TULLOW OIL PLC

2016

TRADING STATEMENT AND OPERATIONAL UPDATE

13 January 2016

Tullow Oil plc – Trading Statement & Operational Update

2015 revenue of $1.6 billion and pre-tax operating cash flow of $1.0 billion

TEN project over 80% complete and on schedule for first oil between July and August 2016

Successful Kenya appraisal programme underpins strong resource base for development

Financial headroom of $1.9 billion at year end, mark-to-market hedge value of over $600 million

13 January 2016 – Tullow Oil plc (Tullow) issues this statement to summarise recent operational activities and to provide trading guidance in respect of the financial year to 31 December 2015. This is in advance of the Group's Full Year Results, which are scheduled for release on Wednesday 10 February 2016. The information contained herein has not been audited and may be subject to further review and amendment.

COMMENTING TODAY, AIDAN HEAVEY, CHIEF EXECUTIVE SAID:

"In 2015, Tullow not only reset its business to deal with very difficult market conditions but also delivered on its key operational goals. Strong West African oil production supported by a significant hedge programme delivered pre-tax operating cash flow of $1 billion. We also made excellent progress on the development of the TEN Project which is on track to begin production in the middle of 2016 and we expect the Group to be producing around 100,000 bopd in West Africa in 2017. In East Africa, steady progress has been made towards a potential development sanction in 2017. Our appraisal programme in Kenya has proved up commercial resources with further significant upside identified. We continue to focus on driving down our costs and capital expenditure and, at the beginning of 2016, Tullow has a mark-to-market hedge value of over $600 million and financial headroom of $1.9 billion. Accordingly, we have a diversified balance sheet which supports our planned activities for the year ahead."

Operational Update

PRODUCTION

In 2015, West Africa working interest oil production was within guidance averaging 66,600 bopd. In 2016, West Africa average working interest oil production guidance is expected to be in the range of 73,000 to 80,000 bopd. This includes production from the TEN development which remains on track for first oil between July and August 2016.

In Europe, working interest gas production in 2015 was within guidance averaging 6,800 boepd. In 2016, Europe average working interest gas production guidance is expected to be in the range of 5,000 to 7,000 boepd.

WEST AFRICA

Jubilee

Jubilee production performance for 2015 exceeded the 100,000 bopd target, averaging 102,600 bopd gross (net: 36,400 bopd). Good performance from the onshore gas processing facility has allowed significant gas export from the Jubilee field with an average rate of gas export of around 85 mmscfd in the last quarter of 2015. Tullow is forecasting Jubilee 2016 average production to be around 101,000 bopd gross (net: 36,000 bopd). This reflects the impact of a planned two week FPSO maintenance shutdown in the first quarter 2016 and a period of reduced water injection capacity which is currently being addressed.

The Greater Jubilee Full Field Development Plan (GJFFD), which includes the Mahogany and Teak fields, was submitted to the Government of Ghana in December 2015 and approval is targeted for the first half of 2016. This project, to extend field production and increase commercial reserves, has been redesigned given the current environment, to reduce the overall capital requirement and allow flexibility in the timing of the capital investment.

TEN

The TEN Project continues to make excellent progress, is over 80% complete, and remains within budget and on schedule for first oil between July and August 2016. To date, all the key milestones of the project have been met, with the next important event being the sailaway of the TEN FPSO from Singapore to Ghana. The vessel is expected to depart in late January 2016 and arrive in Ghana in early March when the vessel will begin to be connected to the risers and subsea infrastructure. A gradual ramp up in production towards plateau is anticipated during the second half of 2016 as the facilities go through the final commissioning stage and wells are tied into the FPSO. Tullow estimates that TEN average working interest production in 2016 will be around 23,000 bopd gross (net: 11,000 bopd).

West Africa non-operated

West Africa non-operated production was in-line with expectations for 2015 at 30,200 bopd net. Due to the low oil price environment there has been a reduction in capital allocation by the operators across a number of these fields for 2016 which will impact production. West Africa non-operated production in 2016 is therefore expected to be around 29,500 bopd net.

EAST AFRICA

Kenya

In December, Tullow announced the successful Etom-2 well result, discovering 102 metres of net oil pay in high quality reservoir sands in an untested fault block identified on recent 3D seismic. The successful Etom-2 result and additional prospectivity indicated on the new 3D seismic data around the greater Etom area and northern part of the South Lokichar Basin, highlights there is significant remaining exploration potential. Plans for further exploration drilling will be evaluated during the first half of 2016.

The Cheptuket-1 exploration well in Block 12A spudded on 28 December. The well will test a basin bounding structural closure in the undrilled Kerio Valley Basin, in a similar structural setting to the successful Ngamia and Amosing discoveries in the South Lokichar Basin. Cheptuket-1 will likely complete drilling in February after which the PR Marriott Rig-46 will demobilise, marking the end of the current drilling campaign.

East Africa Development

Good progress continues to be made on the development planning in Kenya. Completion of the appraisal drilling campaign in 2015, including the successful Amosing and Ngamia Extended Well Tests, underpins a 2C resource base of 600 mmbo. The Etom-2 result and surrounding prospectivity support an upside potential of 1 billion barrels of oil in the South Lokichar Basin. The draft Field Development Plan was submitted to the Government of Kenya in December and will inform discussions as we progress towards potential FID of both the Kenya and Uganda upstream development projects in 2017.

In August 2015, a bilateral agreement was reached between the Presidents of Uganda and Kenya adopting the Northern Kenya route for the regional crude oil pipeline, subject to certain conditions. These conditions, which include ensuring that this is the lowest cost route, are being worked on by both Governments in conjunction with the Kenyan and Uganda upstream parties.

NEW VENTURES

Tullow has undertaken a strategic review of its New Ventures portfolio to determine how it can best use this period of reduced industry exploration activity to enhance its licence and prospect inventory in preparation for increasing drilling activity in future years. In 2016, our main focus will be to continue to selectively replenish and high grade the exploration opportunities for future growth. Tullow has been actively managing its current equity positions and exposure to drilling costs across the portfolio in 2015 and this work will continue in the coming year as we prepare for increased exploration activity in 2017/18, subject to market conditions.

A farmdown of Block 54 in Suriname from 50% to 30% equity was completed in October for a carry. A number of further farmdowns are under way across the portfolio. In Norway, Tullow made applications in the 2015 APA licence round in September and the 23rd licensing round in December.

Financial Update

During 2015, Tullow increased the capacity of its RBL and Corporate Facilities by $450 million. At the end of 2015, Tullow had total facility headroom and free cash of $1.9 billion and net debt of $4.0 billion. The improvement in the year end net debt and liquidity versus previous forecasts is largely due to ongoing capex and cost management plus the timing of payments in relation to the TEN Project which has resulted in 2015 Group capex totalling $1.7 billion versus guidance of $1.9 billion.

In 2015, Tullow is expected to deliver revenue of some $1.6 billion, gross profit of $0.6 billion and operating cash flow of $1.0 billion, all in line with market expectations. Due to the current low oil price, a number of accounting charges are forecast to be incurred in the 2015 income statement. These charges comprise a post-tax exploration write-off of c.$0.4 billion, a post-tax impairment charge of c.$0.3 billion and an onerous rig contract charge of c.$0.2 billion as a result of much lower levels of exploration and appraisal drilling activity planned for 2016.

As we look ahead to 2016, Tullow's hedging position provides significant protection of future revenues and cashflows. The mark-to-market value at the end of December 2015 was $623 million and Tullow will benefit in 2016 from approximately 52% of entitlement oil production hedged at an average floor price of around $75/bbl on a pre-tax basis and approximately 64% hedged on a post-tax basis. These hedges are accounted for separately and are not used in impairment calculations which compare book values with future pre-hedge discounted cash flows.

The Group's capital expenditure associated with operating activities has reduced from $1.7 billion in 2015 to $1.1 billion in 2016 and the Group is looking at additional opportunities to reduce it further. The current total comprises TEN capex of c.$600 million, Jubilee of c.$150 million, West Africa non-operated of c.$100 million, East Africa pre-development expenditure of c.$150 million and Exploration and Appraisal of c.$100 million.

Despite current low oil prices, Tullow expects to maintain sufficient liquidity throughout 2016. The Group starts the year with financial headroom of $1.9 billion, is benefiting from a significant hedge position, will see West Africa oil production increase with TEN first oil and will continue to focus on reducing costs and capex across the portfolio. The primary focus of the Group in 2016 remains to deleverage the balance sheet.

Trading Statement Guidance

Guidance is provided in relation to Tullow's full year reporting to 31 December 2015 in advance of the Group's Full Year Results release on 10 February 2016. Guidance figures are subject to change.

SALES, REVENUE AND GROSS PROFIT

	2015
West Africa working interest production (bopd)	66,600
Europe working interest production (boepd)	6,800
West Africa sales volumes (bopd)	59,900
Europe sales volumes (boepd)	7,700
Total revenue ($bn)	1.6
Gross profit ($bn)	0.6
Administrative expenses ($bn)	0.2
Pre-tax operating cash flow (before working capital) ($bn)	1.0

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.

REALISED PRICES

	2015
Realised post hedge oil price ($/bl)	68
Realised post hedge gas price (p/therm)	44

HEDGING INSTRUMENTS

	2015	2014
Fair Value of derivative instruments ($m)	623	471
(Loss)/gain on hedging instruments ($m)	(59)	51

Note 2: As at 31 December 2015, the Group's derivative instrument had a positive fair value of $623m, inclusive of deferred premium. The movement in the fair value is reflective of the movement in intrinsic and time value over the last 12 months. The movements in the intrinsic value of derivative instruments deemed to be effective cashflow hedges are initially deferred in the hedge reserves, and recycled to the income statement on realisation. A $59m loss 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.

HEDGING POSITION (as at 31 Dec 2015)

	2016	2017	2018
Oil Volume (bopd)	36,511	23,000	9,500
Average floor price protected ($/bbl)	75.15	72.94	62.09
Gas Volume (mmscfd)	0.61		
Average floor price protected (p/therm)	63.00		

Note 3: In 2016, the hedge volumes reflect approximately 52% of total Group net entitlement sales volumes hedged on a pre-tax basis or approximately 64% on a post-tax basis. In 2017, approximately 27% of total Group net entitlement sales volumes are hedged on a pre-tax basis.

IMPAIRMENT OF PROPERTY, PLANT & EQUIPMENT

	Pre-tax write off	Tax effect	Net write off
Impairment of PPE ($bn)	0.4	(0.1)	0.3

Note 4: Due to the decline in oil and gas prices during 2015 the Group expects to record impairments of approximately $0.3bn post-tax. Such write-downs or write-ups are assessed at the end of each reporting period, and in the last six months have been impacted by the sharp reduction in the forward curve in the near term and compare the carrying value of the assets with discounted future cash flows. It should also be noted that the calculations do not benefit from our significant hedge position which is accounted for separately.

EXPLORATION WRITE-OFF & GOODWILL IMPAIRMENT

	Pre-tax write off	Tax effect	Net write off
2015 exploration activity ($bn)	0.2	(0.1)	0.1
Prior years exploration activity ($bn)	0.5	(0.2)	0.3
2015 total exploration write-off ($bn)	0.7	(0.3)	0.4
Goodwill impairment ($bn)	0.05	-	0.05

Note 5: During 2015 the Group spent $0.25bn, including Norway exploration costs on a post tax basis, on exploration and appraisal activities and expect to write off approximately $0.1bn in relation to this expenditure. The Group expects to write-off approximately $0.3bn of prior year expenditure in the Netherlands, Gabon, Ethiopia, Greenland and Madagascar as a result of licence relinquishments, and a review of future work programmes in the context of current oil and gas prices. Therefore, the total net exploration write-offs for 2015 are expected to be approximately $0.4bn.

RESTRUCTURING COSTS

	2015
Restructuring costs (gross) ($m)	45
Restructuring costs (net) ($m)	40

Note 6: Gross restructuring costs are the total costs Tullow is expecting to incur in respect of the simplification project announced in November 2014. Net restructuring costs represent the portion of these costs that have not been recharged to partners.

CAPITAL AND OTHER EXPENDITURE

	2015	2016
Capital expenditure ($bn)	1.7	1.1
E&A/D&O split (%)	14/86	10/90
Decommissioning expenditure ($bn)	0.1	0.1
Expenditure on onerous rig contracts ($bn)	-	0.2

Note 7: Capital expenditure excludes acquisition costs and includes Norway exploration costs on a post tax cash basis.

Note 8: Decommissioning expenditure is gross of any tax relief and relates largely to UK decommissioning activities.

Note 9: Expenditure on onerous rig contracts has been provided for in the 2015 income statement. This relates to the Stena Drill Max and Borgland/Dolphin rigs and reflects lower activity levels in the current environment.

DEBT SUMMARY

	31 Dec 2015
Net debt ($bn)	4.0
Facility headroom and free cash ($bn)	1.9
Committed bank facilities ($bn)	4.95
Corporate Bonds ($bn)	1.3

Note 10: Committed bank facilities include an Exploration Finance Facility of c.$250m, a working capital facility relating to exploration expenditure on our Norwegian exploration licences. This facility is not included in the $1.9bn facility headroom and free cash.

GROUP AVERAGE WORKING INTEREST PRODUCTION [(1)]

WEST AFRICA & PRODUCING	2015 Actual (kboepd)	2016 Forecast (kboepd)
Ghana		
Jubilee	*36.4*	*36.0*
TEN	*-*	*11.0*
Total Ghana	36.4	47.0
Equatorial Guinea		
Ceiba	*3.1*	*2.4*
Okume	*5.9*	*5.0*
Total Equatorial Guinea	9.0	7.4
Gabon		
Tchatamba	*5.0*	*4.0*
Limande	*2.3*	*2.2*
Etame Complex	*1.4*	*1.9*
Other Gabon	*5.0*	*5.8*
Total Gabon	13.7	13.9
Côte d'Ivoire	4.4	5.3
Congo (Brazzaville)	2.0	1.8
Mauritania	1.1	1.1
WEST AFRICA SUB-TOTAL	**66.6**	**76.5**
UK	3.2	2.7
Netherlands	3.6	3.3
EUROPE SUB-TOTAL	**6.8**	**6.0**
GROUP TOTAL	**73.4**	**82.5**

(1) *Includes condensate*

CURRENTLY PLANNED 2016 EXPLORATION AND APPRAISAL ACTIVITY

Country	Block/Licence	Prospect/Well	Interest	Spud Date
WEST AFRICA & PRODUCING				
Netherlands	K15/K07/J09	K15-FK-N, K07-FC-W, K15-FH, J09-Alpha	9.95%	2016
EAST AFRICA				
Kenya	12A	Cheptuket-1	40% (op)	In progress
NEW VENTURES				
Norway	PL537/PL636/ PL776/PL626	Wisting/Cara/ Rome/Rovarkula	Various	2016
Pakistan	Kalchas	Mari	30%	Q2 2016

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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). The Group has interests in over 125 exploration and production licences across 22 countries which are managed by three Business Delivery Teams; West Africa, East Africa and New Ventures.

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