

Released : 16.01.2019 07:00

RNS Number : 1869N
Tullow Oil PLC
16 January 2019

Tullow Oil plc - Trading Statement & Operational Update

16 January 2019 - 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 2018. This is in advance of the Group's Full Year Results, which are scheduled for release on Wednesday 13 February 2019. The information contained herein has not been audited and may be subject to further review and amendment.

PAUL MCDADE, CHIEF EXECUTIVE OFFICER, TULLOW OIL PLC, COMMENTED TODAY:

"Tullow is well-placed to deliver on its growth ambitions. In 2019, we will increase oil production in West Africa, target Final Investment Decisions in East Africa and drill the first wells in an exciting exploration campaign in Guyana. Despite a volatile oil price, Tullow's improved balance sheet, low cost production and strong cash flow generation, even at lower oil prices, will allow us to both invest for growth and pay a sustainable dividend."

Trading Update summary

- 2018 full year oil production of 88,200 bopd; 2019 oil production forecast of 93,000-101,000 bopd
- Full year revenue of c.\$1.8 billion, additional proceeds of c.\$0.2 billion from Corporate Business Interruption insurance
- Strong 2018 free cash flow of c.\$410 million, net debt at year-end of c.\$3.1 billion and gearing of c.1.9x
- Seven wells to be drilled and completed in Ghana in 2019 delivering annual gross production of c.180,000 bopd
- Targeting FIDs for Uganda and Kenya developments in 2019; Uganda farm-down negotiations ongoing
- Guyana drilling to commence in mid-2019 with three wells planned to test this high potential acreage

Operational Update

GROUP PRODUCTION

In 2018, Tullow's West Africa oil assets performed solidly and delivered net production of 88,200 bopd in line with expectations. This includes production-equivalent insurance payments of 8,600 bopd from Tullow's Corporate Business Interruption insurance. Working interest gas production averaged 1,800 boepd for the full year resulting in overall Group net production of 90,000 boepd.

In 2019, overall working interest oil production, including production-equivalent insurance payments, is expected to average between 93,000 and 101,000 bopd. Working interest gas production exported from TEN is expected to average 1,000 boepd. Overall Group net production is therefore expected to be in the range of 94,000 to 102,000 boepd.

WEST AFRICA

Ghana

Jubilee

Gross production from Jubilee in 2018 averaged 78,000 bopd (net: 27,700 bopd) slightly below the Group's November forecast. This was due to minor operational issues in December, which have now been resolved. Tullow's net production from Jubilee in 2018, including estimated production-equivalent insurance payments of 8,600 bopd, was 36,300 bopd.

Tullow expects 2019 average gross oil production from the Jubilee field to increase to around 96,000 bopd (net: 34,000 bopd). Tullow's Corporate Business Interruption insurance is expected to provide around 1,000 bopd of net production-equivalent insurance payments, resulting in expected total 2019 Jubilee full year average net production of 35,000 bopd.

TEN

The TEN fields performed well throughout 2018 with gross production averaging 64,500 bopd (net: 30,400 bopd) in line with expectations.

Tullow expects gross oil production from the TEN fields in 2019 to step up significantly to around 83,000 bopd (net: 39,000 bopd). Gross gas production is expected to be around 2,100 boepd (net: 1,000 boepd).

Ghana Drilling

The 2018 drilling programme was successfully executed with two drilling rigs operating in tandem across both fields. The results from drilling were in line with, or exceeded, pre-drill expectations. Two new producer wells were drilled and completed at Jubilee and an existing water injection well was completed. At TEN, two new producing wells and one water injection well were drilled. The first new producer well, NT05-P, was brought online in August 2018 and is performing very well. The second new producer, EN10-P, is currently being completed and is expected to be online in February.

In 2019, Tullow expects to drill and complete seven new wells across the TEN and Jubilee fields allowing gross oil production from Ghana to rise to approximately 180,000 bopd in line with the 2019 production forecast.

Non-Operated Portfolio

2018 West Africa non-operated production was 21,500 bopd, well ahead of the Group's initial 2018 forecast of 19,000 bopd. Gas production from the UK in 2018 was 1,700 boepd with production ceasing as planned in September 2018.

Net production from the non-operated portfolio is expected to increase in 2019 and average between 22,000 and 24,000 bopd.

EAST AFRICA

Kenya

Tullow made substantial progress in Kenya in 2018 and continues to target FID in late 2019 and First Oil in 2022. This will require several key milestones to be achieved throughout 2019 including land acquisition, commercial frameworks and contract awards.

The transfer of stored crude oil from Turkana to Mombasa by road continues as part of the Early Oil Pilot Scheme with an average of eight trucks being dispatched every two days, transporting approximately 600 bopd. This is expected to increase to 2,000 bopd from April 2019. Currently, there are 60,000 barrels of oil stored in Mombasa with a maiden lifting expected in the first half of 2019.

Uganda

Tullow and its partners in Uganda, Total and CNOOC Ltd, continue to work with the Government of Uganda to finalise the farm-down which is now expected to complete in the first half of 2019. Negotiations with the Government are ongoing. The Operators of the Uganda development continue to target FID in the first half of this year once agreements with the Governments of Uganda and Tanzania have been completed.

NEW VENTURES

In 2018, Tullow acquired new licences in Côte d'Ivoire, Suriname, Comoros and Peru - the latter two are subject to Government approval. The Cormorant wildcat well, which did not encounter hydrocarbons, was drilled offshore Namibia in September 2018, at a net cost to Tullow of less than \$3 million. Geophysical surveys were completed in Mauritania, Jamaica and Côte d'Ivoire.

Guyana will be the focus for Tullow's exploration drilling programme in 2019 and the Group will drill the Jethro prospect in the second quarter of 2019 as the first of two planned wells on the Orinduik block. The Carapa prospect will be tested on the Kanuku licence in the third quarter of 2019. Elsewhere, Tullow will undertake geophysical surveys in Côte d'Ivoire, Comoros and around its current assets in West Africa. Tullow will high-grade other prospects in the portfolio for consideration for drilling in 2020 and seek to add further exploration acreage to the Group's portfolio.

Financial Update

Solid production performance, sustained cost discipline and higher oil prices during periods of the year resulted in strong revenues and cash flow generation in 2018. With a realised post-hedge oil price of \$68/barrel, Tullow expects full year total revenue to be c.\$1.8 billion (excluding Corporate Business Interruption insurance proceeds of c.\$0.2 billion).

For the full year 2018, the Group is expected to deliver strong free cash flow of c.\$410 million. This includes the exceptional payment of approximately \$200 million associated with the Seadrill litigation in July 2018 but excludes certain positive working capital items forecast for late 2018 which moved into early 2019. In addition, the receipt of \$208 million of Uganda farm-down proceeds is now expected in the first half of 2019.

Net debt reduced from \$3.5 billion at the beginning of the year to c.\$3.1 billion at the end of 2018 with gearing expected to be 1.9x, in line with the operating range of 1-2x as set out in the Group's capital allocation framework.

Capital expenditure in 2018 associated with operating activities is expected to be c.\$425 million, \$35 million lower than forecast in January 2018 following savings, farm-downs and some work programme deferrals. The Group's 2019 capital expenditure is expected to total approximately \$570 million, comprising Ghana capex of c.\$250 million, Exploration and Appraisal spend of c.\$140 million, West Africa non-operated capex of c.\$100 million, Kenya pre-development expenditure of c.\$70 million and Uganda post-completion Tullow costs of c.\$10 million.

In November 2018, the Board established a capital returns policy to start from the 2019 financial year and expects to pay an annual dividend of no less than \$100 million.

Trading Statement Guidance

Guidance is provided in relation to Tullow's full year reporting to 31 December 2018 in advance of the Group's Full Year Results release on 13 February 2019. Guidance figures are subject to change.

SALES, REVENUE AND GROSS PROFIT

	2018
Total revenue (\$bn)	1.8
Gross profit (\$bn)	1.1
Administrative expenses (\$bn)	0.1
Free cash flow (\$bn)	0.4

Note 1: Total revenue does not include receipts for Tullow's Corporate Business Interruption insurance proceeds of c.\$0.2 billion. This is included in Other Operating Income which is a component of Gross Profit.

HEDGING INSTRUMENTS

	2018
Fair Value of derivative instruments (\$m)	128
Gain on hedging instruments (\$m)	2

2019 HEDGING POSITION

Hedge structure	Bopd	Bought put (floor)	Sold call	Bought call
Collars	22,244	\$56.80	\$81.68	-
Three-way collars (call spread)	29,488	\$54.06	\$73.60	\$79.81
Straight puts	4,000	\$69.24	-	-
Total / weighted average	55,732	\$56.24	-	-

Note 2: 2020 hedging position at 31 Dec 2018: 25,000 bopd hedged with an average floor price protected of \$59.00/bbl

IMPAIRMENTS AND EXPLORATION WRITE OFFS

	Pre-tax write off	Tax effect	Net write off
Impairment of PP&E, net (\$m)	-	-	-
Exploration costs written-off (\$m)	300	(50)	250

Note 3: Exploration costs written off include c.\$140m from Ghana (Akasa & Wawa areas), c.\$75m from Uganda (capitalised interest on assets held for sale) and various New Ventures activities.

CAPITAL AND OTHER EXPENDITURE

	2018	2019
Capital expenditure (\$m)	425	570
Decommissioning expenditure (\$m)	99	125

Note 4: Capital expenditure excludes Ugandan expenditure of c.\$50 million in 2018 and any pre-completion expenditure in 2019 that will, subject to completion of the farm-down, be offset by either capex reimbursements or deferred consideration.

Note 5: Decommissioning expenditure is gross of any tax relief and relates to UK and Mauritania decommissioning activities.

GROUP AVERAGE WORKING INTEREST PRODUCTION ⁽¹⁾

	FY 2018 Actuals (bopd)	FY 2019 Forecast (bopd)
Oil Production		
Ghana	58,100	73,000
<i>Jubilee</i>	27,700	34,000
<i>TEN</i>	30,400	39,000
Ghana Jubilee production-equivalent insurance payments	8,600	1,000
Equatorial Guinea	6,300	6,000
Gabon	12,100	14,500
Côte d'Ivoire ⁽¹⁾	3,100	2,500
OIL PRODUCTION SUB-TOTAL (inc. Jubilee production-equivalent)	88,200	97,000
Gas Production	(boepd)	(boepd)
Ghana (TEN)	100	1,000
UK	1,700	-
GROUP TOTAL (inc. Jubilee production-equivalent)	90,000	98,000

(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 17 countries which are managed as three business delivery teams: West Africa, East Africa and New Ventures.

FOR FURTHER INFORMATION, CONTACT:

Tullow Oil plc (London) (+44 20 3249 9000) Chris Perry, Nicola Rogers (Investors) George Cazenove (Media)	Murrays (Dublin) (+353 1 498 0300) Pat Walsh Joe Heron
---	--

For further information, please refer to our website at www.tulloil.com.

Follow Tullow on:

Twitter: www.twitter.com/TullowOilplc

You Tube: www.youtube.com/TullowOilplc

Facebook: www.facebook.com/TullowOilplc

LinkedIn: www.linkedin.com/company/Tullow-Oil

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact rns@lseg.com or visit www.rns.com.

END

MSCCKPDDOBKDODD