Tullow Oil plc

2018 TRADING STATEMENT & OPERATIONAL UPDATE

10 January 2018

Tullow Oil plc – Trading Statement & Operational Update

10 January 2018 – 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 2017. This is in advance of the Group's Full Year Results, which are scheduled for release on Wednesday 7 February 2018. The information contained herein has not been audited and may be subject to further review and amendment.

COMMENTING TODAY, PAUL MCDADE, CHIEF EXECUTIVE SAID:

"Tullow delivered strong operational and financial performance in 2017 against the backdrop of continued industry volatility. The business is expected to generate free cash flow of $0.5 billion, above expectations, due to high levels of operated production and further progress on cost and capital efficiency. There was also material improvement in the Group's balance sheet, with significantly reduced gearing and an overall reduction in net debt of $1.3 billion. Over 2018 we expect to continue this positive momentum. With our diverse low-cost assets and high-graded exploration portfolio, enhanced by recent licence additions in Côte d'Ivoire and Peru, we have a strong foundation to grow the business and further reduce our debt."

Operational Update

PRODUCTION

Tullow's West Africa 2017 oil production exceeded expectations for the year averaging 89,100 bopd. This includes 7,400 bopd of net production-equivalent payments received under Tullow's Corporate Business Interruption insurance for the Jubilee field. In Europe, working interest gas production performed in line with expectations with full year net production averaging 5,600 boepd.

In 2018, working interest oil production, including production-equivalent insurance payments, is expected to average between 82,000 and 90,000 bopd. Working interest gas production, which includes TEN associated gas sales and the impact of the Netherlands assets sales in 2017, is expected to average between 3,500 and 4,500 boepd. This brings overall Group production guidance, for both oil and gas, to between 86,000 and 95,000 boepd.

WEST AFRICA

Ghana

Jubilee

Full year 2017 gross production from the Jubilee field averaged 89,600 bopd (net: 31,800 bopd). Tullow's Corporate Business Interruption insurance is expected to reimburse 7,400 bopd of net production-equivalent insurance payments, bringing expected full year effective net production from Jubilee to 39,200 bopd. Gross production in the latter part of 2017 was consistently above 90,000 bopd and we expect to build on this as we commence drilling in 2018.

Preparations continue in advance of the planned turret bearing stabilisation work in the first quarter of 2018. This work is expected to take place over two shut-down periods, totalling four-to-six weeks. A further planned shut-down of approximately three weeks is expected around year end 2018 to rotate the FPSO to its permanent heading.

The Government of Ghana approved the Greater Jubilee Full Field Development Plan in October 2017, allowing Tullow and its Joint Venture Partners to prepare for a multi-year incremental drilling programme to maximise and sustain oil production and gas export. The initial focus will be the drilling and completion of new wells in the Jubilee unit area that will make use of existing infrastructure, and the completion of a well previously drilled in the Mahogany discovery.

Tullow expects 2018 gross production from the Jubilee field to average 75,800 bopd (net: 26,900 bopd), which takes into account the planned shut-downs associated with the turret remediation work. Tullow's Corporate Business Interruption insurance cover, which compensates Tullow for lost production associated with the remediation works, is expected to reimburse Tullow 10,200 bopd of net production-equivalent insurance payments. Jubilee effective net production is therefore expected to average around 37,100 bopd for 2018.

TEN

Gross production from the TEN fields exceeded initial guidance in 2017, averaging 56,000 bopd (net: 26,400 bopd). This strong performance was as a result of production and water injection optimisation which continues to be effective and the field performed consistently above 70,000 bopd during November and December 2017.

Following the ITLOS ruling in September, Tullow has received notification from the Government of Ghana to recommence drilling in the TEN fields. A multi-year incremental drilling programme will be started this year, seeking to ramp up production from the TEN fields to utilise the full capacity of the FPSO and sustain this over a number of years.

In the last quarter of 2017, Tullow signed the TEN Associated Gas (TAG) Gas Sales Agreement with the Government of Ghana and Tullow anticipates the start of gas sales from TEN in the first half of 2018. Gross gas sales equivalent to 4,200 boepd (net: 2,000 boepd) have been forecast for the year.

Tullow expects 2018 gross oil production from the TEN fields to average 64,000 bopd (net: 30,200 bopd). During the year, the rig schedule and timing of drilling and completion operations will be optimised, providing upside potential to this initial estimate.

Ghana drilling in 2018

Tullow has secured the Maersk Venturer rig which is expected to commence drilling in February 2018. The rig will be used across the TEN and Jubilee fields and has been contracted for up to four years with favourable early termination provisions. The first well planned is an Ntomme production well in the TEN fields followed by a Jubilee production well located in the north-eastern area of the field. Work is ongoing to finalise the sequence of further wells to optimise output from both the Jubilee and TEN fields. Tullow and its Joint Ventures Partners continue to evaluate the business case for contracting a second rig that would allow the acceleration of drilling on the TEN and Jubilee fields.

Non-operated Portfolio and Europe gas production

2017 West Africa net non-operated production exceeded expectations at 23,500 bopd. Net production in 2018 is expected to be around 19,100 bopd. The reduced year-on-year forecast is primarily due to natural decline as a result of sustained low investment levels during a period of low oil prices, combined with the expected exit from the M'Boundi field Congo (Brazzaville) which, once completed, would be effective from July 2017, and the cessation of production at the Chinguetti field in Mauritania.

Full year gas production from Europe averaged 5,600 boepd in 2017, which includes production from Tullow's Netherlands assets prior to the completion of their sale in November 2017. In 2018, Tullow expects annual production from its UK assets to average around 1,900 boepd which takes into account cessation of production in the third quarter of 2018, ahead of decommissioning activities.

EAST AFRICA

Kenya

In Kenya, the recent phase of exploration and appraisal drilling in the South Lokichar Basin has been concluded and the focus is now on the Early Oil Pilot Scheme (EOPS) and the overall development plan for the discovered resources. Work is already under way on the EOPS, with initial injectivity testing commencing on Ngamia-11 and oil production and water injection facilities being constructed in the field ready to commence production/injection in the first quarter of 2018. Oil produced will initially be stored until all necessary consents and approvals are granted and work is completed for the transfer of crude oil to Mombasa by road.

Significant progress on the field development plan continues to be made and following the extended election period, Tullow has re-engaged with representatives of the Government of Kenya on the overall approach and timelines for progressing the development. The Environmental and Social Impact Assessment (ESIA) for the overall field development is on track to commence later in the first quarter of 2018. Tullow intends to give its assessment of discovered resources and plans for development of the South Lokichar basin at its Full Year Results on 7 February 2018.

Uganda

Tullow's farm-down in Uganda continues to progress and the Joint Venture Partners await approval of the transaction from the Government of Uganda. As previously disclosed, Tullow anticipates that the farm-down with Total and CNOOC will complete in the first half of 2018 with cash payment on completion and payment of deferred consideration for the pre-completion period (including the whole of 2017) being received at this time. The Joint Venture Partners are also working towards reaching FID in the first half of 2018; at which point Tullow's second cash instalment from the farm-down will be received. In line with its post-transaction status, Tullow has been reducing its operational footprint in Uganda and is now fully prepared for a non-operated presence only.

Operational activity is continuing as planned, with FEED and ESIAs for both the upstream and pipeline progressing in line with the FID schedule. Discussions on the pipeline project continue with both the Ugandan and Tanzanian Governments supporting progress on the key commercial and transportation agreements.

NEW VENTURES

Tullow has high-graded and reset its exploration portfolio over the last three years. The Group has acquired extensive seismic data across several licences, which is currently being processed and interpreted. This will significantly increase the prospect inventory, with Tullow targeting high-impact, low-cost and basin-testing opportunities. Tullow has also reduced equity levels in the exploration portfolio ahead of drilling by completing numerous farm-downs with the aim of ensuring sufficient exposure in the case of success, while limiting future capital commitments and extracting value where possible. Finally, the team has been gaining access to highly prospective new acreage in both Côte d'Ivoire and Peru, as detailed below. This provides Tullow with low-cost, high-impact exploration campaigns for the years ahead with established positions in the industry hotspots of Guyana/Suriname and Mauritania/Namibia, exciting new opportunities in Côte d'Ivoire and Peru and infrastructure-led exploration in our development and production heartlands in West and East Africa.

Africa

In December 2017, Tullow was awarded a 90% interest in two further onshore licences (CI-521 and CI-522) in Côte d'Ivoire, building on the four onshore exploration licences (CI-518, CI-519, CI-301 and CI-302) the Group signed in September 2017. The Group plans to conduct a full tensor gradiometry gravity survey (FTG) across the full area in the first half of 2018, before acquiring

2D seismic in 2019. This position significantly enhances Tullow's African New Ventures portfolio, with blocks located in a proven petroleum system, indicated by multiple oil seeps and past production from the Eboinda Oil Sands. If commercial discoveries are made, the maturity of Côte d'Ivoire's oil industry suggests a relatively short and low-cost path to production.

In the second half of 2017, Tullow completed a farm-down of its 100% interest in Block C-18 in Mauritania to Total, Kosmos and BP leaving Tullow with a 15% non-operated interest. A two-year extension to the licence terms was also granted. In December 2017, the new operator, Total, commenced a large 9,000 sq km 3D seismic survey which is expected to be completed in the first quarter of 2018.

Tullow plans to drill the Cormorant prospect on the PEL37 licence in Namibia in the second half of 2018 and preparations for drilling are under way. The prospect will target light oil and has a number of similarly-sized follow-up prospects in close proximity. Also in Namibia, Tullow completed a farm-down of the PEL30 licence to ONGC Videsh of 15% in November 2017.

South America

Tullow is pleased to announce that it has agreed terms to add six new licences covering 28,000 sq km, offshore Peru, to its portfolio. The Group has concluded negotiations with Perupetro and agreed to acquire a 100% stake in Blocks Z-64, Z-65, Z-66, Z-67 & Z-68. The agreements are pending approval by supreme decree by the Peruvian Ministry of Energy and Mines and Ministry of Economy and Finance, with formal signing of the licences anticipated in the first quarter of 2018. Tullow has also agreed to acquire a 35% interest in the Z-38 licence through a farm-down from Karoon Gas Australia, also subject to government approval. The new acreage will complement the Group's South America position and contains a number of attractive leads and prospects. The Z-38 licence is already covered by high quality 3D seismic and includes the Marina prospect which is a potential candidate for drilling in 2019.

Processing of 6,500 sq km of 3D seismic data acquired during 2017 on the Kanuku and Orinduik licences in Guyana is ongoing to mature and rank identified prospects. Preparations are under way to commence drilling in early 2019, although options to bring drilling forward into late 2018 are being considered.

In November 2017, Tullow agreed, subject to Government approval, a farm-down of 20% of its 100% interest in the Walton Morant licence in Jamaica to United Oil & Gas plc. A nine-month extension to the licence term was also granted, enabling a 2,100 sq km 3D survey to commence in April 2018.

The Araku-1 well drilled in October 2017 in Block 54 in Suriname was unsuccessful, but did prove the presence of a new petroleum system in the Demerara plateau which is now being followed up. At a gross cost of $35 million (net: $11 million), Tullow demonstrated its ability to drill high-risk, high-reward wildcat frontier wells at appropriate equity and at low cost. A two-year extension was granted for the adjacent Block 47 where the Goliathberg prospect is a potential drilling candidate for 2019.

Asia

Tullow is in the process of divesting its Pakistan assets and expects to complete this process in 2018.

Financial Update

On 29 November 2017, Tullow announced that it had completed the refinancing of $2.5 billion of Reserves Based Lending ("RBL") credit facilities. The $2.5 billion of credit facilities are split between a commercial bank facility of $2.4 billion and an IFC facility of $100 million. The fully committed facilities are revolving with a three-year grace period and final maturity of November 2024. Tullow also decided to reduce the commitments of its Revolving Corporate Credit Facility to $600 million from $800 million, ahead of the scheduled amortisation that was due to occur in January 2018. As of year-end 2017, Tullow has total headroom including free cash of $1.0 billion with no material near-term debt maturities.

Tullow expects to report revenue of c.$1.7 billion and gross profit of c.$0.8 billion for 2017. The Group also expects to have generated $0.5 billion of free cash flow, significantly exceeding the forecast at the start of the year. This increase is primarily due to strong production performance, rigorous cost discipline and a rising oil price. This free cash flow has enabled ongoing debt reduction and the Group expects year-end net debt to be $3.5 billion; a reduction of over $1.3 billion over the course of the year. Tullow's gearing ratio (net debt/Adjusted EBITDAX) at 31 December 2017 is expected to be less than 3x, demonstrating that the Group is making good progress towards its long-term gearing policy of 2.5x or less.

The Group's 2018 capital expenditure associated with operating activities is expected to total approximately $460 million. This total excludes $110 million of forecast Uganda expenditure which will be repaid from deferred consideration post the completion of the Uganda farm-down, which is expected in the first half of the year. The capex total comprises Ghana capex of c.$250 million, West Africa non-operated capex of c.$40 million, Kenya pre-development expenditure of c.$80 million and Exploration and Appraisal spend of c.$90 million.

At completion of the Uganda farm-down, Tullow is also due to receive $100 million cash consideration along with re-imbursement of 2017 capex of c.$60 million. A further $50 million cash consideration is due to be received when FID is achieved.

Trading Statement Guidance

Guidance is provided in relation to Tullow's full year reporting to 31 December 2017 in advance of the Group's Full Year Results release on 7 February 2018. Guidance figures are subject to change.

SALES, REVENUE AND GROSS PROFIT

	2017
West Africa working interest oil production (bopd)	81,700
Jubilee production-equivalent (business interruption insurance receipts) (bopd)	7,400
Working interest gas production (boepd)	5,600
West Africa oil sales volumes (bopd)	74,700
Gas sales volumes (boepd)	7,500
Total revenue ($bn)	1.7
Gross profit ($bn)	0.8
Administrative expenses ($bn)	0.1
Free cash flow ($bn)	0.5

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: Total revenue does not include receipts for Tullow's corporate Business Interruption insurance of c.$0.2 billion. This is included in Other Operating Income which is a component of Gross Profit.

REALISED PRICES

	2017
Realised post hedge oil price ($/bbl)	58.3
Realised post hedge gas price (p/therm)	43

HEDGING INSTRUMENTS

	2017
Fair Value of derivative instruments ($m)	(77)
Loss on hedging instruments ($m)	(11)

Note 3: As at 31 December 2017, the Group's derivative instruments had a negative fair value of approximately $77m, 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 $11m 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 and will be recognised in the income statement.

HEDGING POSITION (as at 31 Dec 2017)

	2018	2019	2020
Oil Volume (bopd)	45,000	22,232	997
Average floor price protected ($/bbl)	52.23	48.87	50.00

Note 4: Tullow's hedge programme employs a blend of financial instruments, predominantly straight puts, collars and three-ways to provide robust downside oil price protection and material participation in the upside. In 2018, the hedge volumes reflect approximately 60% of total Group net entitlement oil volumes hedged on a pre-tax basis. In 2019, 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 PP&E ($bn)	0.6	(0.2)	0.4

Note 5: Due to downward revisions to medium and longer-term oil prices, partially offset by improvements in the forward curve, impairments of property, plant, and equipment are expected to be incurred in 2017. The expected impairment is materially consistent with the half year results and predominately relates to the TEN field. Impairment assessments are performed at the end of each reporting period. It should also be noted that the calculations are not affected by the Company's hedge position which is accounted for separately.

EXPLORATION WRITE-OFF

	Pre-tax write off	Tax effect	Net write off
Exploration write-off ($bn)	0.2	-	0.2

Note 6: For 2017 the Group expects to write off costs associated with licences that were relinquished in Mauritania, unsuccessful exploration activity, and licences that are expected to be sold or developed at an amount lower than their carrying value.

CAPITAL AND OTHER EXPENDITURE

	2017	2018
Capital expenditure ($bn)	0.25	0.46
E&A/D&O split (%)	43/57	21/79
Decommissioning expenditure ($bn)	0.03	0.1

Note 7: Capital expenditure excludes acquisition costs. 2017 capex is presented net of $69m of prior year accruals reversed during 2017.

Note 8: Capital expenditure excludes Ugandan expenditure of c.$60 million in 2017 and c.$110m in 2018 that will, subject to completion of the farm-down, be offset by either capex reimbursements or deferred consideration.

Note 9: Decommissioning expenditure is gross of any tax relief and relates largely to UK decommissioning activities.

DEBT SUMMARY

	31 Dec 2017
Net debt ($bn)	3.5
Facility headroom and free cash ($bn)	1.0
Committed bank facilities ($bn)	3.1
Corporate Bonds ($bn)	1.6

Note 11: Corporate bonds include the $650m 2020 HY bond, the $650m 2022 HY bond and the $300m convertible bond

GROUP AVERAGE WORKING INTEREST PRODUCTION [1]

Oil Production	FY 2017 Actuals (bopd)	2018 FY Forecast (bopd)
Ghana		
Jubilee	*31,800*	*26,900*
TEN Oil	*26,400*	*30,200*
Total Ghana Oil	58,200	57,100
Equatorial Guinea		
Ceiba	*2,000*	*1,600*
Okume	*4,200*	*3,200*
Total Equatorial Guinea	6,200	4,800
Gabon		
Tchatamba	*4,300*	*3,800*
Limande	*1,800*	*1,500*
Etame Complex	*1,100*	*900*
Other Gabon	*5,800*	*5,200*
Total Gabon	13,000	11,400
Côte d'Ivoire	3,000	2,900
Congo (Brazzaville)	600	0
Mauritania	700	0
OIL PRODUCTION SUB-TOTAL	**81,700**	**76,200**
Jubilee production-equivalent (business interruption insurance receipts)	7,400	10,200
OIL PRODUCTION SUB-TOTAL (inc. Jubilee production equivalent)	**89,100**	**86,400**
Gas Production	**(boepd)**	**(boepd)**
UK	3,400	1,900
Netherlands	2,200	0
TEN gas	n/a	2,000
Gas SUB-TOTAL	**5,600**	**3,900**
GROUP TOTAL	**87,200**	**80,100**
GROUP TOTAL (incl. Jubilee production-equivalent)	**94,700**	**90,300**

(1) *Includes condensate*

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 85 exploration and production licences across 16 countries which are managed as three business delivery teams: West Africa, East Africa and New Ventures.

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