TULLOW OIL PLC

2017

TRADING STATEMENT AND OPERATIONAL UPDATE

11 January 2017

Tullow Oil plc – Trading Statement & Operational Update

THIS RELEASE CONTAINS INSIDE INFORMATION

11 January 2017 – 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 2016. This is in advance of the Group's Full Year Results, which are scheduled for release on Wednesday 8 February 2017. The information contained herein has not been audited and may be subject to further review and amendment.

This morning Tullow has also issued a release on Board changes. The Group will host a conference call for Investors and Analysts today at 09:00 UK time. Details for the call can be found at the end of this statement.

COMMENTING TODAY, AIDAN HEAVEY, CHIEF EXECUTIVE SAID:

"2016 was another tough year for the oil & gas sector and for Tullow. However, the Company showed exceptional resilience and strong operational performance to deliver TEN on time and on budget; to deal with the technical issues at Jubilee; make good progress in exploration and development in East Africa and begin the process of reducing our debt from free cash flow. Tullow is therefore now very well placed to take advantage of the opportunities that conditions in the sector offer. We took action early to deal with lower oil prices and we are now benefitting from the re-set and re-structured business that we created. Our $900 million farm-down in Uganda this week is clear evidence of the commercial attractiveness of our East African portfolio and our ability to manage our assets according to the strategic and financial needs of the business."

Operational Update

PRODUCTION

Tullow's West Africa 2016 oil production was in line with recent guidance averaging 65,500 bopd. This includes 4,600 bopd of production-equivalent payments received under Tullow's Business Interruption insurance policy for the Jubilee field. In Europe, working interest gas production performed in line with expectations and full year net production averaged 6,200 boepd.

In 2017, West Africa working interest oil production, including production-equivalent insurance payments, is expected to average between 78,000 and 85,000 bopd. Europe working interest gas production is expected to average between 6,000 and 7,000 boepd.

WEST AFRICA

Ghana

Jubilee

Full year 2016 gross production from the Jubilee field averaged 73,700 bopd (net: 26,200 bopd). Tullow has also received reimbursements for turret remediation costs and Jubilee production field losses in 2016 of approximately $8 million (net) under the Hull and Machinery insurance policy and approximately $72 million under Tullow's corporate Business Interruption insurance cover which equates to 4,600 bopd of net equivalent production.

The Jubilee turret remediation work is progressing as planned and the FPSO is expected to be spread-moored on its current heading by the end of January 2017. This will allow the tugs currently required to hold the vessel on a fixed heading to be removed, significantly reducing the complexity of the current operation. The capital costs associated with this and subsequent remediation works are expected to be covered by the Joint Venture Hull and Machinery insurance policy.

The next phase of the project will involve modifications to the turret systems for long-term spread-moored operations. In addition, the assessment of the optimum long-term heading continues, in order to determine if a rotation of the FPSO is required. Detailed planning for this continues with the JV Partners and the Ghanaian Government, with final decisions and approvals being sought in the first half of 2017, with work expected to be carried out in the second half of 2017. It is anticipated that a facility shutdown of up to 12 weeks may be required during 2017. However, significant work is ongoing to look at ways to optimise and reduce any shutdown period.

Tullow expects 2017 production from the Jubilee field to average 68,500 bopd (net: 24,300 bopd), assuming 12 weeks of shutdown associated with the next phase of remediation works. Tullow's corporate Business Interruption insurance cover is expected to continue to payout in respect of lost production associated to the turret remediation works, and the equivalent average annualised net production is around 12,000 bopd, increasing Tullow's effective net production to around 36,300 bopd in 2017.

TEN

Following first oil from TEN in August 2016, the oil production, gas compression/injection and water injection systems were commissioned and are now operational. In early January 2017, the capacity of the FPSO was successfully tested at an average rate of over 80,000 bopd during a 24 hour flow test.

Gross annualised working interest production in 2016 averaged 14,600 bopd (net: 6,900 bopd), in line with latest guidance.

Production testing and initial results from the 11 wells indicate reserves estimates for both Ntomme and Enyenra to be in line with previously guided expectations. However, due to some issues with managing pressures in the Enyenra reservoir and because no new wells can be drilled until after the ITLOS ruling later this year, Tullow plans to manage the existing wells in a prudent and sustainable manner. As a result, Tullow expects production from TEN to be around 50,000 bopd (net: 23,600bopd) in 2017, although work continues to consider ways to increase production in 2017.

Gas production from the TEN fields is currently being re-injected, with gas export expected to commence later in 2017.

Proceedings at ITLOS, with regard to the maritime border dispute between Ghana and Côte d'Ivoire continue, with oral hearings expected 6-17 February 2017, and a final ruling anticipated in the fourth quarter of 2017.

Non-operated Portfolio

2016 West Africa net non-operated production was in line with expectations at 27,800 bopd. Lower oil prices have resulted in significantly lower levels of investment and 2017 net production is expected to be around 22,000 bopd. However, flexibility remains in the portfolio, with options to increase capital investment in 2017 and subsequent years to reduce the production decline in these mature assets.

Full year gas production from Europe averaged 6,200 boepd in 2016, in line with expectations. Tullow expects 2017 European gas production to be around 6,500 boepd.

EAST AFRICA

Kenya

A four-well exploration and appraisal programme commenced in mid-December in the South Lokichar Basin with the drilling of the Erut-1 well, located in the north of the basin, approximately 11km north of the Etom field. The well is nearing completion, with a result expected shortly. The rig will then move to drill Amosing-6, a well targeting undrilled volumes, before moving to Ngamia-10, an appraisal well to the south of the Ngamia discovery. The planned final well in the programme is the Etete prospect, a structure approximately 2km south of the Etom field. This programme could be extended by up to four additional wells in 2017, depending upon the assessment of the results from the initial four wells.

Water injection trials have been successfully completed on the Amosing discovery in the South Lokichar Basin. Data collected shows the viability of water injection for development planning. A similar programme of water injection tests on the Ngamia discovery are scheduled to commence later this month.

Work continues on the Early Oil Pilot Scheme, full field development planning and the export pipeline.

Uganda

On 9 January 2017, Tullow announced that it has agreed a substantial farm-down of its assets in Uganda to Total. Under the Sale and Purchase Agreement, Tullow has agreed to transfer 21.57% of its 33.33% interest in Exploration Areas 1, 1A, 2 and 3A in Uganda to Total for a total consideration of $900 million. The farm-down leaves Tullow with an 11.76% interest in the upstream and pipeline, which will reduce to 10% when the Government of Uganda formally exercises its right to back-in.

The consideration is split into $200 million in cash, consisting of $100 million payable on completion of the transaction, $50 million payable at FID and $50 million payable at first oil. The remaining $700 million is in deferred consideration and represents reimbursement by Total in cash of a proportion of Tullow's past exploration and development costs. The deferred consideration will fund Tullow's share of the development and pipeline costs as the Lake Albert Development reaches a series of key milestones. Completion of the transaction is subject to government approval, after which Tullow will cease to be an operator in Uganda.

This agreement will allow the Lake Albert Development to move ahead and increases the likelihood of FID around the end of 2017.

NEW VENTURES

Tullow has continued to advance its operations in South America and plans are ongoing to drill the potential high impact Araku prospect (Tullow: 30%), offshore Suriname, in the second half of 2017. In Guyana, planning is ongoing to acquire 3D seismic data over the offshore Kanuku and Orinduik licences located updip of the Liza oil discovery.

The divestment of the Norway business is almost complete, with the sale of four licences to Statoil and eight licences to Aker BP ASA completed before year end 2016. A further three sales were executed in December 2016, which are expected to be completed in the first half of 2017.

Financial Update

Following the scheduled amortisation of RBL commitments in October 2016, the Group ended the year with available credit under the RBL facility of $3.3 billion. At the end of 2016, Tullow had total facility headroom and free cash of $1 billion and net debt of $4.8 billion, which includes the $300 million Convertible Bond offering in July 2016. The improvement in the year end net debt and liquidity position versus previous forecasts is largely due to the cashflow contribution from TEN and ongoing capex and cost management.

In 2016, Tullow expects to deliver revenue of c.$1.3 billion, gross profit of c.$0.5 billion and operating cash flow of c.$0.7 billion. Due to the current low oil price and the impact of disposal and farm-down transactions, a number of accounting charges are forecast to be incurred in the 2016 income statement. These charges comprise a goodwill impairment of c.$0.2 billion, a post-tax exploration write-off of c.$0.3 billion, a post-tax impairment charge of c.$0.1 billion and an onerous service contract charge of c.$0.1 billion.

In 2016, Tullow's oil and gas hedge programme contributed $363 million to revenues, and as we look ahead to 2017, the hedging position continues to provide protection of future revenues and cashflows. The mark-to-market value at the end of December 2016 was $91 million and Tullow will benefit in 2017 from approximately 60% of entitlement oil production hedged at an average floor price of around $60/bbl on a pre-tax basis.

Capital expenditure will continue to be carefully controlled during 2017. The Group's capital expenditure associated with operating activities is expected to reduce from $0.9 billion in 2016 to $0.5 billion in 2017. The 2017 total comprises Ghana capex of c.$90 million, West Africa non-operated capex of c.$30 million, Kenya pre-development expenditure of c.$100 million and Exploration and Appraisal spend limited to c.$125 million. Uganda expenditure of $125 million will be offset by the Uganda farm-down deferred consideration.

Trading Statement Guidance

Guidance is provided in relation to Tullow's full year reporting to 31 December 2016 in advance of the Group's Full Year Results release on 8 February 2017. Guidance figures are subject to change.

SALES, REVENUE AND GROSS PROFIT

	2016
West Africa working interest production (bopd)	60,800
Jubilee BI insurance - annualised production equivalent (bopd)	4,600
Europe working interest production (boepd)	6,200
West Africa sales volumes (bopd)	51,000
Europe sales volumes (boepd)	8,800
Total revenue ($bn)	1.3
Gross profit ($bn)	0.5
Administrative expenses ($bn)	0.1
Pre-tax operating cash flow (before working capital) ($bn)	0.7

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: Total revenue includes accrued receipts for Tullow's corporate Business Interruption insurance of c.$90 million and commodity hedge receipts of $363 million

REALISED PRICES

	2016
Realised post hedge oil price ($/bl)	61
Realised post hedge gas price (p/therm)	32

HEDGING INSTRUMENTS

	2016
Fair Value of derivative instruments ($m)	91
Gain on hedging instruments ($m)	18

Note 3: As at 31 December 2016, the Group's derivative instruments had a positive fair value of approximately $91m, inclusive of deferred premium. The movement in the fair value is reflective of the movement in intrinsic and non-intrinsic 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. The $18m 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 and will be recognised in the Income Statement.

HEDGING POSITION (as at 31 Dec 2016)

	2017	2018	2019
Oil Volume (bopd)	42,500	22,000	7,979
Average floor price protected ($/bbl)	60.23	51.88	45.53
Gas Volume (mmscfd)	3.67	-	-
Average floor price protected (p/therm)	40.47	-	-

Note 4: In 2017, the hedge volumes reflect approximately 60% of total Group net entitlement oil volumes hedged on a pre-tax basis. In 2018, approximately 30% of total Group net entitlement oil 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)	0.1	-	0.1

Note 5: Due to forecast lower medium term oil and gas prices and increased anticipated decommissioning costs the Group expects to record impairments of approximately $0.1bn post-tax. Such write-downs or write-ups are assessed at the end of each reporting period. It should also be noted that the calculations do not benefit from the Group's significant hedge position which is accounted for separately.

EXPLORATION WRITE-OFF & GOODWILL IMPAIRMENT

	Pre-tax write off	Tax effect	Net write off
Exploration write-off ($bn)	0.6	(0.3)	0.3
Goodwill impairment ($bn)	0.2	-	0.2

Note 6: During 2016 the Group spent $80m, including Norway exploration costs on a post-tax basis, on exploration and appraisal activities and expects to write off approximately $40m in relation to this expenditure. The Group expects to write off approximately $0.3bn of prior years' expenditure, capitalised interest and acquisition allocations primarily associated with the disposals in Norway ($0.2bn pre-tax, $0.1bn post tax) and Uganda farm-down ($0.3-0.4bn pre-tax, $0.2-0.3bn post-tax). Goodwill was recognised on the Spring Energy acquisition of the Group's Norwegian interests and has now been fully written off as a result of the disposal of Norwegian licences.

CAPITAL AND OTHER EXPENDITURE

	2016	2017
Capital expenditure ($bn)	0.9	0.5
E&A/D&O split (%)	9/91	25/75
Decommissioning expenditure ($bn)	0.02	0.1
Cash expenditure on onerous service contracts ($bn)	0.1	0.1

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 service contracts had been provided for in the 2015 income statement. A further provision of $0.1 bn will be recognised in the 2016 income statement.

Note 10: 2017 forecast capital expenditure includes $125 million of Ugandan expenditure that will be offset by deferred consideration from the farm-down.

DEBT SUMMARY

	31 Dec 2016
Net debt ($bn)	4.8
Facility headroom and free cash ($bn)	1.0
Committed bank facilities ($bn)	4.4
Corporate Bonds ($bn)	1.6

Note 11: Committed bank facilities include an Exploration Finance Facility of c.$120 million which is a working capital facility relating to exploration expenditure on our Norwegian exploration licences. This facility is not included in the $1.0bn facility headroom and free cash.

Note 12: Corporate bonds includes $650m 2020 HY bond, $650m 2022 HY bond and $300m convertible bond

GROUP AVERAGE WORKING INTEREST PRODUCTION (1)

WEST AFRICA & PRODUCING	2016 Actual (kboepd)	2017 Forecast (kboepd)
Ghana		
Jubilee	*26.2*	*24.3*
TEN	*6.9*	*23.6*
Total Ghana	33.1	47.9
Equatorial Guinea		
Ceiba	*2.3*	*1.5*
Okume	*4.7*	*3.4*
Total Equatorial Guinea	7.0	4.9
Gabon		
Tchatamba	*4.7*	*4.7*
Limande	*2.0*	*1.7*
Etame Complex	*1.3*	*1.1*
Other Gabon	*6.3*	*5.1*
Total Gabon	14.3	12.6
Côte d'Ivoire	4.0	3.7
Congo (Brazzaville)	1.5	0.8
Mauritania	1.0	0.2
WEST AFRICA SUB-TOTAL	**60.9**	**70.1**
UK	3.3	2.9
Netherlands	2.9	3.6
EUROPE SUB-TOTAL	**6.2**	**6.5**
GROUP TOTAL	**67.1**	**76.6**
Jubilee insurance barrels equivalent	*4.6*	*12.0*
GROUP TOTAL (including Jubilee insurance barrels equivalent)	**71.7**	**88.6**

(1) *Includes condensate*

PLANNED 2017 EXPLORATION AND APPRAISAL ACTIVITY

Country	Block/Licence	Prospect/Well	Interest	Spud Date
EAST AFRICA				
Kenya	13T	Erut	50% (op)	In progress
	13T	Amosing & Ngamia appraisal	50% (op)	Q1 2017
	13T	Etete	50% (op)	Q1/ Q2 2017
NEW VENTURES				
Suriname	Block 54	Araku	30% (op)	2H 2017

Notes to Editors

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 110 exploration and production licences across 19 countries which are managed as three business delivery teams: West Africa, East Africa and New Ventures.

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Conference call – 09:00 (UK time), Wednesday 11 January 2017

To access the call please dial the appropriate number below shortly before the call and ask for the Tullow Oil conference call.

Participants	+44 (0) 330 336 9105
UK free phone	0800 358 6377
Access Code	9156929

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