Trading Statement & Operational Update

Released : 26.06.2019 07:00

RNS Number : 4086D
Tullow Oil PLC
26 June 2019

Tullow Oil plc - Trading Statement & Operational Update

26 June 2019 - Tullow Oil plc (Tullow) issues this statement to summarise recent operational activities and to provide trading guidance in respect of the financial half year to 30 June 2019. This is in advance of the Group's Half Year Results, which are scheduled for release on Wednesday 24 July 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 has made steady progress overall across the business in the first half of the year. Our balance sheet remains strong and we expect another year of solid free cash flow generation. I am particularly pleased with the significant progress we have made in Kenya and the agreement with the Government over a number of key commercial principles will greatly assist us in driving the project to FID. Our exciting and potentially material drilling campaign in Guyana will get underway later this month with the spud of the first of three wells planned for 2019."

Operational Update

WEST AFRICA

Production

Group working interest production for the first half of 2019 is expected to average around 89,000 bopd, including production-equivalent insurance payments. As previously disclosed, production in Ghana was impacted by gas compression constraints on Jubilee during February and a delay in completing a TEN production well. Both issues were resolved successfully in the first quarter of the year.

Tullow is currently producing around 95,000 bopd net and the Group's net oil production is expected to rise towards 100,000 bopd in the second half of 2019 as further wells are brought on stream in Ghana. The Group's full year forecast remains unchanged at 90,000-98,000 bopd. This forecast includes production-equivalent insurance payments of 1,300 bopd. The insured period associated with Tullow's successful Corporate Business Interruption claim has now ended three years after cover commenced. Tullow continues to insure against Business Interruption.

Ghana

The Stena Forth and Maersk Venturer drillships have been working in tandem on Ghana drilling and completion operations throughout the first half of the year with four wells drilled and three wells completed. The Stena Forth drillship has now left Ghana to commence drilling in Guyana. The Maersk Venturer will remain in Ghana and will complete the ongoing Enyenra-14 production well, a Jubilee producer and an Enyenra water-injector, before switching to drilling operations for the remainder of the year.

The completion of the Enyenra-14 production well is taking longer than anticipated and consequently will be onstream later than planned. This delay has been reflected in a small revision to full year guidance for TEN which has been adjusted to around 71,000 bopd gross, from 73,000 bopd. Following strong performance from Jubilee, production guidance for the year has been adjusted to around 95,000 bopd gross, up from 93,000 bopd. Reservoir performance in the first half from existing and new wells has been in line with expectations at both fields and Tullow expects to reach gross production from Ghana of around
180,000 bopd in the second half of 2019.

Non-operated portfolio

Production from Tullow's non-operated portfolio in the first half has been strong, especially in Gabon. First half net production is expected to average around 25,500 bopd and the portfolio is expected to deliver around 25,000 bopd net for the full year.

A full breakdown of production forecasts for the first half and the full year is provided at the end of this release.

EAST AFRICA

Kenya

Significant progress has been made over the first six months of the year in Kenya on both the Early Oil Production Scheme (EOPS) and the Foundation Stage of Project Oil Kenya.

In May 2019, EOPS production was increased from 600 bopd to 2,000 bopd and the reservoirs, wells and associated facilities have been performing well. Over 150,000 bbls of oil have been safely delivered to Mombasa so far and Tullow expects the first export cargo to be sold and lifted in the third quarter of 2019.

The Joint Venture Partners and the Government of Kenya have concluded negotiations around key fiscal and commercial principles for Project Oil Kenya with agreements between the parties documented in various Heads of Terms which were signed by the Joint Venture Partners and the Government of Kenya in Nairobi yesterday. This is a material and encouraging step forward which gives all parties confidence that the development project will be robust at low oil prices. In addition, the completion of the FEED studies for both the upstream and midstream, together with recent market soundings provide increased confidence in the project's capital expenditure estimate and construction timetable that is expected to see first oil three years after the Final Investment Decision (FID).

The Government of Kenya continues to make good progress, both in acquiring the land for the upstream and pipeline and securing water rights for the upstream. While these activities are progressing well, they are taking longer than originally forecast. The National Environment Management Agency has requested that additional community consultation take place for the Environmental and Social Impact Assessments (ESIAs) which will now be submitted in the second half of 2019 which is later than anticipated.

All parties continue to work well together across all development workstreams and significant progress has been made so far this year. However, despite this progress, the Partners and the Government of Kenya are reviewing the most likely timeline to FID which Tullow now expects in 2020.

Uganda

Following meetings in January 2019 between the CEOs of both Tullow and Total and H.E. President Museveni of Uganda, where principles for the tax treatment of the farm-down to CNOOC and Total were agreed, the Joint Venture Partners have worked to finalise an agreement based on these principles. Tullow and its Joint Venture Partners, have, so far, been unable to finalise this agreement with the Government of Uganda. We continue to work constructively with our Joint Venture Partners and the Government of Uganda to agree a way forward and the consequent timing of FID. Nevertheless, although negotiations continue, Tullow is currently considering all options in pursuing the sale of its interests in Uganda.

The Joint Venture Partners continue to work towards reaching FID for the development project in the second half of 2019 with the project's technical aspects now completed. The Tilenga Project ESIA has been approved by the National Environment Management Agency and the Kingfisher ESIA public hearing is ongoing. Geotechnical and geophysical surveys for the East Africa pipeline (EACOP) have been completed for the entire route across both Uganda and Tanzania. There are ongoing EACOP discussions between the Joint Venture Partners and the Governments of Uganda and Tanzania regarding key commercial agreements which are required prior to FID.

NEW VENTURES

In Guyana, Tullow plans to drill two consecutive exploration wells in the second half of 2019 on the Orinduik licence with the Stena Forth drillship which is currently in transit from Ghana. The first well will target the Lower Tertiary Jethro prospect and drilling is expected to commence at the end of June and take approximately 40 days. The rig will then move to drill the Upper Tertiary Joe prospect. The Rowan EXL II jack-up rig has also been contracted to drill the Cretaceous Carapa prospect in the non-operated Kanuku licence and is expected to commence operations in August.

The Group also continues to seek to access new acreage in both Africa and South America. Earlier this year, Tullow won three blocks in the Malvinas West Basin, offshore Argentina, in a competitive bidding round. Tullow won operated 40% interests in Blocks 114 and 119 and a 100% interest in Block 122, with formal award due later this year. The Government of Peru has approved Tullow's entry into two licences, Z-38 and Z-64 and work continues to secure other licences. A non-operated, exploration well is being planned for drilling in Z-38 in early 2020.

Following interpretation of 3D seismic acquired over Block C-18 in Mauritania, Tullow has decided not to proceed into the next exploration phase and has withdrawn from the licence. Tullow has also decided to withdraw from Zambia Block 31 after the interpretation of the gravity survey. These decisions have been made as part of ongoing portfolio management to retain the highest-ranking exploration opportunities.

Financial Update

In respect of the first half of 2019, Tullow expects to report revenue of around $900 million and gross profit of around $500 million. Underlying free cash flow (before the 2018 final dividend payment) is forecast to be around $100 million for the first half of the year and around $450 million for the full year. This figure is expected to increase to around $650 million following completion of the Uganda farm-down. As previously disclosed, Tullow expects its revenue and free cash flow to be heavily weighted to the second half of the year due to the Group's liftings schedule and the phasing of both tax payments and rebates.

Net debt is expected to be around $3.0 billion at 30 June 2019 and the gearing ratio (net debt/Adjusted EBITDAX) is expected to be around 1.9x. The Group's liquidity headroom of unutilised debt capacity and free cash at 30 June 2019 is expected to be around $1.0 billion.

Capital expenditure guidance for 2019 remains unchanged at $570 million (excluding Uganda expenditure which will be repaid following completion of the Uganda farm-down).

Trading Statement Guidance

Guidance is provided in relation to Tullow's half year reporting to 30 June 2019 in advance of the Group's Half Year Results release on 24 July 2019. Guidance figures are subject to change.

SALES, REVENUE AND GROSS PROFIT

	H1 2019
Total revenue ($bn)	0.9
Gross profit ($bn)	0.5
Administrative expenses ($bn)	0.05
Free cash flow ($bn)	0.1

Note 1: Total revenue does not include receipts for Tullow's Corporate Business Interruption insurance proceeds of c.$40 million. This is included in Other Operating Income which is a component of Gross Profit.

Note 2: Free cash flow excludes the $68 million dividend payment paid in May.

HEDGING INSTRUMENTS

	30 June 2019
Fair Value of derivative instruments ($m)	60

HEDGING OUTLOOK

	2019	2020	2021
Oil Volume (bopd)	53,792	36,000	10,000
Average floor price protected ($/bbl)	56.72	58.45	54.88

IMPAIRMENTS AND EXPLORATION WRITE OFFS

	Pre-tax write-off	Tax effect	Net write-off

Impairment of PP&E, net ($m)	11	(3)	8
Exploration costs written off ($m)	85	-	85

Note 3: Impairments are related to the UK where forecast decommissioning costs have increased and Gabon.

Note 4: Exploration costs written off include Kenya Block 12A, Mauritania Block C-3 and New Ventures expenditure.

CAPITAL AND OTHER EXPENDITURE

	H1 2019	2019
Capital expenditure ($m)	285	570
Decommissioning expenditure ($m)	40	115

Note 5: Capital expenditure excludes Uganda expenditure which will be repaid following completion of the Uganda farm-down.

GROUP AVERAGE WORKING INTEREST PRODUCTION (1)

Oil Production	H1 2019 Forecast (bopd)	FY 2019 Forecast (bopd)
Ghana	61,000	67,200
Jubilee	*31,500*	*33,700*
TEN	*29,500*	*33,500*
Ghana Jubilee production-equivalent insurance payments (1)	2,700	1,300
Equatorial Guinea	5,800	6,000
Gabon	17,000	17,000
Côte d'Ivoire (2)	2,800	2,500
OIL PRODUCTION SUB-TOTAL (inc. Jubilee production-equivalent)	**89,300**	**94,000**
Gas Production		
Ghana (TEN)	-	1,000
GROUP TOTAL (inc. Jubilee production-equivalent)	**89,300**	**95,000**

(1) *Tullow's Corporate Business Interruption insurance cover for the Jubilee turret issue ended in May 2019. Production-equivalent insurance payments are based on Tullow estimates and remain subject to change until a final reconciliation has been completed and agreed with insurers; this is expected to happen in the second half of the year.*

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

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

Follow Tullow on:

Twitter: www.twitter.com/TullowOilplc
YouTube: www.youtube.com/TullowOilplc
Facebook: www.facebook.com/TullowOilplc
LinkedIn: www.linkedin.com/company/Tullow-Oil

MSCCKPDKOBKDOAB