THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TLW.L - Full Year 2014 Tullow Oil PLC Earnings Call (US)

EVENT DATE/TIME: FEBRUARY 11, 2015 / 03:00PM GMT

CORPORATE PARTICIPANTS

Aidan Heavey *Tullow Oil PLC - CEO*

Ian Springett *Tullow Oil PLC - CFO*

Paul McDade *Tullow Oil PLC - COO*

Angus McCoss *Tullow Oil PLC - Exploration Director*

CONFERENCE CALL PARTICIPANTS

Nick Ivanov *Prudential Financial - Analyst*

PRESENTATION

Operator

Good day and welcome to the Tullow Oil full-year results call.

At this time I would like to turn the conference over to Aidan Heavey. Please go ahead, sir.

Aidan Heavey - ***Tullow Oil PLC - CEO***

Thank you very much.

What I intend to do is just give you a brief summary and then I'll pass you over to Ian, Paul, and Angus, who will give you a very quick summary of what they presented to the analysts this morning. I hope you all have the actual slides.

Basically, the message that we were passing out today is that we started early to reset the business. We needed to make sure that the business worked at this low oil price and we picked the price of $50. We started very early last year or late last year talking to our banks. We started looking at the capital programs, looking at the asset that we had, which assets made sense at $50 and started focusing on those.

We looked at our exploration programs and we started adjusting those programs to reflect prospects that we felt were profitable at $50. The other thing that we needed to do, is to look at the overheads of the business and the cost of running the business and make sure that, that was both efficient going forward, but also worked in this lower price environment.

This morning, we were basically saying that over the next three years, the savings internally would be about $0.5 billion. We also felt it prudent to suspend the dividend for the time being, until we get some certainty back in what the oil markets are going to be. The net effect of all of that, is that we have, we feel a very strong production and development portfolio of assets, which Paul will take you through.

We have reduced exploration budget and that budget is focused on assets, which are very close to our existing facilities, which are low cost. We are also focusing our exploration programs on building a low-cost exploration portfolio for the future. Ian will take you though the funding, but we are funded right through to TEN first oil and we are comfortable with our funding position even at these low oil prices. The costs and the work that we've done over the last few months has left us a cushion, that even if the oil prices decrease further, we are still okay.

Obviously, in times like this, the key things to get after is still hammering away at cost structure, and make sure that we can, both externally and internally, keep the cost down, and also, to make sure that our teams deliver projects on time, on budget, and the biggest project we have, obviously, is the TEN Project.

I'll now hand you over to Ian who will just give you a quick summary of what he presented this morning.

Ian Springett - ***Tullow Oil PLC - CFO***

Yes. I will focus a bit more detail on the tough decisions we've made and to expand on some of the points that Aidan made. In a package of actions to deal with a low oil price environment, and at the same time create headroom, and allow us to be well positioned for when markets recover, the sort of actions we are taking is first of all, really looking hard at our capital, capital budget, and to prioritize our capital around the future developments and production in West Africa, things that will turn into near-term cash flow, and that really is the TEN Project, as well as continued maintenance spend in our central and west Africa production non-operated, as well as the existing Jubilee Field Cooperate.

All these activities are good, solid, and have low breakeven prices, which Paul might touch on a bit later. At the same time, we've reduced our exploration spend down from $800 million in 2014 down to $200 million. But at the same time, as Angus I'm sure will say, that is around resetting the budget consistent with current environment, but exploration is still very much part of the Tullow DNA and we will be looking to spend less money in high-cost exploration areas offshore, but still spending money in the shelf areas offshore, as well as onshore, and with a particular focus on Kenya, as well as building what we call low-cost long options to build up a portfolio for the years to come, in terms of exploration licenses and new activities.

Very much to say, as well, that the TEN Project is very much on track, on budget, and that will deliver significant enhanced and additional cash flows from mid-2016. One part, therefore, is about capital, really a hard look at capital, really focus on capital, taking out discretionary stuff, taking out lower-margin stuff and focusing on near-term production.

The second thing, as Aidan mentioned, is around cash savings. There are two elements of cash savings. One is working with our partners and contractors and subcontractors and that $1.9 billion of CapEx that we are guiding for in 2015, whilst we've scrubbed that pretty clean, but we think there is still some scope for that to come down, particularly as our partners who operate stuff for us in Central and West Africa, as they go through the same sorts of conversations we are.

Currently, we've taken their budget on board, but there may be some reduction there in the $200 million we've got for spend, there. But we are hoping that $1.9 billion through further challenge and stuff will get down to maybe $1.8 billion or $1.7 billion.

But importantly, internal to Tullow, we are also looking at what we are calling a major simplification project. The idea there is to look at efficiencies and simplification, avoid overlaps in terms of what people do. We look hard at our activity levels, what is the required level of people, how best to organize our people and all the costs that go with them in terms of offices and travel and consultants and contracts, et cetera. So for our internal spend, we are looking to take out about $500 million of costs over the next three years.

That project is still in the define phase. We'll be implementing it in the coming months and the impact of that will begin in the second half and obviously have ramped up in 2016 and 2017. What that means effectively is that costs of people within Tullow that we would normally charged to capital activities or OpEx, or G&A will be significantly reduced by $500 million. We haven't been done all the work yet, but basically, we expect roughly about 50% of that amount will turn up in reduced CapEx, about 25% in reduced OpEx, and about 25% in reduced G&A.

If you think of dividend, we also just reduced cost in terms of CapEx, we reduced cost in terms of cash savings on G&A and people costs, and then dividend, we are looking at really as another cost and we think that, whilst the dividend made sense at $100, $110 a barrel, it makes sense to reduce costs and create greater financial flexibility to suspend the dividend.

Suspending the dividend is a saving to us of $180 million per annum, and so we're suspending the 4Q final dividend, that's GBP0.08 a share, so that's $120 million. But if we suspend the dividend, for as an example, say, just as an example, let's say through to TEN first oil, that will be a $300 million or so cost saving to the Company.

As Aidan also said, we spent time in 2013, 2014 addressing our debt facilities. We've refinanced our facilities in 2013, 2014. We brought in a couple of bond issues. We have refinanced our RBL and our Corporate facility and all those have termed out. The first facility to mature is the Corporate facility, which only a three-year facility, anyway. So we refinanced that in 2014 and it matures in 2017.

Overall, the facilities are in very good shape. Within that, the Corporate facility and the bonds are not in any way oil price-sensitive, and the RBL, which is, we are in conversation with our banks all the time around the RBL. We have a routine redetermination every six months. That started now for the March redetermination. It's going very well.

We're talking about resources and the reserves that are in the RBL facility and the banks are pretty clear that when we are very transparent with them, very open with them, that's how we build that reputation and trust. We're sharing with them future cash flows. To the extent we may or may not be bumping up against our covenants for net debt-to-EBITDAX in 2016, we will address that well in advance at this redetermination. We don't see that being an issue.

What would be an issue is if we didn't have liquidity and funding. We are very clear we do have liquidity and funding through TEN first oil and that's the result of our strong cash flow from existing assets, our reduction in CapEx, reduction in costs, and reduction in dividend, and that is in a place where we have no plans at this point in time to raise equity.

So we believe that we have the funding in place to get us through TEN first oil based on the actions we've taken. We've taken those actions, as we always do, well in advance of when they are needed to ensure that we have good headroom and the ability to therefore have good protection against current oil prices or lower oil prices, and at the same time be in a very, very good and fit shape should the market recover. We also, as you are aware, have a hedging program in place, which also gives currently is the mark-to-market of our hedging program next two or three years is about $500 million, which provides revenue protection in that period and also enhances our debt capacity.

So, in summary, all these actions, we are taking them early, many already taken, to set ourselves up for the current environment, to enable us to be in good shape if it goes lower, well-funded through TEN first oil and in excellent shape for when the market recovers, to really leverage our returns.

With that, I'll hand it over to Paul.

Paul McDade - ***Tullow Oil PLC - COO***

Thanks, Ian.

The key points I was making this morning at the presentation was our own strength and robustness over our production and development business at lower oil prices. The production side is significant in terms of oil, quiding 63,000 to 68,000 barrels a day for 2015, and as I will point out, all with high margin, even at lower oil prices. The operating costs across that portfolio of Ghana and of central west African non-operated production, average cost per barrel is down around $13 a barrel and as low as $10 in Ghana, with potential for further reductions, and ultimately, significant synergies when we bring on TEN within the Ghana operation.

The incremental investments that we are doing, both the Jubilee and in our central West African portfolio, are still very attractive, therefore we've allocated about $500 million of capital to both Jubilee and those non-operated fields into 2015. But basically, the breakeven pricing is well below current oil pricing. As we've always had, we've got very strong operating capability within Tullow and operate our key assets, which gives us a very significant amount of control over those assets, both importantly on the timing of expenditure and driving those assets forward, so very strong production and development business, with very significant capability in the Company and very robust to low oil prices.

If I just briefly touch on the progress across the assets, TEN development on track, as Ian said, for first oil in 2016. All of our development wells are due to be available at start-up, have already been drilled, and are pointing in the upward direction in terms of reserves. They certainly show our downside scenarios are unlikely. They very much support the mid-case reserves that we have as true associated with TEN and point to upside potential.

The FPSO has just benefited from extended dry-dock because of availability in the yard, which has pushed the oil on to the LA curve, so we have got quite a bit of margin on the FPSO in terms of meeting its sail-away date in the fourth quarter of 2015. We start our major subsea installations around mid-year, just we will start LA in 3Q and all the component parts are all on track to be delivered in Ghana as required, as we effect that subsidy installation over the latter part of 2015 and then through the installation of the FPSO in 2016. So very much on track, we are 50% complete, and on budget, as well.

Jubilee, a very strong performance last year exceeding guidance. High operating efficiency from the facility last year. The good news is that the onshore gas plant, which was holding us back in terms of increasing oil production in Jubilee, is now up and running. We're putting 60 million a day through the gas plant, and we hope to ramp that up to over 100 million in 2015. As that ramps up in terms of gas export, it removes our need to be ejecting so much gas and allows us to start thinking about increasing oil production from Jubilee, hopefully towards the vessel capacity of 120,000 barrels a day towards the end of 2015.

If we then look at our West African portfolio, sustaining 30,000 barrels a day, slight increase from 2014 to 2015, but sustained for 2015, 2016 at 30,000 barrels a day. As I mentioned, that portfolio has an operating cost average of about $15 a barrel and a cash breakeven between $30 and $40 a barrel, so it's still very attractive to invest within.

Then in the East Africa, major focus is on the ongoing appraisal program in the Lokichar Basin, where we are having some success there. We reported some good appraisal results in our statement in January. We've got a number of other appraisal wells ongoing. Also, we just started some extended well testing, which will evolve into fields testing, which should give a much clearer picture on recovery factors and we hope allows us to upgrade the recovery factors in the onshore Kenya discoveries.

The overall project, we're making progress. Uganda, we've obviously done the value engineering, significantly reduced capital. We are applying to transfer that learning across to Kenya, as we work up the development for that. Then, we've now got full engagement from the governments of Uganda and Kenya on the export pipeline and they've appointed a technical advisor.

So, really, all pushing forward. Our view now is that we should be able to push the oil integrated East African project together for an option to sanction around the end of 2015.

With that, I'll hand over to Angus.

Angus McCoss - *Tullow Oil PLC - Exploration Director*

Hello. Good day, everybody.

We are making are reduced exploration budget of $200 million really work for us by focusing on our exciting low-cost plays and our long-term option. We've got three priorities. The first is to get after the Kenyan frontier exploration upside, drilling new basin testers.

We have the well drilling currently, called Engomo-1, up in the north part of our acreage in Kenya and we hope to have a result from that basin tester at the end of the month or the beginning of next month. Also in the Kenya frontier portfolio, we have a concept that we are developing and wish to test and that is a new play concept in the center of the South Lokichar Basin. We think we may have a basin axial play that may have considerable upside.

The second priority is to get after the Kenya South Lokichar Basin appraisal opportunities and working closely with development. You heard Paul talk of those opportunities. That's a joined up exploratory appraisal and development delineation appraisal program.

Our third priority is to get after the near field extension opportunities in Ghana, where we see upside in our new four-dimensional and three-dimensional seismic surveys, where using advanced seismic inversion technologies to identify the upside, which we quantified at our earlier Capital Markets Day last year. But now, through these technologies, we are able to pinpoint the location of the upside. So we are making great strides forward towards realizing that additional resource potential in Ghana, in and around our fields.

With respect to the rest of the portfolio, we're working on our long-term options there. In the African Atlantic, in the Guyana and the Caribbean area, and in Norway. In these three areas, we are largely working on the seismic interpretations by prospecting. Less drilling there, more focus on developing and maturing the plays and prospect. So making good use of that reduced budget by focusing, as I said, on exciting low-cost plays and these long-term options. With that, I hand back to the [convider].

Aidan Heavey - *Tullow Oil PLC - CEO*

Great, thank you. If we can open up to questions, now. Anybody have any questions?

QUESTION AND ANSWER

Operator

(Operator Instructions)

Nick Ivanov from Prudential Financial.

Nick Ivanov - *Prudential Financial - Analyst*

I have a couple of questions. The first one is, what will the previous -- the questions with the RBL facility -- what are the previous assumed oil prices for the calculating of the reserve base with RBL for that capacity?

Aidan Heavey - ***Tullow Oil PLC - CEO***

When we had our last redetermination, the price the banks had been carrying for a while was actually $70 a barrel. The indications are, based on the beginnings of the conversation around this redetermination, is that won't come down actually that far, probably mid-$60s. The banks are taking a prudent view or sensible view of how to manage this situation.

To the extent that we do lose a little bit of debt capacity, say, $5 or so a barrel lower: A, we already had a bit more capacity than the commitment anyway; and B, we are looking to add additional reserves to the facility work because the banks don't give you necessarily full 2p worth of reserves on a field until it has established and proved itself.

Really now, the Jubilee have been on production for four years. We are in that place. So we have been inching up the reserves in the calculation from 1p, [p90] type reserves two or three years ago and now we're get further towards to 2p. So actually, although we'll lose a bit with the price, we hope to and will offset that by increased assessment of the performance of the Jubilee field.

Nick Ivanov - ***Prudential Financial - Analyst***

Thank you. Of the $319 million cash on your balance sheet, how much is encumbered and how much is free?

Aidan Heavey - ***Tullow Oil PLC - CEO***

Free cash is about $100 million and the balance is encumbered in the sense of it is cash calls from partners, including ourselves, that haven't actually yet been spent.

Nick Ivanov - ***Prudential Financial - Analyst***

Thank you.

Operator

(Operator Instructions)

As there is no further questions in the queue, I will now turn the call back over to Mr. Aidan Heavy. Please go ahead.

Aidan Heavey - ***Tullow Oil PLC - CEO***

Thank you very much for your time. We'll close out the call and if there any questions, if people have any things to ask, please, you have the contact number and details there. Thank you.

DISCLAIMER

THOMSON REUTERS