projects progressed
 - Mexico: Zama Unit development plan well-advanced
 - Indonesia: Initial plan of development for the Tuna field submitted; planning underway for further drilling across the Andaman Sea acreage following the material Timpan gas discovery
- Increased momentum on UK CCS projects including new Viking CCS partnerships with West Burton Energy and Associated British Ports

Financial highlights

- Revenue of \$4.1 billion with realised post-hedging oil and UK gas prices of \$80/bbl and 86 pence/therm versus the average Brent price of \$105/bbl and NBP gas price of 209 pence/therm
- 2022 total capex guidance reduced to c.\$1.0 billion from c.\$1.2 billion, primarily driven by the late arrival of drilling rigs and the weaker pound sterling to US dollar exchange rate
- 2022 total UK tax liability expected to be c.\$900 million, of which c.\$400 million relates to the recently enacted UK Energy Profits Levy
- Forecast 2022 free cash flow increased to \$2-2.2 billion¹ (after c.\$700 million of total cash tax payments)
- Net debt of \$1.1 billion as at period end; continue to expect to be net debt free in 2023
- Shareholder distributions of \$500 million completed year to date, including c.\$100 million interim dividend paid on 19 October; new \$100 million buyback programme approved

Linda Z Cook, Chief Executive Officer, commented:

“Harbour is delivering operationally with higher production volumes and lower costs, supported by improved efficiency and our capital investment programme. We also remain focused on reducing our own greenhouse gas emissions and advancing our two UK CCS opportunities, Harbour-led Viking CCS in England and Acorn in Scotland. Our company is proud to be the UK’s largest oil and gas producer and, through the combination of these activities, contributing meaningfully to domestic energy security while at the same time working to help realise a shared ambition of UK leadership in CO₂ capture and storage.

However, the recently enacted UK Energy Profits Levy (EPL) and speculation about further fiscal changes have created uncertainty for independent oil and gas companies like Harbour. As a result, evaluating expected returns from long term investments has become more difficult and investors are advocating for geographic diversification.

While we fully recognise the significant challenge in the UK to put public finances on a sustainable footing, we urge the government to carefully consider the consequences of any increase in or extension of the EPL. At a time when oil and gas producers are being asked to invest more to help ensure the UK's energy security and are considering longer term, material investments in CCS, additional taxes would run the risk of undermining our ability to do either."

Enquiries

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¹ Assumes \$90/bbl Brent, 220p/therm day ahead NBP and a pound sterling to US dollar exchange rate of \$1.1/£ for the fourth quarter; on a 2022 full year basis this equates to \$102/bbl for Brent, 212p/therm for NBP and a \$1.2/£ exchange rate.

This announcement contains inside information.

Operational review

Strong production performance

Production for the first nine months of the year averaged 207 kboepd (194 kboepd UK, 13 kboepd International), an increase of 27 per cent on the 2021 corresponding period. Production was split approximately 51 per cent liquids and 49 per cent gas.

Production was underpinned by continued outperformance from the Greater Britannia Area satellite fields, an active well intervention programme and new wells, primarily gas, brought on-line including at J-Area, Everest and Tolmount.

The Tolmount gas field reached plateau rates of 20 kboepd (net, Harbour 50 per cent interest) in July and cash payback in September, less than six months after first production in April. While production remains above 20 kboepd today, pressure and other performance data suggests the field will come off its production plateau early next year. Tolmount activities in 2023 include compression start-up, drilling of the Tolmount East well which is expected online in 2024 and testing of the near field Earn prospect which if successful would be tied into the existing Tolmount infrastructure.

Production continues to be supported by high reliability across our asset base with three of our hubs – Greater Britannia, J-Area and Elgin Franklin – each achieving operating efficiency in excess of 95 per cent for the period. The planned maintenance programmes, including a ten-day shut down at the Tolmount field post period end in October, have now been completed. No major campaigns are planned for the remainder of the year.

2022 full year production is now expected to be in the upper half of 200-210 kboepd guidance.

Targeted high return, short cycle investment

The bulk of Harbour's capex programme is targeted at high return, short cycle, infrastructure-led investment opportunities to help support near term production levels.

Activity increased in the third quarter with eight rigs currently active across the portfolio. At J-Area, the Jade-JM well was brought on-stream in October and the Judy-RD well was successfully tested and is expected online before year end. The Catcher Area drilling programme recently concluded with Catcher North now tied into production and Burgman Far East due online in early 2023. At Beryl, drilling is ongoing at Buckland South West following the delayed arrival of the rig while platform drilling from Beryl Bravo has been deferred to early next year. In Indonesia, the rig programme at Natuna Sea Block A was successfully completed and the two well programme at Chim Sao in Vietnam commenced in October following late delivery of the rig.

Harbour is making good progress on its UK organic projects, Talbot and Leverett. On Talbot, drilling of the three development wells to be tied back to J-Area infrastructure is expected to commence shortly while the Leverett appraisal well, close to Harbour's Greater Britannia Area, is expected to spud in the first half of 2023.

International growth opportunities

Harbour's international growth opportunities include the Zama project in Mexico where Harbour and its partners are nearing agreement on a unit development plan which will be submitted to the Mexican National Hydrocarbon Commission for review. FEED is planned for 2023, followed by a final investment decision possibly as early as the end of next year. To the southwest of Zama at Block 30, a two well, non-operated exploration campaign commenced in October, later than anticipated due to a prolonged rig acceptance process. The first well is currently drilling ahead and targeting the amplitude-supported Kan prospect.

In Indonesia, Harbour submitted an initial plan of development for the Tuna field in October for government review. Elsewhere in Indonesia, following the Timpan discovery earlier this year, Harbour is acquiring 3D seismic across the eastern part of its Andaman II licence. Planning is also underway with partners for further drilling activity across the Andaman Sea acreage which is anticipated to commence in late 2023, targeting amplitude-supported prospects which have been de-risked by the Timpan discovery.

Positioning for the Energy Transition

During the period we have made good progress on our Viking CCS project in the UK Humber region where we can leverage our extensive subsurface and offshore expertise and existing asset base. Through Viking and our interest in Acorn in Scotland, our UK CCS projects could capture and store multiple times Harbour's annual CO₂ emissions and play a critical role in achieving the UK's net zero emissions targets.

Over the past few months, the Harbour-led Viking CCS network has grown significantly to include West Burton Energy's West Burton B power station which expands Viking's geographic footprint beyond the Humber region to inland emitters in Nottinghamshire. In addition, Harbour has entered into an exclusive commercial relationship with Associated British Ports who plan to develop a CO₂ import terminal at Immingham enabling Viking CCS to offer a solution for stranded CO₂ emissions across the UK. Separately, statutory consultation for the Viking CCS onshore pipeline which will connect the Humber region to Theddlethorpe on the Lincolnshire coast is scheduled to commence later this year ahead of the submission of a planning application in 2023.

Subject to government progress related to the regulatory framework, Harbour is aiming to progress both Viking CCS and Acorn to a final investment decision in 2024 with first CO₂ injection as early as 2027.

Financial review

Estimated revenue for the first nine months of the year was \$4.1 billion. Harbour realised oil prices pre- and post-hedging of \$103/bbl and \$80/bbl respectively for the period versus the average Brent market price of \$105/bbl. Harbour realised UK gas price pre- and post-hedging of 200p/therm and 86p/therm respectively versus the average NBP market price of 209p/therm. We continue to secure incremental hedges where future pricing is attractive, via swaps for oil and through zero cost collars for gas. A full schedule of the Group's hedging position is set out in the Appendix 2.

Operating costs for the first nine months were \$800 million and \$14/boe on a unit of production basis, reflecting a weaker pound sterling to US dollar exchange rate and robust production volumes which together have more than offset inflationary pressures. We now expect operating costs on a full year basis to be c.\$14/boe, compared to previous guidance of the lower end of \$15-16/boe. This assumes a \$1.10/£ exchange rate for the remainder of the year.

Total capital expenditure to the end of September was \$700 million, lower than anticipated due to the late arrival of drilling rigs, including at Beryl (UK), Block 30 (Mexico), Chim Sao (Vietnam) and for our UK Southern North Sea decommissioning programme. Capital expenditure is also lower resulting from the decision not to proceed with several North Sea exploration and appraisal wells following further technical analysis and risk assessment. In addition, with a significant portion of our total capex being sterling denominated, the weaker pound sterling to US dollar exchange rate has also impacted capex levels. As a result, full year 2022 total capex is now expected to be c. \$1.0 billion, reduced from prior guidance of \$1.2 billion.

Assuming Brent oil and UK gas market prices average \$90/bbl and 220p/therm for the fourth quarter, resulting in \$102/bbl and 212p/therm for the full year, and assuming no further changes to the UK fiscal regime, we forecast 2022 free cash flow (after tax and before shareholder distributions) of \$2-2.2 billion, compared to previous guidance of \$1.8-2.0 billion. The c.\$200 million increase is driven by improved production levels, lower capital expenditure and higher commodity prices partially offset by the resulting higher UK cash tax payments, now forecast at c.\$650 million. This includes c.\$240 million relating to the December payment of Harbour's 2022 UK EPL liability now forecast to be c.\$400 million with the c.\$160 million balance to be paid in January 2023.

Harbour continues to forecast to be net debt free in 2023. This financial position together with our strong cash flow continues to allow us significant optionality over future capital allocation, including for value accretive M&A and additional shareholder returns. As a result, we have approved a new buyback programme for a maximum aggregate consideration of \$100 million to be completed by no later than 28 February 2023.

Year-to-date we have returned c.\$500 million to shareholders. This comprises our c.\$200 million annual dividend, including a c.\$100 million interim dividend which was paid on 19 October, and the previously announced c.\$300 million share buyback programme. This programme, which completed in September, resulted in the purchase and cancellation of c.63 million shares, representing c. 7 per cent of our issued share capital.

Appendix 1: Group production¹

	1 Jan – 30 Sept 2022 (net, kboepd)	1 Jan – 30 Sept 2021 (net, kboepd)
Greater Britannia Area	37	31
J-Area	29	26
AELE hub	27	22
Catcher	19	16
Tolmount	12	-
East Irish Sea	8	4
Elgin Franklin ¹	24	15
Buzzard	15	13
Beryl	11	12
West of Shetlands ¹	10	12
Other North Sea ²	2	2
North Sea	194	153
International	13	10
Total Group	207	163

¹ West of Shetlands comprises Clair, Schiehallion and Solan. Other Europe includes Galleon and Ravenspurn North. 2021 production provided on a reported basis and includes the contribution from Premier's portfolio from 31 March 2021.

Appendix 2: Hedging schedule¹

	FY 2022		FY 2023		FY 2024		FY 2025	
	Volume (mmboe)	Av. price (p/th, \$/bbl)	Volume (mmboe)	Av. price (p/th, \$/bbl)	Volume (mmboe)	Av. price p/th, \$/bbl	Volume mmboe	Av. price p/th, \$/bbl
UK gas								
Swaps	19.3	42	21.5	40	9.9	52	1.6	45
Collars	5.0	50-62	1.6	55-69	1.3	135-292	0.4	140-325
Options	1.1	34	-	-	-	-	-	-
Oil								
Swaps	18.8	61	11.0	74	7.3	84	2.4	81

¹ As at 30 September 2022

Appendix 3: 2022 guidance

	2022 Guidance (as at Aug 22)	Actual (1 Jan to 30 Sept 2022)	2022 Guidance (as at Nov 22)
Production (kboepd)	200-210	207	Upper half of 200-210
Operating costs (\$/boe)	Lower end of 15-16	c.14	c.14
Total capex (\$ billion)	c.1.2	c.0.7	c.1.0