Tullow Oil plc

2013
TRADING AND OPERATIONAL UPDATE

3 July 2013

New oil discovery at Etuko-1; Sabisa-1 sidetrack establishes oil prone system
Significant upgrade to Ngamia and Twiga-South oil resources
Government approval of TEN project; contract awards under way

3 July 2013 – Tullow Oil plc (Tullow) issues an Operational Update summarising key activities since the Interim Management Statement on 8 May 2013 and a Trading Statement in respect of its half yearly financials to 30 June 2013. This is in advance of the Group's Half-Yearly Results, which are scheduled for release on Wednesday 31 July 2013. The information contained herein has not been audited and may be subject to further review.

COMMENTING TODAY, AIDAN HEAVEY, CHIEF EXECUTIVE SAID:
"Over the past two months, Tullow has made major progress in three key areas of its operations. In Kenya, we have significantly upgraded our resource estimates for the South Lokichar Basin following the highly successful flow testing of Ngamia and Twiga-South. Additionally in Kenya, Tullow has made a new discovery at Etuko-1. In Ghana, the Government has approved the plan of development for the TEN project, our second offshore project in the country. In Uganda, we have made substantial progress with our partners and the Government and expect to sign a Memorandum of Understanding which will outline the key principles for the development of the Lake Albert Basin development. We also continue to have an industry-leading exploration and appraisal programme with results from key frontier wells in Kenya, Ethiopia, French Guiana, Norway and Mauritania all expected in the second half of the year. With high-quality production continuing to underpin our financial position, we are well placed for the remainder of this year and into 2014."

Operational Update

Exploration & Appraisal

In the first half of 2013 Tullow has drilled 9 exploration wells and 11 appraisal wells across the portfolio with a 60% overall success ratio. The most significant well results during the period were the Etuko-1 oil discovery in Kenya and encountering an oil prone system in Ethiopia with the Sabisa-1 well. Additionally, we have successfully flow-tested Ngamia-1 and Twiga South-1 in Kenya and materially increased our estimate of the resources from both fields. In the second half of the year, some 20 exploration wells are planned targeting multiple basins in Kenya, Ethiopia, Mozambique, Mauritania, French Guiana and our first operated well in Norway. The current view of the rolling 12 month exploration and appraisal programme is contained in Table 1 at the end of this announcement.

Kenya
Exploration and Appraisal activity across Tullow's operated acreage in Kenya continues to be very successful. The flow testing programme at Ngamia-1 in the Lokichar Basin has now been successfully completed with a cumulative constrained flow rate totalling 3,200 bpd of 25 to 35 degree API sweet waxy oil with no indication of pressure depletion. Analysis of the test data from both the Ngamia-1 and Twiga South-1 wells has resulted in the doubling of our previous estimates of net oil pay to 200 metres and 75 metres respectively, an optimised flow rate potential of around 5,000 bopd per well and significantly increased discovered volumes. The combined mean associated resources for the two discoveries is now estimated to be over 250 mmbo with the potential to increase further following appraisal.

Ekales-1, the next exploration well in the Basin Bounding Fault Play on trend with Ngamia and Twiga-South, will commence drilling in late July 2013. A 550sqkm 3D survey over the area, which will support our appraisal programme, will commence in the third quarter of 2013. The full Kenya schedule is detailed in Table 1 at the end of this announcement.

In May 2013, drilling commenced on the Etuko prospect, 14 km east of Twiga South-1 in Block 10BB. This is the first test of the Basin Flank Play in the South Lockichar Basin and results of drilling, wireline logs and samples of reservoir fluid confirm a new oil discovery with net pay of over 40 metres in the Auwerwer and Upper Lokhone targets. The well is now drilling the Lower Lokhone sands and results from this lower section are expected by the end of July.

These results are an important step towards understanding the commerciality of the Lokichar Basin and, as we advance towards the commercial threshold for development, Tullow continues to work in consultation with the Government of Kenya on development options.

Following recent successes a third rig and a dedicated testing unit have been contracted to support increased exploration and appraisal activity in Kenya by year-end.

Ethiopia

In Ethiopia, the Sabisa-1 well, the most northerly well drilled in our East African acreage to date, has established that the hydrocarbon system in that area is oil prone. The well commenced drilling in the South Omo licence in January 2013 but due to hole instability a sidetrack had to be drilled. The well has encountered reservoir quality sands, oil and heavy gas shows indicating an oil prone source rock and a thick shale section which should provide good seals for the numerous fault bounded traps identified in the basin. Following this encouraging result, the decision has been taken to drill the nearby Tultule prospect, an attractive structure four kilometres east of Sabisa-1. The well is expected to commence late in the third quarter of 2013. Numerous additional follow-up prospects have been mapped in this part of the South Omo Block and in the adjacent Chew Bahir Basin.

Côte d'Ivoire

In May 2013, Tullow announced that the Calao-1X exploration well in Block CI-103 encountered non-commercial gas condensate. Appraisal of the Paon discovery in the same Block is currently planned for the fourth quarter of 2013.

Mozambique

Operations are ongoing at the Cachalote-1 well offshore Mozambique. Following completion of the well the rig will move to drill the Buzio prospect.

Liberia and Sierra Leone

Following a detailed review of the results to date from our West Africa Transform Margin acreage and considering future well commitments, on 13 June 2013, Tullow relinquished its interests in Blocks LB-16 and LB-17 offshore Liberia. Tullow retains its interest in Block LB-15 in Liberia and Block SL-07B-11 in Sierra Leone but for now will focus its attention on the Côte d'Ivoire and Guinea campaigns in the region.

Guyana

Tullow has reached agreement with Repsol to secure a 30% interest in the newly defined Kanuku Block offshore Guyana and discussions are ongoing to finalise the agreements with partners and the Government. This follows expiry of the Georgetown licence in 2012 after the early termination of the Jaguar-1 well. This latest agreement requires a 3D seismic programme to be acquired before the end of the initial 2.5 year period.

Norway

In June 2013, the 7/4-3 well was drilled on the Carlsberg prospect, in which Tullow is a 40% partner. The well encountered no hydrocarbons and has been plugged and abandoned. The Mjøsa well (PL 511) was completed in June 2013 with preliminary results indicating the discovery of uncommercial gas volumes in reservoir quality sandstone. In the second half, key wells in our Norwegian portfolio will be drilled including Mantra, which is adjacent to the Troll Field, Wisting in the Barents Sea and Kuro, a high-risk, high-upside, play-testing well.

The results of the 22nd Norwegian Licensing Round were announced on 12 June 2013. Tullow was successfully awarded three new licences which lie in frontier areas of the west, north and central Barents Sea. Tullow will hold non-operated equities of 20-40%.

UK

On 15 June 2013, the Schooner-11 gas well commenced drilling. The well is targeting an undrained compartment of the field which is expected to increase production by around 20 mmscfd in the fourth quarter of 2013.

Production and Developments

Group Production

Group working interest production for the first half 2013 averaged 88,600 boepd, in line with expectations. A summary of first half 2013 Group production is contained in Table 2 at the end of this announcement and remains subject to final reconciliation. Production guidance for the full year has been narrowed to 86-90,000 boepd, due to minor additional planned and unplanned downtime and minor timing delays to infill programmes on some of the Group's West African assets.

Ghana Update

Since the beginning of 2013, Jubilee field production has steadily increased towards the FPSO design capacity and is currently producing at a rate of around 110,000 bopd. By the end of the third quarter of 2013, work on a gas handling constraint on the FPSO is expected to be completed and Jubilee production is forecast to increase to over 120,000 bopd. A gas injection well is also expected to be drilled and completed by the fourth quarter for additional reservoir pressure support and gas disposal in advance of the start-up of the gas export facilities next year.

On 29 May 2013, the Government of Ghana formally approved the Development Plan for the Tweneboa-Enyenra-Ntomme Development ("the TEN Project"). The approval paves the way for Tullow and its partners to proceed with the development of these discoveries and to define the final schedule and capital programme to deliver first oil in 2016 and a steady ramp up to a capacity production rate of 80,000 bopd. Development of the TEN Project will require the drilling and completion of up to 24 development wells which will be connected through subsea infrastructure to a Floating, Production, Storage and Offloading vessel (FPSO), moored in approximately 1,500 metres of water. Contracts for the FPSO and subsea tenders will be awarded over the coming weeks and rig capacity for the drilling and completion of the development wells has already been secured.

Following the expiry of the Deepwater Tano Exploration Licence on 18 May 2013, the remaining non-prospective acreage has been relinquished and the Jubilee Unit Area, the TEN Development and Production Area and the Wawa Discovery Area have been retained.

Uganda

Since early May, three appraisal wells have been drilled and two flow tests have been successfully carried out across the Lake Albert Basin.

Significant progress has been made with the Government of Uganda and our partners regarding the development options for the Lake Albert Basin. Discussions with the Government are ongoing to finalise a Memorandum of Understanding (MoU) aimed at agreeing on a basin commercialisation plan. The MoU will detail the integrated development of the upstream, an export pipeline and a refinery sized to meet market demand.

On 14 June 2013, Tullow received judgment in its favour in the High Court tax case proceedings against Heritage Oil plc. Mr. Justice Burton found in favour of Tullow's indemnity claim for $313 million in its entirety and also dismissed Heritage's counterclaim. A hearing with Mr. Justice Burton to determine consequential matters related to the judgment, including the amount of interest payable by Heritage on the $313 million and liability for costs, will be held within the next few weeks.

Half year trading statement

Sales volumes and realised prices

Working interest production volumes do not equate to sales volumes which averaged 78,000 boepd in the first half of 2013 (1H 2012: 77,400 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 the first half of 2013 were lower than first half 2012 average levels. The realised oil price was approximately $106.9/bbl (pre hedge) and $105.5/bbl (post hedge) and the realised UK gas price was approximately 66.6p/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 the first half of 2013 is expected to be of the order of $1.3 billion (1H 2012: $1.2 billion).

Exploration write-offs and asset carrying value review

Exploration write-offs based on drilling results to date are expected to be approximately $170 million for the first half of 2013 (1H 2012: $80 million, in addition 1H 2012 also included a write-down of $371 million following a fundamental review of exploration carried values versus expected near term work programmes and the relative attractiveness of further investment). The 1H 2013 write-offs were principally in respect of the Priodontes well in French Guiana ($61 million), the Sapele well in Ghana ($26 million), the Carlsberg well in Norway ($28m), the Calao well in Côte d'Ivoire ($7 million), together with costs associated with ongoing new ventures activity and licence relinquishments.

Underlift

At 30 June 2013, Tullow was in a net underlift position amounting to an estimated 270,000 barrels. Movements during the first half of 2013 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 $15 million to cost of sales.

Portfolio Activity
During the first half of 2013 Tullow continued its portfolio development. The highlights include:

- On 22 January 2013 Tullow completed the $372 million ($419 million after completion adjustments) acquisition of Spring Energy Norway AS;
- In January 2013 Tullow 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;
- In April 2013 Tullow announced the sale of Tullow Bangladesh Limited to KrisEnergy Asia Limited for consideration of $42.35 million. The sale is expected to complete in the second half of 2013; and
- The process to divest 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 is ongoing.
- Concluded the transfer of 15% equity in Block CI-103 to Anadarko in return for a full carry on the recent Calao-1X exploration well and a carry of half of Tullow's costs on the upcoming Paon-2A well.

Capital expenditure
Capital expenditure for the first half of 2013 amounted to $0.9 billion. Based on current estimates and work programmes, total capital expenditure for 2013 is forecast to be $2.0 billion, excluding acquisition costs and including Spring exploration costs on a post tax cash cost basis. Approximately 50% of 2013 capital expenditure will be for exploration and appraisal and the remainder for selected development activities.

Net debt
Net debt at 30 June 2013 was approximately $1.7 billion and headroom under all debt facilities was approximately $1.7 billion.

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TABLE 1: CURRENTLY PLANNED 12 MONTH EXPLORATION AND APPRAISAL ACTIVITY

Country	Block/Licence	Prospect/Well	Interest	Spud Date
WEST & NORTH AFRICA				
Côte d'Ivoire	CI-103	Paon-2A	45%	Q1 2014
Gabon	DE-7	M.Oba	28.6%	Q3 2013
	Kiarsseny	Perroquet	50.1% (op)	Q3 2013
	Nziembou	Igongo	40%	Q1 2014
	Arouwe	Sputnik East	29.75%	Q2 2014
Mauritania	C-7	Frégate (Scorpion)	36%	Aug 2013
	C-10	Tapendar	80% (op)	Q4 2013
	C-6	Sidewinder	88% (op)	Q1 2014
	C-1	Addax-Dromedary	40%	Q2 2014
Guinea	Guinea Offshore	Eos	40% (op)	Q1 2014

Country	Block/Licence	Prospect/Well	Interest	Spud Date
SOUTH & EAST AFRICA				
Ethiopia	South Omo	Sabisa	50% (op)	In progress
	South Omo	Tultule	50% (op)	Q3 2013
	South Omo	Shimela	50% (op)	H2 2013
	South Omo	Kesami	50% (op)	H1 2014
Kenya	13T	Ekales	50% (op)	Aug 2013
	13T	Agete (Twiga N)	50% (op)	H2 2013
	13T	Twiga South appraisal	50% (op)	H2 2013/2014
	13T	Tausi	50% (op)	H1 2014
	10BA	Kiboko	50% (op)	H1 2014
	10BB	Etuko-1	50% (op)	In progress
	10BB	Amosing	50% (op)	H2 2013
	10BB	Ewoi-1	50% (op)	H2 2013
	10BB	Ekosowan	50% (op)	H1 2014
	10BB	Linga-1	50%	H1 2014
	10BB	Etuko appraisal	50% (op)	2014
	10BB	Ngamia appraisal	50% (op)	2014
Uganda	EA-1	Area wide appraisal drilling	33.3%	2013/2014
Mozambique	Block 5	Cachalote	25%	In progress
	Block 2	Buzio	25%	Q3 2013
EUROPE, SOUTH AMERICA & ASIA				
The Netherlands	E11	Vincent	60% (op)	Q3 2013
Norway	PL 537	Wisting Central	20%	Q3 2013
	PL 537	Wisting Main	20%	Q3 2013
	PL 405	Butch East	15%	Q4 2013
	PL 405	Butch SW	15%	Q1 2014
	PL 542	Augunshaug	40%	Q3 2013
	PL 551	Mantra	80% (op)	Q4 2013
	PL 659	Langlitinden	10%	Q4 2013
	PL 550	Gotama	90% (op)	Q1 2014
	PL 507	Lupus	80% (op)	H1 2014
French Guiana	Guyane Maritime	Cebus	27.5%	In Progress
	Guyane Maritime	Refer to operator	27.5%	2H 2013

TABLE 2: GROUP PRODUCTION

Working interest production [1]	1H 2013 Average (boepd)	Current (boepd)
West & North Africa		
Ghana	37,000	38,150
Equatorial Guinea	10,600	9,900
Gabon		
Tchatamba	3,300	3,000
Limande	3,000	3,150
Other Gabon	7,100	7,150
Côte d'Ivoire	3,500	3,200
Congo (Brazzaville)	2,600	2,500
Mauritania	1,400	1,450
West & North Africa Total	**68,500**	**68,500**
Europe		
UK - CMS Area	9,600	9,500
UK - Thames Area	500	-
Netherlands	5,800	5,200
Norway	300	250
Europe Total	**16,200**	**14,950**
Asia Total	**3,900**	**4,150**
Europe, South America and Asia Total	**20,100**	**19,100**
Group Total	**88,600**	**87,600**

(1) Includes condensate

TABLE 3: COMMODITY HEDGING SUMMARY

At 30 June 2013, the Group's commodity hedge position to the end of 2015 was as follows:

Hedge Position	2H 2013	2014	2015
Oil Hedges			
Volume – bopd	35,000	30,500	18,000
Current Price Hedge - $/bbl	102.7	97.8	94.1
Gas Hedges			
Volume – mmscfd	23.2	10.4	4.9
Current Price Hedge - p/therm	66.2	68.4	66.9

Disclaimer

This announcement contains certain operational and financial information in relation to the first half of 2013 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.