Tullow Oil plc

# 2013

## TRADING STATEMENT AND OPERATIONAL UPDATE

11 January 2013

**Strengthened balance sheet; increased Jubilee production, Uganda farm-down proceeds, debt re-financing and reserve additions**

**Significant ongoing portfolio management; focus on high value oil and early monetisation**

**Exploration & Appraisal campaigns to target 1 billion boe with over 40 wells planned for 2013**

**11 January 2013** – Tullow Oil plc (Tullow) issues this Operational Update summarising key activities since the Interim Management Statement on 14 November 2012 and a Trading Statement in respect of its financial year to 31 December 2012. This is in advance of the Group's Full Year Results, which are scheduled for release on Wednesday 13 February 2013. The information contained herein has not been audited and may be subject to further review.

**COMMENTING TODAY, AIDAN HEAVEY, CHIEF EXECUTIVE SAID:**
*"Tullow accomplished much in 2012. We have had significant exploration success in establishing Kenya as a new hydrocarbon province and continued to add to and mature our exploration portfolio. Jubilee production issues were successfully and cost effectively resolved and gross production from the field is now around 110,000 bopd. Commercial reserves have also increased, benefitting from the submission of the TEN development plan in Ghana. We also significantly strengthened our balance sheet in 2012 by concluding the Uganda farm-down and by refinancing and extending the maturity of our $3.5bn reserves based lending facility.*

*Tullow continually reviews its portfolio to ensure that it allocates capital appropriately to enhance shareholder value. We accelerated this process after the farm-down in Uganda when we conducted a thorough review of the exploration assets carried on our balance sheet. In 2012 we further reshaped the portfolio with entry into five new countries, including highly prospective licences in the North Atlantic through the purchase of Spring Energy. Our increasing focus on light oil exploration has led to our planned disposal of our Asian and Southern North Sea gas production assets.*

*This continuing process of portfolio management, alongside increased Jubilee production and a strengthened balance sheet, provides a strong base from which our exploration-led growth strategy can continue to deliver. Tullow is now well positioned for a very successful 2013 and growth beyond."*

# Operational Update

This update covers the full year expected outcome for exploration success ratio, reserves and resources replacement and working interest production at a Group level. It also includes an update on recent operational and corporate activity.

## Exploration & Appraisal

The clear highlight in 2012 was establishing Kenya as a new oil nation with two frontier discoveries at Ngamia-1 and Twiga South-1. These discoveries are, alongside successful exploration in Uganda and recent major offshore gas discoveries by industry peers, establishing East Africa as an exciting new energy region. The Group achieved a 72% (33/46) exploration and appraisal success ratio, despite certain recent dry holes.

In 2013, Tullow has over 40 wells in its high-impact exploration and appraisal programme representing an investment of $0.9 billion, out of a total forecast capital expenditure budget of $2.0 billion (2011: $1.9 billion). The total net unrisked mean volumes being targeted during the 2013 E&A programme total around one billion barrels of oil equivalent. Information on the currently planned 12 month exploration and appraisal activity is contained in Table 1 at the end of this announcement.

*Kenya and Ethiopia*

Following the discovery of a major new oil basin in Kenya with the first two exploration wells, up to eleven further exploration and appraisal wells are planned in Kenya and Ethiopia in 2013 as detailed in the exploration drilling schedule. These include the high risk Paipai-1 wildcat in Block 10A which is currently in the top seal of the main objective at a depth of 3,850 metres. A result is expected in February 2013. The Sabisa-1 well in the South Omo block in Ethiopia is expected to commence drilling within the next two weeks.

A testing programme, to build up our knowledge of the natural variance in reservoir performance, has now commenced on Twiga South-1 and is expected to be completed by February 2013. Test flow rates are not expected to exceed 500 bopd per interval due to the limits of the test equipment, reservoir energy and the reservoir quality. Five tests are planned with three in the Upper Lokhone reservoir. Operations following testing will include the drilling of the Etuko-1 well on what was formerly known as the Kamba prospect and flow testing Ngamia-1.

*Uganda*

Four wildcat exploration wells have been drilled in EA 1A (operated by Total) in December 2012 to help delineate the ultimate basin potential ahead of potential relinquishments. Riwu-1 (tested far northwestern limits), Raa-1 (tested northern extent), and Til-1 (tested far northeastern limits) did not encounter commercial hydrocarbons. Lyec-1 successfully tested the northern extent of the Jobi East accumulation encountering oil pay, which is currently under evaluation and re-mapping. A significant amount of exploration and appraisal drilling activity remains in 2013, as detailed in the attached schedule with the partners seeking to add further to the discovered resources.

*Ghana*

Drilling of the Sapele-1 well in the Deepwater Tano licence has commenced and is expected to be completed by the end of February 2013. This well will conclude exploration activity in this licence.

*French Guiana*

The second well in the four well programme after Zaedyus-1 in French Guiana is Priodontes-1 (GM-ES-3) which is targeting a prospect adjacent to Zaedyus within the same Cingulata fan system. Drilling commenced at the end of December 2012 and is expected to continue for four to five months. The joint venture has gained valuable geological insights from the first two wells and applied them to this well.

### Production and Operations

*Group Production*

Group working interest production for 2012 averaged 79,200 boepd. This slight shortfall versus the most recent guidance was caused by the enforced shutdown of Tullow's non-operated production in the CMS area of the UK in early December 2012 following a safety incident. The matter has been resolved and production resumed to normal levels at the end of December 2012. The spread of 2012 Group production is contained in Table 2 at the end of this announcement and remains subject to final reconciliation. Production guidance for 2013 will be in the range of 86,000 to 92,000 boped which includes all gas assets currently held for sale.

*Jubilee Update*

Following start-up of two Jubilee Phase 1A wells and the successful acid stimulations the field is currently producing around 110,000 bopd. The total well production capacity is now over 120,000 bopd therefore allowing the current FPSO capacity to be tested over the coming weeks.

### Reserves and Resources

It is anticipated that commercial reserves will increase to approximately 380 mmboe due to the transfer of TEN contingent oil resources following submission of the Plan of Development to the Government of Ghana in November 2012. This is equivalent to reserves replacement ratio of over 400% and a three year average replacement ratio of approximately 180%. Group contingent resources have been enhanced by the inclusion of new resources following initial discoveries in Kenya (Ngamia) and Côte d'Ivoire (Autruche) and increased resources due to appraisal success in Uganda (Jobi Rii). Total commercial reserves and contingent resources are anticipated to be approximately 1,150 mmboe which is subject to finalisation by our independent auditors.

## Full year trading statement

### Sales volumes and realised prices

Working interest production volumes do not equate to sales volumes which averaged 68,000 boepd in 2012 (2011: 66,800 boepd). This is due to variations in lifting schedules and because a portion of the production is delivered to host governments under the terms of Production Sharing Contracts. Realised commodity prices during 2012 were in line with 2011 average levels. The realised oil price was approximately \$111.8/bbl (pre hedge) and \$107.6/bbl (post hedge) and the realised UK gas price was approximately 58.5p/therm (pre and post hedge). The Group's commodity hedge position is outlined in Table 3 at the back of this announcement. Total revenue for 2012 is expected to be of the order of \$2.35 billion (2011: \$2.30 billion).

### Exploration write-offs and asset carrying value review

Write-offs associated with unsuccessful exploration activities, new ventures activity and licence relinquishments totaled approximately \$219 million for the second half of 2012 (H1 2012: \$80 million). The write-offs were principally in respect of Guyana (\$85 million) following licence relinquishment, the unsuccessful

Okure well in Ghana ($40 million), licence relinquishment of Coronie in Suriname ($35 million), new ventures and other costs.

Tullow's unsuccessful exploration write-off for 2012 activities is therefore expected to be $299 million (2011: $121 million). When combined with the asset value reduction of $371 million reported in the first half of 2012, the total write off is expected to be approximately $670 million.

## Underlift

At 31 December 2012, Tullow was in a net underlift position amounting to an estimated 68,000 barrels. Movements during 2012 in underlift and overlift positions are recorded at market value and, combined with stock movements during the period, give rise to a credit of approximately $17 million to cost of sales.

## Portfolio Activity

It was a year of significant portfolio development for the Group as Tullow undertook a detailed review of both resource allocation and opportunities to monetise assets across its global portfolio. Highlights include:

- $2.9 billion Ugandan farm-down which transformed the Group's balance sheet and financial flexibility;
- Five new country entries (Uruguay, Norway, Mozambique, Greenland and Guinea) building on Tullow's core exploration plays;
- $372 million acquisition of Spring Energy Norway AS, a very successful explorer with six commercial discoveries in the last four years and 28 exciting offshore exploration licences across Norway's continental shelf in the highly prospective North Atlantic. Completion of the transaction is expected in Q1 2013 and the consideration will be adjusted for working capital and is subject to a potential $300 million bonus in relation to future exploration success;
- Announcement to divest of non-core gas production and exploration assets in South Asia and the Southern North Sea to enable the Group to focus on light oil in Africa and the Atlantic margins. Tullow expects to sign a Sale and Purchase Agreement for its Asian assets in Q1 2013 with completion of the transaction by the end of the year; and
- In January 2013 Tullow has completed the farm-in announced in November 2012 to gain a 40% operated interest in the Hyperdynamics Corporation's oil and gas exploration licence offshore Guinea. The parties intend to commence drilling before April 2014.

## Capital expenditure

Capital expenditure for 2012 amounted to $1.9 billion. Based on current estimates and work programmes, total capital expenditure for 2013 is forecast to be $2.0 billion, excluding acquisition costs. Approximately 45% will be allocated to exploration and appraisal and the remainder to selected development activities.

## Net debt

Net debt at 31 December 2012 was approximately $1.0 billion and headroom under all debt facilities was approximately $2.2 billion. On 31 October 2012 Tullow completed the refinancing of its $3.5 billion Reserves Based Lending credit facilities, extending final maturity from 2015 to 2019.


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## TABLE 1: CURRENTLY PLANNED 12 MONTH EXPLORATION AND APPRAISAL ACTIVITY

| Country | Block/Licence | Prospect/Well | Interest | Spud Date |
|---|---|---|---|---|
| Uganda | EA 1A | Ondyek | 33.33% | Q1 2013 |
| | EA 1A | Ngiri C * | 33.33% | Q1 2013 |
| | EA 1A | Jobi F Horiz | 33.33% | Q1 2013 |
| | EA 1A | Gunya B | 33.33% | Q1 2013 |
| | EA 1A | Mpyo D | 33.33% | Q1 2013 |
| | EA 1A | Ngiri H * | 33.33% | Q1 2013 |
| | EA 1A | Jobi East I | 33.33% | Q1 2013 |
| | EA 1A | Gunya E | 33.33% | Q2 2013 |
| | EA 1A | Mpyo M | 33.33% | Q2 2013 |
| | EA 1A | Jobi East F | 33.33% | Q2 2013 |
| | EA 1A | Jobi East G Horiz | 33.33% | Q2 2013 |
| | EA 1A | Gunya C | 33.33% | Q2 2013 |
| | EA 1A | Jobi East 3 | 33.33% | Q2 2013 |
| | EA 1A | Mpyo L | 33.33% | Q3 2013 |
| | EA 1A | Mpyo F | 33.33% | Q3 2013 |
| | EA 1A | Mpyo H | 33.33% | Q4 2013 |
| | EA 1A | Jobi East 4 | 33.33% | Q4 2013 |
| | | | | |
| Kenya | 10A | Paipai | 50% | In progress |
| | 13T/10BB | Testing (Twiga and Ngamia) | 50% | In progress |
| | 10BB | Etuko (formerly Kamba) | 50% | Q1 2013 |
| | 13T | Ekales-S (formerly Kongoni) | 50% | Q1 2013 |
| | 13T | Ekales-D | 50% | Q2 2013 |
| | 10BB | Etuko-C | 50% | Q2 2013 |
| | 10BB | Ngamia Appraisal | 50% | Q3 2013 |
| | 10BB | Ngamia South | 50% | Q3 2013 |
| | 13T | Twiga Appraisal | 50% | Q4 2013 |
| | Various | Contingent testing x3 | 50% | 2H 2013 |
| | | | | |
| Ethiopia | South Omo | Sabisa | 50% | Jan 2013 |
| | South Omo | Shimela | 50% | Q3 2013 |
| | South Omo | Contingent well | 50% | Q4 2013 |
| | | | | |
| Mozambique | Block 2 | Cachalote | 28% | Q3 2013 |
| | Block 2 | Buzio | 28% | Q4 2013 |
| | | | | |
| Mauritania | C-7 | Scorpion | 36% | Q2 2013 |
| | C-10 | Caracol/Tapendar | 80% | Q3 2013 |
| | C-1 | Addax | 40% | Q4 2013 |

## TABLE 1: CURRENTLY PLANNED 12 MONTH EXPLORATION AND APPRAISAL ACTIVITY (continued)

| Country | Block/Licence | Prospect/Well | Interest | Spud Date |
|---|---|---|---|---|
| Côte d'Ivoire | CI-103 | Calao | 41% | Q2 2013 |
| | | | | |
| Gabon | Kiarsseny | Perroquet | 50.14% | Q2 2013 |
| | DE-7 | Assewe West | 24.31% | Q2 2013 |
| | Kiarsseny | Crabbe | 50.14% | Q3 2013 |
| | | | | |
| Ghana | Deepwater Tano | Enyenra-6A | 49.95% | Q1 2013 |
| | Deepwater Tano | Sapele | 49.95% | In progress |
| | | | | |
| French Guiana | Guyane Maritime | Priodontes | 27.5% | In progress |
| | Guyane Maritime | Cebus | 27.5% | Q3 2013 |
| | | | | |
| Norway** | PL 537 | Wisting Central | 20% | Q2 2013 |
| | PL 405 | Butch East | 15% | Q2 2013 |
| | PL 405 | Butch SW | 15% | Q2 2013 |
| | PL 537 | Wisting North | 20% | Q2 2013 |
| | PL 495 | Carlsberg | 40% | Q2 2013 |
| | PL 542 | Augunshaug | 40% | Q3 2013 |
| | PL 551 | Mantra | 80% | Q3 2013 |
| | PL 511 | Mjosa | 10% | Q3 2013 |
| | PL 659 | Matrosen | 10% | Q4 2013 |
| | PL 636 | Ra | 20% | Q4 2013 |

* Developmental appraisal
** Spring acquisition assumed to complete in Q1 2013

## TABLE 2: GROUP PRODUCTION

| Working interest production [1] | 2012 Average (boepd) | Current (boepd) |
|---|---|---|
| **West & North Africa** | | |
| Ghana | 25,450 | 39,000 |
| Equatorial Guinea | 11,200 | 10,500 |
| *Gabon* | | |
| *Tchatamba* | 4,000 | 3,900 |
| *Niungo* | 2,500 | 2,100 |
| *Other Gabon* | 7,500 | 7,400 |
| Côte d'Ivoire | 3,400 | 3,400 |
| Congo (Brazzaville) | 2,500 | 2,600 |
| Mauritania | 1,300 | 1,200 |
| ***West & North Africa Total*** | ***57,750*** | **70,100** |
| **Europe** | | |
| UK - CMS Area | 9,300 | 9,500 |
| UK - Thames Area | 750 | 700 |
| Netherlands | 6,350 | 5,750 |
| **Europe Total** | **16,400** | **15,950** |
| **Asia Total** | **4,950** | **4,450** |
| ***Europe, South America and Asia Total*** | ***21,350*** | **20,400** |
| **Group Total** | **79,200** | **90,500** |

(1) Includes condensate

## TABLE 3: COMMODITY HEDGING SUMMARY

At 31 December 2012, the Group's commodity hedge position to the end of 2015 was as follows:

| **Hedge Position** | **2013** | **2014** | **2015** |
|---|---|---|---|
| ***Oil Hedges*** | | | |
| Volume – bopd | 35,000 | 24,500 | 11,500 |
| Current Price Hedge - $/bbl | 107.0 | 102.2 | 98.2 |
| ***Gas Hedges*** | | | |
| Volume – mmscfd | 24.3 | 10.4 | 4.9 |
| Current Price Hedge - p/therm | 63.2 | 66.4 | 65.9 |

## Disclaimer

This announcement contains certain operational and financial information in relation to the Full Year 2012 that is subject to final review and has not been audited. Furthermore it contains certain forward-looking statements that are subject to the usual risk factors and uncertainties associated with the oil & gas exploration and production business. Whilst the Group believes the expectations reflected herein to be reasonable, the actual outcome may be materially different owing to factors either within or beyond the Group's control, and accordingly no reliance may be placed on the figures contained in such forward looking statements.