Half year results 2021

Wednesday, 15th September 2021

Introduction

Operator

Good day and thank you for standing by and welcome to the Tullow Oil Plc 2021 half year results conference call. At this time all participants are in a listen-only mode. After the presentation there will be a question-and-answer session. If you wish to ask a question, please press star one on your telephone keypad. For your information, this conference is being recorded. Now I would like to hand the conference over to your speaker Rahul Dhir, chief executive officer, please go ahead.

Overview

Rahul Dhir

CEO, Tullow Oil

All right, thank you, Andrea. And good morning, everyone, thank you very much for joining. We're very pleased to have this opportunity to update you on our progress in the first half of this year. And I want to give some thoughts also about our strategy and performance.

But I thought before we start our presentation, I just wanted to share that we've announced today that Les will be stepping down. This is by mutual agreement. I'm sad to see that – well, he's not going yet but certainly it's sad to see him go, but he's been a real partner with me as we've steered Tullow through the whole turbulence of the past year. And as you all know, he has been a key architect of our financial turnaround. So now, today is not goodbye and Les is committed to staying at Tullow till the end of March. But I did want to thank him for his huge, huge commitment and his leadership.

So let me start just, you know, I really wanted to start with a reflection of where we are today. So we've done a lot in the last year to turn the company around. We've reset our cost base, we've simplified our capital structure, and we've put the group on a much firmer financial footing. As you know, we're looking to allocate around 90% of our capital to West African producing assets. These create a lot of value, they generate very material cash flow. And we're now very well set up to deliver a sustainable, self-funded production from the assets.

We also have other areas in our portfolio where we can unlock value, and I'll talk a little bit more about these, particularly in Kenya, and in exploration. We prioritise efficient and safe oil and gas operations in our host countries, while minimising the environmental impact. And, as you will see, and this has been part of our ongoing commitment to our work, we will deliver shared prosperity and will create value for our investors, staff, host nations and communities.

And, you know, Tullow has had a long and proud history in Africa and I believe we're very well positioned to continue as a leader in the continent's oil and gas industry.

So you'll remember kind of a little over 10 months ago, we held the capital markets day. And there we told you that we will focus on a few things and these included delivering sustainable, self-funded production, improving our operation performance in Ghana, including reducing well complexity and downtime. We said we would commence a multiyear investment programme in some very well defined and profitable opportunities across both Jubilee and TEN. We said we would deliver a revised Kenya field development plan. We will continue to rationalise and unlock value from our exploration portfolio, which would then align with our production focused strategy. Then we said we would look to refinance our debt to create a simplified capital structure whilst continuing with our cost-conscious approach, and we also said we would evolve our ESG strategy.

So these are all the things that we kind of talked about 10 months ago, and today, I'm pleased to share that we've delivered on each one of these commitments. But it's important to underscore the work doesn't stop there. We're in a mode of continuous improvement and we remain focused on delivering value from our existing assets. So to that end, what we have done is we've further refined our plan for 2021 to 2025. So if you remember we talked about a 10-year plan, but Les and I will share more details of the kind of five-year slice of that today.

And what we have done in the middle column that you see on the slide, some very exciting near-term catalysts that provide us, and you as well, with line of sight to both growth and value creation. But overall, what you should expect from the business plan over the next five years is that we will deliver growth and production in reserves and underlying value, along with the cash flow to support de-leveraging. And the plan is at $65 oil we'd be able to reduce gearing to below 1.5 times, so that's getting as measured net debt to EBITDA by 2025. We'll talk more about how to do that.

But before we do that, let me focus on where the world is today. And this is an important slide, because it kind of sets a little bit about our purpose.

So notwithstanding the ongoing focus on reducing the use of fossil fuels, we believe that the world will consume more energy. We also believe that fossil fuels will remain an integral part of the energy mix for some time to come. So the logical conclusion is there is need for oil and gas resources to be developed and produced, but what's important is it's got to be done responsibly, and with minimal environmental impact. And where we work, particularly in Africa, we experience first-hand how the oil and gas industry can be an engine for economic development. And we also see at the same time in Africa, it continues to suffer from extreme energy poverty, and only about 3% of global emissions are expected from Africa by 2040. That's an important point. So there's a really strong case for a fairer transition, where African economies have the opportunity, like the rest of the world can now, to benefit from the responsible development of these resources.

And with the oil and gas industry in flux, there's many companies who are allocating capital away from upstream, and they're divesting assets. So we felt it important, I think, today, given all of this flux and uncertainty that we've got to make a clear statement of our purpose, which is that we are committed to being in Africa. We have the opportunity actually to be a leader in Africa, where we're delivering safe and efficient operations, while we bring shared prosperity and reduce that environmental impact.

So our net zero commitment, which we've talked about before, that's an important aspect of this plan. Let me just now share with you how the specifics of kind of how we do that.

So obviously, the net zero commitment is an integral part of our licence to operate. We have a responsibility to reduce and in time, eliminate the emissions under our control. And within our business plan, we've budgeted for a number of technical projects that would help eliminate routine flaring on our Ghana FPSOs by 2025. So some of these include kind of de-bottlenecking around gas processing and include things like process modification.

And not to take you in the weeds, but the sorts of things we're looking at are quite specific. So one such project is we're looking at a bi-directional gas line, so that's linking Jubilee and TEN. And what that enables us to do is to have optimum uptake and injection of gas when it's required, both for reservoir management and pressure support. So that's an example of how we look to kind of optimise gas utilisation and reduce flaring.

I think we've talked about before, there's been the Jubilee, we have a gas de-bottlenecking plant that's underway, so a series of small projects, and we expect that to be completed by next year. And we've defined a number of process modifications for TEN and that will be planned when we have the TEN shutdown, which will be sometime in the next few years.

So that's the focus on the facilities. But in addition to this, we're also progressing work on nature based offset projects. And there's a lot of stuff in this going on. But it's a new area, it's an evolving area, and we want to look at this organically, so what we're doing is we're building up our capabilities in the space. The plan is we'll look to invest in new carbon offset projects, but focus in our host countries. We're screening projects that mitigate deforestation, that address forest degradation. What's interesting is that typically, these projects involve a degree of social investment as well. They're in this kind of social project. So they're well aligned with our broader sustainability strategy. So I think over the coming years, we'll look to update you on the work that we're doing.

So I'll talk a little bit more about the assets. But before I do that, let me hand over to Les, and he'll cover our first half results. So over to you, Les.

First Half Results

Les Wood

CFO, Tullow Oil

Thanks, Rahul. Good morning, everyone. As Rahul mentioned earlier, we announced today that I will step down as CFO in March, but after the 2021 reporting cycle. Timing's right now that we've completed a number of steps to strengthen the group, which was culminated in the refi that we did back in May. As Rahul said, I'm not leaving yet, so there's still work to do over the next six months. So I look forward to catching up with as many of you as I can to say thank you.

In the meantime, it's a great opportunity to have, to update you on the first half, which is a good set of results. I confirm our full year guidance and also underscore the positive progress that we've made on simplifying our capital structure and strengthening our balance sheet.

So firstly to the numbers. As Rahul said, our business has performed well in the first half, delivering strong operational performance. As you'll see from the numbers, revenue is essentially flat year on year with lower sales volumes broadly offset by around a $9 per barrel increase in realised oil price. Unit OPEX is up, primarily a result of lower production, extended

COVID-19 operating procedures, and then the residual work related to the shuttle tanker operations for the TRP.

We delivered a profit after tax of $93 million and free cash flow of $86 million, which includes the one-off fees associated with refinancing our near-term debt maturities.

Capital expenditure was around $100 million, 101 to be precise, with phasing bias to the second half, primarily as the rig in Ghana only commenced work in April. Also related to the timing of non-op activity like Simba, which we'll talk about in a little bit, and also the long leads for Jubilee southeast and then really the mixture between Jubilee and TEN activity with the rig. And Rahul will tell you a bit more about these shortly.

Net debt was reduced by around 700 million from a year ago to 2.3 billion following cash received from asset disposals and pre cash flow, and gearing is down from three times to 2.6 times.

And now to the 2021 guidance. This slide is a simple summary of our 2021 key guidance figures. Where appropriate, guidance has been adjusted for the first half completion of the Equatorial Guinea and the Dussafu disposals. We've narrowed production guidance towards the top end of the range, including an adjustment for the Jubilee shutdown moving into 2022.

Our unit OPEX is higher for the reasons I mentioned earlier. We're still on track for a cash cost savings of $125 million per year. And as an example, net G&A is down by 50% compared to the same period last year.

Both CAPEX and decommissioning have been adjusted slightly to reflect the current forecast of activity phasing over the balance of the year.

We expect underlying operating cash flow to be around 600 million, and that's at $60 per barrel, and as a sensitivity, a further $10 per barrel increase for the second half as around $50 million of free cash flow.

And now to the progress that we've made on strengthening our balance sheet. At our November Capital Markets Day, we laid out our cash generative 10-year business plan. Together with the improving performance of the business, evidenced by our numbers, delivery of a billion dollars of self-help from asset sales, and the material cost savings realised from the business, and of course a strengthening oil price environment, these all created the platform to successfully complete a comprehensive refinancing of our debt back in May.

We were able to simplify our capital structure with no material debt maturities now until 2025. And with a significantly reduced, but very supportive, bank group providing a 500 million RCF facility.

We've also underpinned the revenue and cash flow through a material three-year hedging programme. And over 75% of that is already implemented and has built on what we already have in place with downside protection, with average weighting for a significant portion of our production of around $40 per barrel to the end of next year and then $55 per barrel in 2023 and also through to May me 2024. We will complete the implementation of the programme by the end of the year, as we said when we issued the bond in May.

Built on our strong asset base we have a business plan that has the ability to keep our enterprise value flat or growing, which as we deleverage should translate into an increase in equity value.

We're confident our assets are capable of delivering up to $4 billion of operating cash flow at $65 over the next five years. After adjusting for capex including decom costs and ongoing financing costs, we expect to generate up to a billion dollars of free cash flow. And this will be used to reduce our debt.

We have some flexibility as you'll have seen in our statement on capital investment, and our hedging gives us confidence to invest despite the continued volatile oil price outlook.

I previously explained that 2021 and to some extent 2022 are transition years as a production focused activity set, it translates into increased revenue, and in turn free cashflow generation. We have the breadth of opportunities and flexibility to adjust capital investment to respond to the oil price environment, and we expect to reduce our leverage to well within our target range of one times to two times.

So in summary, we've posted a good set of first half results. We've confirmed the full year guidance for the year, and our comprehensive debt refinancing completed in May does provide a financial platform to deliver on our long-term business plan. So with that, I'll hand back to Rahul.

Maximising Value From Our Asset Base

Rahul Dhir

CEO, Tullow Oil

Okay, thank you very much Les. So we're talking about production, performance and, you know, building operational excellence. This is really fundamental to who we are and therefore it's a major focus for the entire organisation. And we're working and we're delivering on many, many different fronts. So let me just run through this.

So firstly, we started a multi well, multi-year drilling programme in Ghana. That's progressing per plan. We have one barrel on stream that's at J56P, there is another two wells which will be on stream due this year. And performance has very much been within budget and on time, some good lessons learned. And that's, so I'm pretty comfortable with where we are.

I think the uptime story has been very good. We've had uptime in excess of 98% on both Jubilee and TEN FPSOs. So that's the third year that we've had in a row of improvement. We've increased gas processing capacity at Jubilee to over 200 million scfs per day, and we've maintained reliable gas supplier from our operations. And gas offtake from GNGC has been consistent around 110 million scfs a day. And we believe there is some potential for improvement to 130 million scfs, and possibly even beyond that.

The other good story has been water injection, we've had sustained water injection over 200,000 barrels a day in Jubilee. And that's quite important. That's helped with voidage replacement and thus, it's one of the factors that's been useful in managing decline in Jubilee this year. And we've got plans, we're going to add water injection capacity, which will help further optimise production.

So all this has resulted in good production from the operated assets, and also that's been supported by stable production from the non-op portfolio. And the delivery for the first half of the year has been at the top end of the guidance that we see.

What I wanted to do now is to share some details about our assets and that will help you also better understand the plans and investment priorities as we go forward.

So I'll start with Jubilee. I think most of you know this, it's a big field, it's got nearly 2 billion barrels of oil in place. And to date, we've produced less than half of the expected ultimate recovery. Now, a significant factor, we talked about this before in the past, which has impacted historic production has been under investment. And I've highlighted particularly in March how we were looking to change this with the launch of a multi-well multiyear drilling programme, and that kicked off in April.

The illustration that we have on this page, this is a really interesting one because it shows how a significant part of the resource, it remains untapped. You can see both in the core of the fields but also in the eastern flank. And also given the quality of the field that we have in Jubilee provides a very profitable investment opportunity over 2021 to 2025 period. And that's through a combination of infill drilling, facilities expansion, and the two sanctioned projects in the eastern part of the field, the Jubilee northeast and Jubilee southeast. And I'll talk about those in more detail now.

So, if you remember from the previous slide, there's the eastern flank of the Jubilee. That provides an opportunity to recover an additional 170 million barrels gross. And the catalyst kind of for that is to have some enabling infrastructure, subsea infrastructure, because it's all links back into the FPSO. That includes the kind of new production loops, and, and some water injection infrastructure. It's fairly simple, it's a minimal infrastructure, and it allows us to really open up this entire undeveloped area.

So the two projects that you see here is the Jubilee southeast projects, that's highlighted in blue. That requires just one production manifold. And there are two water injection manifolds. And then what you also see in this is the Jubilee northeast project, so that's highlighted in green. That just requires one additional water injection manifold to provide pressure support.

The returns as you can see, are, are excellent. And with the sanction on both these projects, the plans are we would see first oil in 2023 and then there is additional infill potential particularly in the southeast.

Now I want to talk about TEN because it's an interesting story, TEN has over a billion barrels of oil in place initially. Now, TEN is really made up what we call the three pillars, so it's Tweneboa, Enyenra and Ntomme. So, Enyenra has got about 20% of the oil in place. And what we're calling the greater Ntomme and Tweneboa area, the GNT area, that has the other kind of 80%.

So to date, when we look at the production, we've produced probably less than a third of what the expected ultimate recovery is. And as you know, the activity to date on TEN has largely been focused on the Enyenra, and to some extent on Ntomme. And, you know, Enyenra has been challenging right from the start.

Now, since the capital markets day towards the end of last year, we've been working pretty hard on TEN along with our partners, and we also used some new data which is from a recently acquired 4D survey. So we've had the opportunity to really deepen our understanding of the TEN development and production area. So that's given us a much better understanding of the remaining potential. And while the historic focus was in Enyenra, we've evolved the kind of forward strategy in TEN is really to concentrate on some big and kind of more cost-effective tools in the greater Ntomme Tweneboa, the GNT area. And in fact, we've got two kind of strategic wells in the GNT area, which we're looking to bring into the rig sequence in the near term. So that would be sometime in the next two years, and what they will do, and that's an important catalyst, is to help us better understand the overall resource base at TEN. And if oil prices stay stable, we would have the opportunity to accelerate the future development of TEN into the kind of more near term.

Because if you look at our business plan, the 10-year plan that we shared at the capital markets day, the first five years are very Jubilee heavy; the second five years are very TEN heavy. I think with these strategic welds, assuming oil prices stay kind of at current levels and so we can potentially look to accelerating that.

What's also interesting in TEN is that in addition to oil, we have very significant non associated gas resource. This is particularly in TNAG and TNAG west. That can bring very material value to the government and to, and to Tullow.

So I would say TEN is an evolving story. Enyenra is disappointing; has disappointed in the past. I think if we look at production to date, Jubilee has been fantastic. TEN has just been barely on expectation and part of that is ongoing challenges at Enyenra. So what you'll see is a lot more emphasis and focus on the GNT area, and that's something that we're very excited about.

If I switch now to the non-operated portfolio, we've got our non-operate production in Gabon and Cote d'Ivoire, that is really providing positive cash flow. It's a combination of existing production, there's great stuff here in infrastructure and exploration and we've got a large number of diverse low risk investment options and projects.

And, and what's interesting, the non-ops, it really highlights the value that we can unlock through focus and through our strong cooperation with JV partners. Now, in non-op production, it's been steady in 2021, and we expect this to continue through next year. We've had some issues in Espoir in Cote d'Ivoire where things, I think we made this statement today, we've got an extended shutdown, which would commence in 2022. But there's one ongoing just now, as remediation works are carried out. So despite that, we've seen stable production and the big thing has been Simba, which is an exciting field. This is one where we have 57.5% with Perenco as a partner and operator. What we did was following the sales of both EG and Dussafu, we reallocated capital to this project, so we accelerated the expansion. And that's seen us putting another production well on stream. And so recent rates of about 12,500 barrels a day gross, that's from Simba two and three together. So that's an approximate increment gross of about 5,000 barrels a day. And what we're doing with Perenco is we're looking to a new pipeline that will allow us to project a significant increase of fluids that we're currently exporting.

So, Simba remains an exciting field, we've got some additional prospects that we'd look to allocate capital on this, as we move forward.

Let me move on to a more of an exploration focus. So, the business plan, as you know, is focused on the producing assets, but we have some very attractive exploration licences in emerging basins. And as part of that strategy, what we're seeking to do is to limit capital exposure that we have from historic commitments by farming down our equity shares or reducing exposure to interested buyers. Now, it's not a great time to be doing this. And if I'm frank, you know, there's a chance that we're not able to farm down this stuff this year. So if the efforts to farm down our extended commitments are unsuccessful, we will have about $15 million in the capex for next year, roughly split evenly between Guyana where we look to drill a well, in Argentina, where we have a seismic commitment.

But just to pause on that and reflect, either way, if we are successful in the farm down, we mitigate the capital exposure. If we're not, both of these blocks are interesting, we'll have better data from these activities, and that will strengthen our position. And it could add value for future portfolio management activity. So either way that works.

But also, I just wanted to pause here because we've done a lot of work in terms of really defining our exploration strategy, and things like Simba, things like, you know, further development in TEN, focus on CDI, or CI524, which is the block in, in Cote d'Ivoire, adjacent to TEN, that's where you will see us apply a lot of our geoscience expertise. And really, the idea is that there's great intellectual property and knowledge within the team to leverage that, to focus on areas which are near infrastructure where we can create value quickly, whilst managing the exposure to these emerging basins.

Let me switch gears now to talk about Kenya. And this is again, quite interesting. So if I go back a year ago, so when I came, I was very sceptical about the project. And I think we'd had many kind of false starts and a history of disappointment. But the scale of the resource was large. And I think I'd said this at one, in one of our sessions. If this was like, in West Texas, we'd make a lot of money. So we really decided to say, look, let's kind of do an objective, root and branch review of the project to understand it. And we recognise we don't have monopoly on good ideas. So we said let's work with our partners, both with Total and Africa Oil, and they've done a lot of work and their perspective. So, we took all of that input and then also, we had some very interesting dynamic data, which was acquired through the EOPS – EOPS basically was an extended well test through a number of zones, a few valleys, both, in two of our biggest fields.

As we worked through this data, a different picture started to emerge from this project. So firstly, our estimates of the oil in place, they increased to about 2.85 billion barrels from the previous numbers, we had – now I'm going to talk about the audited numbers, so I used that as a basis, kind of our previous audit estimates about 1.7 to 1.8 billion barrels.

And I think it's fair to say that was probably the first time it reflected a common understanding of the geologic model with the partners. And then what was interesting, the gold standard in my mind is kind of verifying stuff is dynamic data. So these estimates were validated with data from the EOPS but they've also been independently assessed by

GaffneyCline. GaffneyCline has done work with both Tullow and for Africa Oil. And also, what GaffneyCline have done through the work is they have increased the life of field 2C resource number to about 585 million barrels. And that compares to close to 430 or so we had before. So, good picture on the in-place and a much better improved picture on the recoverable.

So what does that do to the overall project? Now, what's the key I think is the economic development, if you have a remote resource like in Lokichar, is infrastructure, that's probably the single biggest thing. So what's important, then you say, look, my first phase project, the cash flows from that are critical to justify the construction of the midstream infrastructure. And once you have the infrastructure in place, even smaller accumulations can become economic. So we really focused on saying, well, how do we make the infrastructure wider? So what you see is a revised development concept that's based on a higher plateau of 120,000 barrels a day.

Now, this just not made up. This is based on real data. And because it's important, I'll share a bit more detail here.

So as I'd said earlier, we had EOPS is really like extended well test. So we had flow rates from wells in both Amosing and Ngamia. They showed a lot of potential. And remember, these wells were flowing without support from water injections, and these rates were higher than we had expected. And we were achieving these with a 500-psi drawdown. So now the development plans needed for jet pumps means the drawdown would be much higher. So good confidence in the emission production rates.

What you see on the chart on the bottom of this slide, it shows – this is a bit geeky, but I just wanted to share this with you – it shows the bottom hole pressure data from the Ngamia eight well. And what you'll see is, of course, the pressure drawdown it reduces as you produce from deep wells. But once the well's shut in, the pressure begins to build up, right? And you see it starts to approach the original pressure. It doesn't get there, but it gets close. The point of that is that demonstrates continuity and connectivity and therefore you see there's large volumes in these things, so these wells are connected to large volumes.

The other thing was recognising the very simple fact that production potential varies across all of these fields. Some parts are really good, some parts are average, and some parts are bad. And in an onshore development, we didn't need to produce, we didn't need to develop each field first. So we recognise we could achieve a high plateau in a more economic manner if we'd drilled the best parts of the fields first. And of course, once the infrastructure was in place, as I said before, the forward producers would become economic and we could sustain that plateau by drilling the rest of the field.

The other thing is as with greater confidence we have in water injection activity, we're also planning to implement water injection earlier. And with a denser water injection pattern, that helps again to stay in the higher plateau. So what you have is a new development design, which is more robust kind of from a capital effectiveness point of view. So the simple metric of unit costs, if you look at inclusive of capex, opex tariff, they've reduced from $31 to $22 a barrel.

So where are we now? That's the question. We have submitted a draft FTP to the government. We're on track to submit finalised FTP by year end, which was remember part of the licence extension commitments from last year. At the same time, we're seeking strategic partners based on the revised plan, there's good interest there. I'm sure you have questions, I can't tell you a lot more than that.

Alongside the partners, we've also taken the opportunity to improve the environmental and social impact of the project. So we've limited carbon emissions, we are looking to utilise renewable sources of power, and we're supplying water to local communities. And it's a good project from a government perspective, it will provide a long-term stable source of income. And we're working very closely with the government in all the other aspects.

Now, I know many of you see slides of Kenya for the last 10 years, and many promises have been made and broken. So I don't want to stand here and make more promises today. Right? I think the point I just wanted to make was that look, the work we've done, we did it with an open mind, we worked with our partners, we did it objectively, and the project is looking interesting. And if done the right way, this could be an important value driver both for Kenya and for our strategic partners. So, we have a clear path forward. Some things we won't be able to share, but that's – I just wanted to be as transparent and give you a picture of where we are.

So I think just to try to wrap things up, what you see is we've got a number of well-defined projects that support production potential. So what you'll see over the next five years, a lot of activity including infill drilling options, new projects and some strategically positioned rounds.

As I said before, the current business plan is Jubilee heavy in the first five years with focus on TEN in the later part of the decade. There's a potential acceleration of additional wells, and defined projects which we look to bring with the second rig potentially from 2023. That will be an important catalyst as well.

In addition to that, we have both infrastructure in that exploration in Kenya as upside. And roughly just as Les said, we would execute these for capex of somewhere between $1.2 billion to $1.5 billion over this period. And we have flexibility. I think the key for you to understand is that we do have flexibility to adjust the capital spend if volatility is too extreme. Now, hedging, I think, protects us. But if it's super extreme, we do have flexibility to adjust the capex.

So I think we're pretty much set to deliver sustainable self-funded production, with some very material options to generate additional returns. And what I wanted to show in this slide is that there is a clear kind of reserve replacement expected from currently defined projects. This is what we know today. Now, given the large resource that underpins the producing assets, we will continue to mature opportunities which will add to reserves and production. So it's not a static picture. And overall, what you'll see is the business plan will deliver growth in production reserves, and in line value, along with the material cash flow, which will support deleveraging.

So, just to bring all this together, we spoke a lot today about the future. But also I – you know, we've done a lot in the last year to turn the company around, and the team, myself, the rest of the organisation, we're having a lot of fun, but we're committed to continuing that momentum. I think it's fair to say we're well aligned, probably better aligned with our partners than ever. That's bringing better ideas and more effective ways of working. We're working as an open team, so the culture with a lot of engagement from excellent people, I think the one thing that's been fantastic is just the quality of people at Tullow is great. So we're building that open team culture.

This remains a transitional year. So our focus, our priority is to deliver the targets, and keep a very close eye on cost. It's not easy to do that with rising oil prices, generating cash flow and repaying our debts. I think it's fair to say we've also kind of earned our place to look ahead to growth. And I think I'd say we're well positioned to continue as a leader in the oil and gas industry in Africa, and to deliver returns for our shareholders, but also to our host countries.

And I think also you can see in our results today, with this kind of unusual step, we've taken the opportunity to outline our purpose. We really felt strongly that it was important to do so clearly because you know the industry is in flux. And as many companies that allocate capital away from upstream and they divest assets, particularly in Africa. But I wanted to say we at Tullow we believe that Africa's oil and gas assets should be developed, they should be developed responsibly, efficiently and for the benefit of Africa. And we've got a long history of, proud history of that. And I've, you know, had a chance to engage with a lot of host governments and nations and communities. This is who we are and we remain committed to the continent. And through the continued delivery of our plans, I'm confident we can deliver shared prosperity, and will create value for our host nations, for our community, for our investors, staff. So that's just concluding that, I'll hand over to the operator. I'm happy to take questions.

Q&A

Operator: Thank you. If you wish to ask a question, please press star one and wait for your name to be announced. If you wish to cancel your request, please press the hash key. Once again, please press star one if you wish to ask a question. We're taking our first question from the line of Alex Smith at Investec. Please go ahead.

Alex Smith (Investec): Hi guys, thanks for the call this morning. I just wanted to ask a quick question on free cash flow and deleveraging. This year you're guiding to $0.1 billion of free cash flow in quite a strong oil price environment, and this includes contingent payments and disposals as well. So really without those, are we looking at net flat free cash flow for the year? And I guess the question centres on how do you plan to deleverage up to a billion dollars in less than five years? And where does the delta in cash flow come from? Is it weighted towards the end of the five-year plan?

And then secondly, just on the non-ops portfolio, are we now done in terms of asset disposals in that department? Thank you.

Rahul Dhir: No, thanks, Alex, I'm glad you asked the question because I think the way the business, because remember, we're recovering from a period of underinvestment. So the strategy has always been to create some headroom, which is what the refinancing did, it gave us the space by extending the debt maturities to reinvest in the business. The underlying resources are fantastic, we've got good returns, so we've created that headroom. What that means therefore is that the free cash flow generation is back ended. That's very clear. Our overall capital structure or, you know, kind of strategy is very simple, which is, and we said this before, which is that, over the next couple of years, by delivering on the business plan, we'll put the company on a much stronger footing, and we will have, we will look to refinance on our terms at our time of choosing. Okay?

And I would submit to you, you look at the evidence of that improving credit quality is already there. The bonds for example, we've priced a coupon at 10.25%. I mean, last night, the bonds traded below, they're trading at a coupon below 9%.

So yes, near term this year will certainly be as we said a transition year, lots of kind of additional costs. But we expect that picture to improve, because you've got a low-cost base, and through the reinvestment, as you get to see production growth, you will start to see that revenues and cash flow generation. Les, I don't know if you want to add to that?

Les Wood: That's exactly how I would say it, thank you. And then the second question, Rahul, was on asset disposals from the non-op.

Rahul Dhir: Yeah, so, no plans, Alex. We, we, you know, again, I think as I've said before, if somebody puts a big number on the table, that's a kind of huge statement. But no, we don't need to look at disposals now to adjust the balance sheet.

Alex Smith (Investec): Great. Thank you, very clear.

Operator: We're taking our next question from the line of Rachel Fletcher at Morgan Stanley.

Rachel Fletcher (Morgan Stanley): Good morning, and thank you for taking my question. Firstly, on emissions reduction, I think you mentioned that the near-term emissions reduction processes, so gas debottlenecking, etc., are included in your business plan. But are the costs associated with carbon dioxide offsetting included in that ten-year plan? And when do you expect these offsetting projects to start? And are they required to reach that interim target that you've given today?

And then secondly, you mentioned that there's a potential acceleration of additional wells and defined projects at TEN with a second rig that would be from 2023. Is that conditional on oil prices staying above a certain level? And could you give a bit more colour on how you're thinking about that? Thank you.

Rahul Dhir: Sure. So, the kind of what we call the decarbonisation projects, which are quite simple and straightforward, so that's, for example, increasing capacity, gas capacity at Jubilee. So that's a series of incremental projects, we've already increased capacity to over 200 billion scfs a day, and the Jubilee process will carry on and we'll get to our target levels by, by next year.

And similarly, for TEN, we've defined some process modifications, we'll do that when we plan the TEN shutdown. So the capex is all included in the 1.3 to 1.5 billion range that Les talked about.

What is not included is the kind of carbon cost, if you will. Now what we do do, if you look at our sustainability reports and stuff, we report in accordance with the TCFD disclosures. So we do give sensitivities around impact on our portfolio, based on different carbon prices, based on different IEA assumptions. But the specific sort of carbon cost, we don't include in the capex costs.

You talked about acceleration. So we are working with our joint venture partners. I think at the current levels of oil prices, we feel comfortable to bring in a second rig. So we're talking to JV and, in my mind at least, I'm hoping that we can get ourselves in a position where we can bring in a second rig by sometime in 2023. So I think if prices are kind of north of 60 ish, we would look to do that.

Rachel Fletcher (Morgan Stanley): Very clear, thank you.

Operator: We're taking our next question from the line of Chris Wheaton at Stifel.

Christopher Wheaton (Stifel): Thanks, and good morning, guys. Thank you very much indeed for the presentation. One technical question for you Rahul and then maybe some finance ones for Les. You referred to the voided ratio and being able to get that outcome with much more consistent water production. Given you're running well over one times voided ratio at the moment, how long do you think it takes before you get that voided ratio back towards one, and therefore you really start to see the pressure response in the field? I'm just interested if you could conceptually disaggregate the sort of the additional producers who also do additional water injection and what the kind of impact on the production is from those two different factors. Perhaps that's my first question to start, please.

Rahul Dhir: Yeah. So I'm going to try to see if I can break it down a little bit looking at kind of this year. So if you take kind of Jubilee production, right, and the underlying decline, if you do nothing, you don't handle gas, no water injection, you would have about a 20-25% underlying decline in that field. Okay, that's a kind of natural phenomenon. If I look at the first half of the year, we've held Jubilee largely flat, okay? And it's hard to disaggregate, but we've had two phenomena happening.

One is we've had voidage, basically you're seeing the pressure effects pretty quickly. Right? So that's – and the pressure effect, the pressure maintenance effect of that. But higher pressure also means that it affects your GORs. Okay, so that's one dimension to it, and I'm going to complicate it further. The second thing that's happened is that we've increased our gas processing capacity. So if I increase, let's say, by 5,000 scfs a day, right, and if I have a gas oil ratio of – that may allow me to produce let's say, another 1,000 barrels a day of high GOR barrels. Yeah? So, this year, so today, let's say Jubilee we're at 80,000 plus barrels a day, or about 80,000 barrels a day. We started the year at 73. So the mix today that we're seeing is partly through facilities expansion, partly through improved water injection, and partly through the addition of the J56 well.

So that's sort of, I'm not – I can't disaggregate it further than that without actually being on the model. But I hope that answers your question to some extent.

Christopher Wheaton (Stifel): No, that's a really helpful steer, Rahul, thank you very much, indeed. And it's good to see that progress is starting to be made already.

Thank you. Les, two questions for you, if I may. I guess, you talked about the free cash flow guidance, just going back to Alex's question of that 100 million free cash flow generation this year. You've got quite a substantial free cash flow – sorry, working capital outflow in the first half of the year, about 150 million. Is that included in that 100 million free cash flow guidance, or is that expected to reverse in the second half of the year?

Les Wood: That's driven primarily by liftings, Chris, so we had our – it said in the statement seven, it was three, Ghana, and four smaller [inaudible], which we got the cash in July. So that's all just timing.

Christopher Wheaton (Stifel): Okay. So you expect that to reverse. You're broadly expecting sort of flat working capital?

Les Wood: Correct.

Christopher Wheaton (Stifel): Year on year, so there's no working capital swing in that free cash flow.

Les Wood: Correct.

Christopher Wheaton (Stifel): Great. Okay. Brilliant. Thank you. Thank you. There's my last question was on Ghana tax. If you refer to note nine in the statement, Ghana have in the last couple of weeks come up with a tax claim on you of 471 million. If I look back at one of your circulars from the last 12 months, I think it was the Uganda disposal one, that number was about 350, 370 from memory.

What can you help us understand what's going on with the Ghana tax situation, please, and potential resolution? Are we in extremis heading towards a sort of Cairns style multi-year resolution of a liability here? Thank you.

Les Woods: Sure, no problem. I mean, the situation as you can gather from the notes is dynamic. Yes, you're right, we did just recently receive a letter, a considerable part of the 471 over 300 relates to something that we're already formally in dispute over. And actually, we would dispute all of the items. It's a case of what action we will take from here, as I think I've said before, both the times of results and also with the circular, that we have a very strong sort of legal position on all of these. So, discussions continue. And all we're doing is disclosing that we received the latest in a whole string of these that we've received from the government, but we're not providing for that, because we're confident on our position. So more to come, and that's just the latest in the ongoing saga.

Christopher Wheaton (Stifel): Great. That's a useful update, thank you very much indeed.

Operator: We are taking our next question from the line of James Hosie at Barclays.

James Hosie (Barclays): Yeah. Hi, good morning, everyone. Just a couple of questions from me. Just on the Kenyan oil project, can you just clarify what needs to be achieved this year to extend the licence? And then on your nature-based carbon removal plans, how soon would you actually need to secure projects to achieve the 2030 target, and how much competition do you think that you're going to face for good projects? I'm thinking in particular about your plans to focus on opportunities in your host countries and whether you end up competing with your JV partners for nature-based solutions in Ghana.

Rahul Dhir: All good questions. So James, the licence extension terms required us to submit a field development plan by the end of the year. So we're working, you know, we've submitted a draft to the government already and we're getting feedback. So there is a live dialogue and we're working pretty closely with them to finalise it so we have a final submission by the end of the year. So, that's the kind of simple thing.

And I think I said this earlier, that there's a separate process where we're looking to bring in a strategic partner. The timing of that could be slightly different, but we're running both of these things in parallel, the FTP preparation, which will allow us to finalise prior to year-end, and then the strategic partner, which would come in, you know, some time.

So that's one and then your second question was, I forgot?

James Hosie (Barclays): Yeah, just the nature-based carbon emissions.

Rahul Dhir: Yeah, yeah. Sorry. So, you know, look, what we've decided to do is, is rather than kind of chase stuff, we think we want to do it organically. The countries we're in, there is a lot of opportunity, right? And so, with some speed, we're putting together our own capability, we brought in some outside consultants. So I'd say over the next year or so, we'll have a pretty good understanding of the whole realm of what's available within our host countries. And because these are social projects, we felt it's much better to focus on the countries that we're operating in as well. And, look, we're not looking to compete. I mean, you know, there may be opportunities for us to collaborate with our JV partners as their own plans evolve. We don't see that as a particular issue. But I think because we're going organic, we feel we have the opportunity to create stuff that's high quality, and then not kind of run around and chase after the same thing that everybody else is.

And timing-wise, I mean, look it's the net zero commitment is kind of by 2030. I think if you start working on reforestation or projects that, you know, mitigate degradation, those start to kind of deliver credits pretty soon. So we feel like we have a little bit of time in terms of selecting projects. But I'd like us to get going on that pretty soon. So I would say in the next couple of years. That's sort of the timeframe, we're looking to select projects.

James Hosie (Barclays): Okay, thank you. Just a quick financial query for Les. How much cash tax is assumed in the 2021 for your cash flow guidance figures?

Les Woods: Around 90 million.

James Hosie (Barclays): Thank you.

Operator: We're taking our next question from the line of James Thompson.

James Thompson: Right. Good morning, chaps. Can you hear me?

Rahul Dhir: Yeah, we can.

James Thompson: Okay, thanks Rahul. So, yeah, a question. Thanks very much for giving us the five-year capex plan. So just in terms of maybe sort of breaking that down a bit. Could you maybe give us some guidance in terms of the sort of facilities capex requirements for Jubilee southeast and northeast, in terms of the what component of that 1.3, 1.5 is infrastructure rather than drilling?

Rahul Dhir: So I think the Jubilee kind of capex is a lot more sort of well-driven as opposed to, as opposed to kind of infrastructure driven. And I would need to check I think – I don't know exactly off the top of my head – but I think the Jubilee southeast project on a gross basis must be a couple of hundred million dollars I think. So our net number would be probably less than 100 I think. Let me do this, I think I'll get Nicola on that to reconfirm that. But that's what's stuck in my head.

James Thompson: Okay, so relatively limited infrastructure capex. And do you have to do anything to the FPSO in terms of expanding water handling capacity? I mean, should we be thinking of the shutdown in the 2023 sort of timeframe?

Rahul Dhir: No, so what we have tried to do is space things out, so we're doing a lot more brownfield work. So basically, all the gas handling work that we've done has been without a shutdown. We're looking to bring in an additional vessel towards the end of the year, so we can sort of tack on a bunch of kind of accelerated kind of historic maintenance backlogs and look at some more capacity expansions. And then in early next year, when we do the shutdown, we'll look at maybe some more modifications.

So what we're trying to do is looking at a kind of more continuous sort of project as opposed to do one big kind of massive shutdown. So, that's the strategy on Jubilee. And it's been a bit tight with COVID, because we are limited on how many people we have on board, so that's been a bit challenging.

James Thompson: Okay, okay, thanks for that. And just thinking about Kenya and sort of sticking with capex, I mean if you look at the capex for first oil, the net Tullow share at 40% is kind of 1.4 billion, which is right in the middle of your five-year capex guidance. So either it's all on Kenya or it's all on Jubilee. But you know, with that in mind, you know, it'd be really good to understand how you're thinking about your, you know, how much capital you will or are prepared to allocate to Kenya and how, you know, easy, it may well be to farm out some of that development capex.

Rahul Dhir: So, well, firstly, just to be very, very clear with you guys, the business plan from the beginning has nothing on Kenya. So it's got no capital, no production, no value, you know, from proceeds and any of that stuff. Right? The view that we have is we like the project now, but we don't think that it's we have the balance sheet or the capital allocation to kind of support that. That's why we're out looking for a strategic partner. And we've had good engagement from that.

So I think the way we see it is if you bring in the right strategic partner that mitigates you know, your capital allocation, you'd still retain that material equity stake. So that should be net accretive from a value point of view. Right? So, that's the approach that we're taking, but it's not included in the capital. Because, again, you know, you wouldn't necessarily even though it's a great project, given our balance sheet, it would be hard to allocate material capital to that.

James Thompson: Okay. Okay. Thanks, Rahul. Those were my questions, I'll hand it over.

Operator: We are taking our next question from the line of James Carmichael at Berenberg.

James Carmichael (Berenberg): Hi, good morning, guys. Just a couple on TEN, just around the reserves and resources related to the strategy of focusing on the GNT area. I know you've got the further reserves update published this morning as well, but just wondering if there's any sort of impact on overall reserve resources in that TEN area from that new focus?

And then also just looking at sort of H1 output and full year guidance for the field, if I'm reading it right, H2 production was just under 30,000 barrels a day gross. Is that the level we should be thinking about for 2022? You talked about holding it flat. And should we think about those strategic wells continuing to sort of offset decline or will they contribute to some production?

Rahul Dhir: So I think we're just in the midst of our 2021 kind of resource or reserves assessments so we'll be able to give guidance once that's done only, so it's probably premature for me to comment.

I think what is important, I think on the TEN picture, is that you have a lot of contingent resource in TEN. TEN disproportionately has higher contingent resources. And if we drill these strategic wells, let's say we have, we have two, which one is what we call the riser base, which would be kind of in the middle of the GNT and there is one in Ntomme Far West. Those wells will kind of unlock an FID or an acceleration decision that would help move a lot of contingent resources into 2P. So currently, these are all kind of sitting out in the kind of latter half of the decade. So those two strategic wells potentially help us bring those forward within the kind of five-year window, but that decision has not been taken yet.

I think Enyenra, we, like I said, you know, it's continued to be challenging and so the focus, therefore, is shifting the capital allocation away from Enyenra into the GNT.

In terms of guidance for next year for TEN, so we'll get some support from the NTO six well which we have drilled which should come on stream, you know, towards the end of the year. So that'll help pressure support the Ntomme producers. So, that'll help the Ntomme line. But we'll need one more – one or one more well at least in the mid line for 2022 and we haven't quite decided which one that is. So just to give you a sense, I mean, one of the strategic wells wouldn't contribute to production next year, they will – you know, one of them would continue to, you know, contribute the following year.

So we just what we're trying to work through right now in TEN and Jubilee is what's the best way to optimise production, what's the best way to optimise returns and longer-term value. The good news is we have a lot of opportunity. The bad news is it's a complicated decision.

So we will give you guys better guidance, I think, in due course on that.

James Carmichael (Berenberg): Yeah, that's good. It sounds like TEN's a bit of a moving feast.

And then just one sort of quick follow up just on Ghana, I guess, presumably, looking to farm out both blocks you talked about, and [inaudible] well in there just coming through. I'm just wondering, A, I guess, if you're looking to farm out both blocks, and what it might take to sort of add additional wells into the 2022 programme, any sort of line of sight on [inaudible] investments.

Rahul Dhir: Yeah. So I mean, there is a well commitment in the Kanuku for next year. And that's about $25 million net. We've got a pretty good prospect and there's good alignment with the JV on that. It's efficacious, it is a primary – I think it's a primary prospect, which is efficacious. And it's, you know, really leveraging what we learn from [inaudible] Carapa-1 well. So we're looking to farm that down. If we don't, we still like the well, so we will drill it and hopefully that will give us additional data to maybe create more value but I think our preferred outcome would be to farm that out.

James Carmichael (Berenberg): Okay. Thanks.

Operator: The last question we are able to take comes from the line of Mark Wilson at Jeffries.

Mark Wilson (Jeffries): Okay, thank you. Good morning, gents. First question for Les, please. Slide 11 where you showed the five-year sources and use of cash, can you just confirm to us Les if that includes the finance leases for the TEN FPSO and others? And which of the boxes it's in that you showed there? That's the first one.

And then the second one I think more for Rahul, you've deferred the maintenance on the Jubilee FPSO into 2022 and with current oil prices I'm sure that makes sense if it's not needed, but what could we expect in terms of maintenance outage therefore in 2022? And I speak to the fact that you say that the gas processing will be expanded to 14 million scfs a day by the middle of 2022. Is there an outage required in order to get that capacity in place for the gas? And could you speak to how that higher gas processing capacity could impact the oil on a like for like basis versus today? Thank you.

Les Woods: So Mark, on your first question, in our arithmetic, it appears before the operating cash flow number that I've given you. So it's already included.

Mark Wilson (Jefferies): Thank you.

Rahul Dhir: And so, just again, you know, Mark, the, the way, the approach that we're taking on Jubilee is try and do a lot of things continuously so don't wait for a shutdown. So when I look at the gas increases and gas processing, we're actually implementing that as we go along and not waiting for the shutdown. So I think I mentioned this earlier to one of your colleagues, that we'll already increase gas processing capacity just to advance the expansion, you know, to over 200 million scfs today. Right? So, that's already kind of underway.

The second thing that you mentioned is deferring maintenance. We're not deferring maintenance; we're deferring the shutdown, which activates specific things to do. In fact, what we have done is we're bringing in a PSV, a platform supply vessel, towards the end of the year, to address, you know, some of the maintenance kind of backlog that's going to build up because of COVID where you have limited people on the board.

So, the decision to defer the shutdown was through a kind of mix of prioritisation of bringing in a PSV, so we're kind of accelerating some maintenance. It was driven by COVID, particularly because you didn't want to have a shutdown and then be stuck in terms of not being able to bring in a skilled technician because they had to quarantine for two weeks, or something like that. So I think by disaggregating, we'll be able to optimise the timing of the shutdown a bit better as well.

So, three things I'd say to you that, you know, the gas capacity increases, we're trying to do as much brownfield without shutdowns. Maintenance is a big priority, and we're bringing in a PSV towards the end of the year to address some of the maintenance backlog. And we'll try to optimise the duration of the shutdown to make sure it's as little or as optimal as we can do. So does that answer your question?

Mark Wilson (Jefferies): Okay, so, understand the term that the gas capacity can be added without a shutdown. Does it – but we should expect there to be a maintenance shutdown, for some reason next year?

Rahul Dhir: Yeah. So there are certain specific things we have to do with the kind of flare tip, for example, and not to drag you into the weeds, but which will require a shutdown.

And then, the other question you asked was the kind of production implication. So what happens as we increase gas capacity, we very simply, we can process more gas, that means we can produce wells with higher gas-oil ratios. So every day we're trying to optimise wells, right, so, and the constraint is gas handlings. So what will happen is, if you were a production engineer on the site, you would – if I gave you more gas processing capacity, you'd be able to turn on a well valve that had a higher GOR. Right? So there's a positive impact on the oil capacity. And I think I said this to one of the guys earlier that, you know, one of the benefits we've seen this year of stemming decline on Jubilee has been because of the brownfield expansion work that we've done on increasing the gas processing capacity in Jubilee. So you'd see that effect as you go along. Increasing gas capacity would allow you to produce, you know, higher GOR wells.

Mark Wilson (Jeffries): Okay, very good. Thank you very much.

Rahul Dhir: Okay, well, I think we're out of time, or at least we've expanded kind of time. So again, thank you, everybody, for your participation and interest. And as always, if you have questions, please do reach out to Nicola, Matt, happy to help. But we're pleased with the results, hopefully a better sense of what our way forward strategy is. And we're also very proud of being able to define very clearly what our purpose is in terms of creating shared prosperity and value in the host nations that we work in. So thank you again for your time. Bye-bye.

Operator: That concludes the call for today. Thank you for participating. You may all disconnect.

[END OF TRANSCRIPT]