

Operations Review

Tullow's strategy takes a long-term view with continual investment to grow the value of the business; this strategy which delivered once again in 2007.

Remarkable exploration success

The highlight of 2007 performance was undoubtedly the remarkable success of the Group's exploration and appraisal programmes in Ghana and Uganda. In Ghana, the discovery of the Jubilee field, with the Mahogany-1 and Hyedua-1 wells, provides a high degree of confidence that Tullow may have uncovered not just a world class discovery but also a major new oil province in which we are the dominant acreage holder. Our priority for 2008 will be to rapidly appraise the existing discovery while also testing some of the more material regional exploration prospects. In parallel, the field partnership is working on plans for a phased development of the field targeting first oil in 2010. A high capability semi-submersible drilling rig has been contracted for a minimum of three years to help achieve this goal.

In Uganda, Tullow invested over US\$100m (£50 million) in exploration and appraisal activities in the Lake Albert Rift Basin during the year. The knowledge and confidence generated by success to date has led to plans to invest over US\$200 million (£100 million) there in 2008. This expenditure will be focused on onshore and offshore drilling, seismic surveys and the anticipated sanction of an Early Production System (EPS). Uganda has the potential to more than double Tullow's worldwide reserve base and make a material long-term contribution to the country's economy.

The Group had a 56% exploration success rate during the year though there were some disappointments, notably the outcome of Kudu-8 offshore Namibia. Although the well found gas as anticipated, reservoir quality at that location would not support commercial flow rates.

Strong portfolio performance

Our producing assets performed strongly during 2007, lifting group output to over 73,000 boepd and allowing Tullow to capitalise on oil prices that approached record levels at times during the year. Production was very encouraging in Africa, particularly from the Okume development in Equatorial Guinea, while in the UK a reduction of investment in response to gas market conditions meant that production remained stable. As we grow, we continue to focus on ensuring that our resources, both human and financial, are being applied in an optimum manner to the best opportunities available to the Group.

Africa: Strong future growth platform

2007 Key statistics

Total production	Total reserves and resources	Sales revenue	Total 2007 investment	Employees
40,300 boepd	464.3 mmboe	£371.9 million	£236.6 million	101

2007 Highlights

- Production averaged 40,300 boepd, 21% above 2006 levels;
- World class oil discovery offshore Ghana with 1.3 billion barrel potential, 80 mmbo net resources booked at end 2007; and
- 100% success rate in Uganda with four discoveries; significant ongoing programme to appraise ultimate potential of up to 1 billion barrels.

2007 Performance

Our African business continues to grow rapidly and highlights for the year, along with the exploration success in Ghana and Uganda, included the exceptional performance of the Okume development and the Ceiba field in Equatorial Guinea, where gross production recently exceeded 115,000 bopd, and the ongoing successful infill drilling programme in the Espoir field, Côte d'Ivoire. The performance of these assets more than offset the impact of disappointing production and reserve performance from the Chinguetti field in Mauritania.

Ghana

In the deepwater Tano Basin, the Mahogany-1 well on the West Cape Three Points block was drilled in June followed by the Hyedua-1 well on the adjacent Deepwater Tano block in August. Based on the technical work undertaken to date, the proven recoverable resources of the field are estimated at 170 million barrels, while the ultimate upside potential is estimated to be in excess of one billion barrels.

Up to five appraisal wells are planned on the field in 2008 using two of the rigs under contract. The objective of this programme is to increase the proven resource base of the field and to collect additional geological and engineering data to support development planning and activities. The first exploratory appraisal well, Mahogany-2 commenced this month.

The operator structure is now in place and Tullow has been designated as the field Operator. With the support of the Government of Ghana, a phased development is planned with a first oil target of 2010. Screening studies indicate that the most suitable development scheme is likely to involve a Floating Production Storage Offtake vessel (FPSO) highly suited to fast-track development. In February 2008 a further rig, the Eirik Raude, a fifth generation semi-submersible rig was contracted for a development drilling programme of up to five years which is scheduled to start in late 2008.

The Jubilee discovery has opened up a new hydrocarbon province and Tullow plans to drill further exploration wells. The first well was drilled in February 2008 on the Odum prospect in the West Cape Three Points block. The well encountered a 60 metre oil column and is considered to be a commercial discovery as it is located only 13 kilometres from the Jubilee field. Further high impact prospects have been identified in the deepwater region and at least two of these, Teak and Tweneboa, are expected to be drilled within the next 12 months. Each of these prospects has upside potential in excess of half a billion barrels.

In addition to the deep water programme, Tullow is planning to drill its second well on the Shallow Water Tano licence during 2008. The first well, drilled in September 2007, was unsuccessful and was plugged and abandoned. The second well which will be drilled on the Ebony prospect will target a geological play similar to the Odum discovery.

Uganda and Congo (DRC)

Tullow undertook an extensive exploration, appraisal and testing campaign in the Lake Albert Rift Basin of Uganda during 2007. All four wells drilled during the year encountered oil and an aggressive campaign is planned for 2008 focused on onshore and offshore drilling, seismic surveys and the anticipated sanction of the EPS. Overall, this programme is targeting significant oil resources with the ultimate aim of exceeding the threshold required for full development and export to international markets.

Tullow is working closely with the Ugandan Government to achieve first production from the region via an EPS in the second half of 2009. The EPS will produce 4,000 bopd to a new processing facility and power generation plant.

Recent onshore drilling activity has focused on the high impact Ngassa well targeting the largest structure in the basin with upside potential of 900 million barrels. The well commenced in November 2007 but drilling difficulties resulted in the well being suspended in February 2008. The substantial primary and secondary oil objectives remain undrilled and it is now planned to drill Ngassa from an alternative location. Both onshore and offshore sites are being considered.

In the onshore Butiaba region of Block 2 and Block 1, numerous prospects have been identified following analysis of recently acquired 2D seismic. The results indicate considerable prospectivity and a light rig, the OGEC 750, has been contracted to drill a programme of approximately eight wells commencing in April 2008. This campaign will begin with the drilling of the Taitai prospect (previously Waki-2) and is targeting overall reserve potential in excess of a billion barrels.

In Block 3A the Kingfisher prospect, with 300 million barrel upside potential, was drilled and tested in early 2007. The Kingfisher-1 well intersected three significant oil-bearing intervals and tested at flow rates in excess of 14,000 bopd, however the well did not reach the primary target. The Kingfisher-2 appraisal well is expected to commence in the second quarter of 2008 and the Nabors 221 rig is currently being mobilised from the Ngassa-1 drill site. The recently acquired 3D seismic has also identified a number of additional offshore prospects.

Work is also at an advanced stage to contract a rig to drill the offshore prospects in Blocks 3A and Block 2. In addition to Ngassa and Kingfisher, the offshore Pelican prospect in Block 3A, recently covered by 3D seismic, is looking particularly encouraging with amplitude anomalies potentially indicative of hydrocarbons. It is expected that the first offshore well will spud in early 2009.

Tullow also has interests in two prospective blocks on the Congo (DRC) side of the Lake Albert Rift Basin, adjacent to the Group's Ugandan acreage. Tullow is currently awaiting a Presidential Decree on these blocks before any exploration work can commence and the full potential of this acreage can be realised. The validity of the award of these licences is currently being disputed by the Congolese Oil Ministry; this is being vigorously defended by Tullow and its partner.

Congo (Brazzaville)

In January 2008, Tullow announced the sale of its 11% interest in the M'Boundi field to the Korea National Oil Company (KNOC) for a total cash consideration of US\$435 million (£218 million). The deal is subject to partner pre-emption and approval from the Government with the completion of the transaction expected by mid-year 2008. A substantial profit is expected in the 2008 financial statements.

Equatorial Guinea

The Okume Complex in Equatorial Guinea achieved first oil in December 2006. Production performance since first oil, particularly from the Elon field, has exceeded expectations. In 2008, the complex is expected to achieve an average annual gross production of over 60,000 bopd and an injection rate in excess of 100,000 bwpd.

Production from Okume and Ceiba is blended and exported via the Ceiba FPSO and in March 2008 gross oil production through the processing facilities exceeded 115,000 bopd for the first time.

Côte d'Ivoire

During 2007 a very successful development drilling programme was completed on West Espoir resulting in average gross production of 10,000 boepd from this field alone. Gross production from East Espoir averaged 20,000 boepd in 2007 and total gross production from both fields is expected to be maintained at approximately 30,000 boepd during 2008.

Current activity on Tullow's exploration licences is focused on identifying the highest quality prospects for drilling in 2009 and 2010 and includes acquisition and processing of large volumes of high quality 3D seismic data.

Mauritania and Senegal

Gross production from the Chinguetti field (Mauritania) declined gradually throughout the year to approximately 12,000 bopd by year-end. This was significantly below expectations and following a review of reservoir performance, ultimate net recoverable reserves have been downgraded by 50%.

The 2007 exploration work programme focused on the assessment of Tullow's expanded portfolio covering both Cretaceous and Tertiary plays. A drilling campaign commenced in February 2008 with the Khop well in Block 6 which is targeting Cretaceous reservoir intervals. This reservoir is potentially more material than the shallower Miocene plays previously drilled in the region. Recent exploration work has also identified further prospectivity in an untested subsalt play with very significant resource potential. These leads and prospects will be subject to additional technical validation over the coming months and may form part of a 2009 drilling campaign.

The 2008 seismic programme includes a 3D seismic survey straddling the boundary between Block 1 in Mauritania and the St. Louis block in Senegal and the reprocessing of seismic data acquired across Blocks 2 and 7.

Gabon

Net production from Tullow's Gabon assets averaged 14,800 bopd in 2007 and is currently over 15,000 bopd. The outlook for 2008 is positive, with two new fields, Onal and Ebouri, expected to come on-stream, offsetting the natural decline from existing fields and sustaining average production above 14,000 bopd.

Tullow's only exploration well in Gabon during 2007 was M'Pano-1 in the Nziembou licence adjacent to the Niungo field. The well found excellent quality reservoir but was dry. An extension to the exploration licence has been requested from the authorities.

Namibia

The Kudu-8 appraisal well, designed to test the Kudu East reservoir within the greater Kudu field area, was completed in September 2007. While the well encountered gas bearing sands, the interpretation of data indicated that the reservoir would not flow at commercial rates and the well was plugged and abandoned. Whilst a disappointment for both Tullow and its partners, the result of the well has not impacted our plan to commercialise the existing proven gas resources. In addition, we are completing technical work to determine the future exploration work programme and remain optimistic as to the potential for additional gas to be discovered in the region.

2008 Outlook

Tullow plans to invest over £325 million in its African business during 2008. Approximately 35% of this will be spent on the exploration, appraisal and development programme in the Group's Ghanaian acreage with the aim of approving full field development during 2008. Activities in Uganda will focus on accelerated exploration and appraisal of the Butiaba area along with project sanction and the commencement of EPS development work and the drilling of the high impact Kingfisher well.

Elsewhere in Africa, ongoing seismic surveys and technical work are likely to lead to 2009 drilling in Tanzania, Madagascar, Mauritania, Angola and Gabon.

2008 production for Africa is expected to average approximately 42,000 boepd, before accounting for the M'Boundi field disposal, which is expected to be completed by mid-year 2008.

EUROPE: Volatile UK gas market but outlook positive

2007 Key statistics

Total production 28,500 boepd	Total reserves and resources 66.7 mmboe	Sales revenue £258.8 million	Total 2007 investment £116.3 million	Employees 145
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2007 Highlights

- Production averaged 171 mmscfd, 4% below 2006 levels;
- Two new gas fields, Thurne and Kelvin, brought onstream;
- Exploration success with the Harrison gas discovery; and
- Expansion of activity into the Dutch sector adjacent to our CMS acreage, extending our coverage of the prolific Carboniferous play.

2007 Performance

Net production from the UK portfolio during 2007 averaged 171 mmscfd, similar to 2006. During the first half of the year a comparatively mild winter combined with perceived oversupply in the UK gas market led to a period of uncertainty and weak pricing. Against this background, and with high service sector costs, Tullow redirected investment in favour of its international programmes. However, as the year progressed and longer-term pricing trends became more favourable, Tullow allocated funds to selected development and high-graded exploration projects with a focus on value rather than production growth.

Thames-Hewett area

In 2007, Tullow's net production from these assets averaged 77 mmscfd and during the year first gas was achieved from the Tullow-operated Thurne field. The development plan for the Wissey discovery in Block 53/4d was approved in May 2007 and first gas is planned for August 2008. To further extend the economic life of the Thames infrastructure, Tullow is currently evaluating the potential of infill wells on existing fields in the Thames area.

Hewett Complex

In 2007, Tullow undertook a project to convert the Hewett complex to an unmanned facility which will be controlled remotely from the Bacton terminal. Optimisation of staffing, logistics and maintenance is expected to yield cost savings which will extend economic life, regardless of any new gas production.

An exploration well on the Doris prospect spudded in January 2008 but was unsuccessful. Tullow also plans to drill a development well in mid-2008 in the Hewett main field. In the event of success, first gas could be achieved in late 2008.

In addition to activities to extend production life, Tullow is investigating the potential longer-term use of Hewett reservoirs and infrastructure for both natural gas and carbon dioxide storage.

CMS Area

Production from the CMS Area averaged 88 mmscfd for the year, slightly less than 2006, as a result of natural decline. However, first gas from the Kelvin field was achieved in November, significantly boosting CMS production which by year-end was just over 120 mmscfd net to Tullow.

The redevelopment of the Schooner and Ketch fields continued in 2007 with first gas from the Ketch-9 well in July at an initial rate of 22 mmscfd. The well also appraised the south west flank of the field, proving up an area of undepleted gas reserves that provide an attractive potential development opportunity.

Other opportunities being considered for the area include infill drilling on the existing fields. Plans are well advanced for a Boulton field infill well in the second quarter of 2008.

The carboniferous is a key UK play for Tullow, as evidenced by the eight consecutive discoveries in the CMS area. Capitalising on our success in this area, we seized the opportunity to extend our activities into the Dutch sector.

Netherlands

In the Netherlands, carboniferous prospectivity remains highly under-explored and prospects are materially bigger in comparison to those in adjacent UK acreage. Tullow made its first entry into the province in 2007 gaining interests in six licences. Activity for 2008 on this new acreage will largely comprise seismic reprocessing and interpretation in preparation for an integrated Netherlands drilling campaign in 2009.

Central North Sea

Tullow participated in two high impact exploration wells in the Central North Sea in 2007. Both wells, on the Peveril and Acer prospects, were dry and the wells were plugged and abandoned.

Portugal

In February 2007, Tullow was awarded three blocks in the undrilled Alentejo Basin off the southwest coast of Portugal. This frontier exploration acreage offers a range of play types consistent with Tullow's core exploration expertise and a detailed seismic infill programme across the acreage is planned for 2008.

2008 Outlook

The Group has an active programme planned for its European assets in 2008. In the UK this includes two exploration/appraisal wells, the development of the Wissey field, and up to three infill development wells. Average net UK production is expected to be approximately 24,500 boepd in 2008.

There will also be a significant programme of seismic acquisition and processing through the year to evaluate the potential of the Dutch and Portuguese acreage.

The Group has also entered the Hewett field in the Government's carbon capture and storage competition with the aim converting one of the fields into a carbon store and thereby significantly extending the life of the infrastructure once production ceases.

SOUTH ASIA: Significant growth potential

2007 Key statistics

Total production 4,300 boepd	Total reserves and resources 20.4 mmboe	Sales revenue £8.5 million	Total 2007 investment £10.1 million	Employees 124
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2007 Highlights

- Production averaged 4,300 boepd, 154% above 2006 levels;
- Gross production in Bangladesh increased to 70 mmscfd with upgrade to 120 mmscfd sanctioned;
- First gas from the Chachar field achieved in August 2007; and
- Delineation of CB-ON/1 exploration drilling prospects ahead of an active drilling campaign in 2008.

2007 Performance

The Asian economy has witnessed unprecedented economic growth over the past few years, leading to steadily increasing demand for energy. We view Asia as an area with significant growth potential and are currently focusing attention on new business opportunities in the region.

Bangladesh

2007 marked a step change in Tullow's operations in Block 9 in Bangladesh. The Bangora-5 well was tied-back in April 2007 and thereafter the field has been producing at the 70 mmscfd capacity of the facility. The second phase of development was sanctioned in 2007 and is now under way. This involves an upgrade of the processing facility to 120 mmscfd and the tie-back of a successful appraisal well (Bangora-3) leading to gross production in excess of 100 mmscfd by the end of 2008.

Elsewhere in Bangladesh, a three year extension has been secured for offshore exploration Blocks 17&18, and the Government of Bangladesh approved the assignment of a 60% interest to Total Exploration and Production.

Pakistan

The Chachar field came onstream in August 2007 with gas being sold to the Guddu power station. Production commenced at a rate of 23 mmscfd from three wells, two of which have dual completions.

On the Kohat exploration block, seismic processing and interpretation was completed and two drilling prospects were selected. The operation has been delayed due to the lack of rig availability as a consequence of the security situation in Pakistan. The Government has granted a one year extension to the licence and drilling is now scheduled to commence in the latter part of 2008.

Tullow is currently reviewing longer term strategy in respect of its Pakistan business which may potentially result in a disposal of this asset during 2008.

India

The main focus in India during 2007 was on block CB-ON/1, where Tullow has a 50% interest. A drilling programme of four firm wells and three contingent wells has been agreed and will test a number of different plays on the Block. A drilling rig has been secured and the first well of the campaign is now planned to spud in the second quarter of 2008.

2008 Outlook

2008 will be a year of active portfolio management, production growth and exciting exploration activity in Asia. A high impact multi-well exploration drilling programme is planned in India and extensive exploration activities are planned for Pakistan and Bangladesh. Production is expected to continue to grow, averaging approximately 5,600 boepd in 2008.

SOUTH AMERICA: New business opportunities

2007 Highlights

- Successful bidder in two key Trinidad and Tobago blocks;
- Execution of PSCs for two onshore Suriname blocks;
- Five exploration wells drilled in Suriname;
- CSEM survey over the large Matamata prospect in French Guiana; and
- Divestment of the non-core Falkland Islands assets.

The region is a prolific but underexplored oil and gas province with a diverse set of opportunities from near-infrastructure plays in Suriname to true wildcat high impact prospects in French Guiana. The region is recognised as having great potential and Tullow is now applying its skills and expertise, developed through many years of exploration in West Africa, to these very similar plays across the Atlantic.

2008 Outlook

2008 will be an exciting year for the Group's South American business as it looks to expand through new ventures, portfolio management, licence rounds and exploration. The key areas of interest this year will be the drilling of the high impact Matamata prospect in French Guiana, the completion of the Trinidad PSC negotiations and potential entry into new South American oil and gas provinces.