TULLOW OIL PLC

2015

TRADING STATEMENT AND OPERATIONAL UPDATE

15 January 2015

Tullow Oil plc – Trading Statement & Operational Update

2014 revenue of $2.2 billion and pre-tax operating cash flow of $1.5 billion

Significant non-cash E&A write offs and impairment charges

Major steps taken to strengthen the business to adapt to current market conditions

15 January 2015 – Tullow Oil plc (Tullow) issues this statement to summarise recent operational activities and to provide trading guidance in respect of the financial year ended 31 December 2014. This is in advance of the Group's Full Year Results, which are scheduled for release on Wednesday 11 February 2015. The information contained herein has not been audited and may be subject to further review.

COMMENTING TODAY, AIDAN HEAVEY, CHIEF EXECUTIVE SAID:

"Tullow has already taken steps to strengthen the business to adapt to current market conditions. This work will continue during 2015 to ensure the Group is in a position to benefit when conditions improve. In late 2014, we materially reduced our 2015 exploration capital expenditure and today announce a further cut to this expenditure to $200 million. We continue to carry out a review of the business to streamline processes and improve efficiencies which will result in significant long-term cost savings.

"We have re-allocated our future capital to focus on delivering high-margin oil production in West Africa which will grow significantly to around 100,000 bopd net to Tullow by the end of 2016 and will generate stable, long-term cash flows for the business. The reduced exploration programme will predominately focus on a number of high-impact, low-cost exploration opportunities in East Africa.

"While this is a challenging time for our sector, Tullow is fortunate to benefit from world-class, low-cost and high-margin assets, strong and growing cash flows and a broad, diversified funding position."

Financial Update

Current financial position

Tullow benefits from a diversified and strong debt capital structure. There are no debt maturities due until after first oil from the TEN project in mid-2016, with maturities ranging from 2017 to 2022. The Group exited 2014 with net debt of $3.1 billion (2.2x EBITDAX) and unutilised facility headroom and free cash of $2.4 billion. The Group's ongoing hedging programme has provided revenue protection during 2014 resulting in a realised post hedge oil price for the year of $97 per barrel. Approximately 60% of Tullow's 2015 entitlement oil sales are currently hedged with an average floor price of around $86 per barrel with further hedges already in place for 2016 and 2017. The positive mark-to-market value of the oil commodity hedging programme as at 31 December 2014 is approximately $0.5 billion.

2014 full year results

Tullow expects to report revenue of $2.2 billion, gross profit of $0.6 billion and pre-tax operating cash flow of $1.5 billion, which is underpinned by the strong performance from our West Africa oil production. These results, versus the prior year, have been impacted by the oil price decline and lower gas production following asset sales in Europe and Asia.

In the Interim Management Statement in November, Tullow indicated that total non-cash write-offs and impairments for 2014 were likely to be substantial following a review of the Group's three year investment plan. Tullow expects a write-off of $0.4 billion ($0.3 billion post-tax) in relation to 2014 exploration activities primarily relating to Norway, Mauritania and Ethiopia. In light of the dramatic fall in the oil price, the review has resulted in non-cash exploration write-offs relating to drilling and licence costs from prior years of $1.2 billion ($0.9 billion post-tax). These are largely in relation to previously reported unsuccessful offshore drilling activities in French Guiana, Mauritania and Norway.

The impairment charge for the year is expected to total $0.6 billion as a result of a review of carry values of all PP&E assets at current commodity prices and the impairment of goodwill related to the acquisition of Spring Energy. In addition, a loss on disposal charge is expected of $0.5 billion, mainly relating to an updated assessment of the recoverability of the Uganda contingent consideration and the partial sale of the UK Schooner and Ketch gas fields.

Capital expenditure and operating costs

In light of the market conditions, Tullow announced a review, in November 2014, of its capital expenditure and cost base of the business to ensure the Group is well-positioned for future success. Capital is being re-allocated towards production assets and the commercialisation of existing discoveries which generate significant value and near-term cash flow for the Group. Tullow's 2015 Group capital expenditure is now expected to be $1.9 billion which includes a much reduced exploration spend of $0.2 billion (post Norwegian tax rebate). There is further scope for capital expenditure reductions going forward as Tullow enters discussions with partners and suppliers regarding potential savings as industry costs decline.

Cash operating costs for the Group's West Africa operations remain low, averaging around $13/bbl in 2014. The Jubilee field operating costs averaged around $10/bbl in 2014 with potential to drive down costs further in the current market ahead of realising synergies relating to the combined Jubilee and TEN operations. Finally, a major internal review of Tullow's organisation is ongoing which will lead to substantial long-term cost savings and efficiencies across the Group. Further information will be provided at the Full Year results.

Operational Update

In 2014, underlying West Africa production performance was within guidance averaging 65,300 bopd. However, due to ongoing licence discussions in Gabon, which are yet to conclude, Tullow will report in 2014 a reduced working interest production of 63,400 bopd. In Europe, production performance was within guidance averaging 11,800 boepd which includes the impact of asset sales completed in 2014. Production guidance for 2015 from the West African and European regions is 63,000-68,000 bopd and 6,000-9,000 boepd respectively. Europe guidance is subject to further ongoing portfolio management activities and production guidance will be adjusted following completion of sales.

In Ghana, the Jubilee field exceeded its gross production target during 2014 averaging 102,000 bopd despite the restrictions caused by delays in the construction of the onshore gas processing plant by the Ghana National Gas Company. In 2015, average gross production is expected to be at a similar level with production building towards the FPSO capacity by the end of the year. The gas plant is now complete and first commissioning gas was exported in November 2014 from the Jubilee field. As the gas management constraint is reduced due to increasing gas export, Tullow will be able to increase the oil production from Jubilee. Elsewhere in Ghana, the important TEN development project is progressing very well and is now over 50% complete and remains within budget and on-track to deliver first oil in mid-2016.

Tullow had strong underlying performance in 2014 from its non-operated fields in West Africa. The Group aims to maintain the portfolio of fields producing at around 30,000 bopd net to Tullow for the medium term. By the end of 2016, Tullow expects to have around 100,000 bopd of high-margin, low break-even oil production from West Africa.

In East Africa, the South Lokichar Exploration and Appraisal programme continues with drilling recently completed at the Ngamia-5 and Ngamia-6 wells. In addition, the Amosing wells are being prepared for the first Extended Well Test in Kenya. The frontier exploration programme continues outside of the South Lokichar basin with the result of the Epir-1 well expected later this month. The Engomo-1 well, testing the Turkana West Basin, has commenced drilling. The Lekep-1 well, testing the Kerio Valley Basin, is expected to be drilled in the second half of 2015 along with multiple appraisal wells in South Lokichar as work progresses on the East Africa development plan.

Trading Statement Guidance

Guidance is provided in relation to Tullow's financial year to 31 December 2014 in advance of the Group's Full Year Results on 11 February 2015.

SALES, REVENUE AND GROSS PROFIT

	2013	2014
West Africa working interest production (bopd)	65,000	63,400
Europe working interest production (boepd)	14,800	11,800
Sales volumes (boepd)	71,600	67,400
Total revenue ($ bn)	2.6	2.2
Gross profit ($ bn)	1.4	0.6
Pre-tax operating cash flow (before working capital) ($ bn)	1.9	1.5

Note 1: Working interest production volumes do not equate to sales volumes. 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.

Note 2: 2013 working interest and sales volume figures excludes production from Bangora, sold in 2013.

REALISED PRICES

	2013	2014
Realised post hedge oil price ($/bbl)	105.3	97.5
Realised post hedge gas price (p/therm)	65.6	51.7

HEDGING

	2014
Gain on Hedging Instruments ($m)	50

Note 3: The $50m gain is in relation to the changes in time value of the Group's commodity derivative instruments over the last 12 months, driven by changes in implied volatility and the movement in the forward curve during the period.

Hedge position (as at 9 January 2015)	2015	2016	2017
Oil Volume (bopd)	34,500	25,000	11,500
Average Floor price protected ($/bbl)	85.98	83.21	84.51
Gas Volume (mmscfd)	5.79	0.62	-
Average Floor price protected (p/therm)	55.51	63.00	-

Note 4: The positive mark-to-market value for the full commodity hedge programme was $0.5 billion on 31 December 2014.

EXPLORATION WRITE OFF

	Pre-tax write off	Tax effect	Net write off
2014 activity ($bn)	0.4	(0.1)	0.3
Prior years activity ($bn)	1.2	(0.3)	0.9
2014 Total ($bn)	1.6	(0.4)	1.2

Note 5: During 2014 the Group spent $0.8 billion, including Norway exploration costs on a post tax cash basis, on exploration and appraisal activities, and expects to write off approximately $0.3 billion in relation to this expenditure. In addition the Group expects to write off approximately $0.9 billion on a post tax basis in relation to prior years' expenditure, principally relating to French Guiana ($0.3 billion), Mauritania (including Banda) ($0.4 billion) and Norway ($0.1 billion). Therefore, the total net exploration write-offs for 2014 are expected to be approximately $1.2 billion. This will be shown in the income statement as a $1.6 billion exploration write-off and an income tax credit of $0.4 billion in relation to tax relief received in respect of Norwegian expenditure.

IMPAIRMENT CHARGES AND LOSS ON DISPOSAL

	2014
Impairment of property, plant and equipment ($bn)	0.5
Impairment of goodwill ($bn)	0.1
Loss on disposal ($bn)	0.5

Note 6: The impairment of property plant and equipment principally relates to the impact of the reduction in the oil and gas forward curve and long term price assumptions and increases in decommissioning cost estimates. Impairments have been recorded against the UK and Dutch gas assets, Chinquetti (Mauritania), M'boundi (Congo), Equatorial Guinea and certain Gabon assets. This does not include any Impairment provision for the ongoing Gabon licence discussions. Offsetting the impairment charge is a deferred tax credit of $0.2 billion. The impairment of goodwill, related to the acquisition of Spring Energy, was triggered by unsuccessful Norwegian exploration results and licence relinquishments in 2014.

Note 7: The Loss on disposal includes a provision for the contingent consideration due on the Uganda farm down to Total and CNOOC, certain indemnities granted during the Uganda farm down and a loss recognised on the farm down of Schooner and Ketch (UK).

TAXATION

	2014
Tax income ($ bn)	0.4

Note 8: After adjusting for exploration write-offs, impairments, the related deferred tax benefit in relation to exploration write-offs and impairments and profits/losses on disposal, the Group's underlying effective tax rate is 25-30%. However after including the deferred tax credits associated with exploration write-offs and impairments the Group net tax charge in the income statement is an income of $0.4bn.

CAPITAL EXPENDITURE

	2015
Capital expenditure ($ bn)	1.9
E&A/D&O split (%)	10/90

Note 9: Capital expenditure excludes acquisition costs and includes Norway exploration costs on a post tax cash basis

DEBT SUMMARY

	As at 31 Dec 2013	As at 31 Dec 2014
Net Debt ($bn)	1.9	3.1
Net Debt/EBITDAX ratio	1.0	2.2
Facility Headroom ($bn)	2.4	2.3
Free Cash ($bn)	0.2	0.1
Committed Bank Facilities ($bn)	4.3	4.7
Corporate Bond ($bn)	0.7	1.3

Note 10: On 6 April 2014 Tullow completed an offering of $650 million of 6.25% senior notes due in 2022. The net proceeds have been used to repay existing indebtedness under the Company's credit facilities but not cancel commitments under such facilities.

Note 11: Committed bank facilities include the Reserve Based Lending facility, the Corporate Facility and an Exploration Finance Facility (a working capital facility relating to exploration expenditure on our Norwegian exploration licences.)

GROUP WORKING INTEREST PRODUCTION [1]

WEST & NORTH AFRICA	2014 Average (kboepd)	2015 Forecast (kboepd)
Ghana	36.2	35.5
Equatorial Guinea		
Ceiba	*3.4*	*2.4*
Okume	*6.4*	*6.2*
Total Equatorial Guinea	9.8	8.6
Gabon		
Tchatamba	*3.8*	*4.7*
Limande	*2.4*	*2.7*
Etame Complex	*1.2*	*1.4*
Other Gabon	*5.2*	*5.8*
Total Gabon	12.6	14.6
Côte d'Ivoire	3.0	3.3
Congo (Brazzaville)	2.5	2.4
Mauritania	1.2	1.1
WEST & NORTH AFRICA TOTAL	**65.3**	**65.5**
EUROPE		
UK	6.8	3.4
Netherlands	4.8	4.6
Norway	0.2	0.0
EUROPE TOTAL	**11.8**	**8.0**
GROUP		
GROUP TOTAL	**77.1**	**73.5**

(1) Includes condensate

CURRENTLY PLANNED 2015 EXPLORATION AND APPRAISAL PROGRAMME

Country	Block/Licence	Prospect/Well	Interest	Spud Date
WEST & NORTH AFRICA				
Gabon	Nziembou	Monbou	40%	Q1 2015
	Nziembou	Igongo-2	40%	2H 2015*
Guinea	Guinea Offshore	Fatala	40% (op)	2H 2015**
SOUTH & EAST AFRICA				
Kenya	10BB	Epir	50% (op)	In progress
	10BA	Engomo (formally Kiboko)	50% (op)	In progress
	12A	Lekep	65% (op)	H2 2015
	10BB	Amosing appraisal	50% (op)	Q2 2015
	10BB	Ngamia appraisal	50% (op)	Q2 2015
	13T	Ekales appraisal	50% (op)	Q1 2015
	13T	Twiga appraisal	50% (op)	H2 2015
	13T	Agete appraisal	50% (op)	H2 2015
EUROPE, SOUTH AMERICA & ASIA				
Norway	PL 537	Bjaaland (Wisting ES)	20%	Q2 2015
	PL 591	Zumba	80% (op)	Q3 2015
	PL 642	Hagar	20%	Q2 2015
Suriname	Block 31	Spari	30%	1H 2015
Pakistan	Kalchas	Kup	30%	In progress

* Contingent on Igongo-1 extended well test result by Q2 2015
** Subject to Ebola status in country

FOR FURTHER INFORMATION CONTACT:

Tullow Oil plc	Citigate Dewe Rogerson	Murray Consultants
(London)	(London)	(Dublin)
(+44 20 3249 9000)	(+44 207 638 9571)	(+353 1 498 0300)
Chris Perry (Investor Relations)	Martin Jackson	Pat Walsh
James Arnold (Investor Relations)	Shabnam Bashir	Joe Heron
George Cazenove (Media Relations)		

Notes to Editors

Tullow Oil plc

Tullow is a leading independent oil & gas, exploration and production group, quoted on the London, Irish and Ghanaian stock exchanges (symbol: TLW) and is a constituent of the FTSE 100 Index. The Group has interests in over 130 exploration and production licences across 22 countries which are managed as three regional business units: West & North Africa, South & East Africa and Europe, South America and Asia.

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