Tullow Oil plc

Annual Report and Accounts 2007

Meeting the challenge

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Tullow is one of Europe's leading independent exploration and production companies. The Group has a balanced portfolio of quality oil and gas assets, across 23 countries with an interest in 106 licences.

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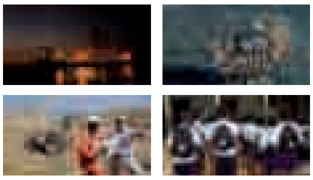
By building on the progress made in 2007, Tullow has the potential to more than double in size. As a Group, we have the ability and the appetite to ensure we meet this challenge and continue to deliver superior shareholder value.



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Following the resolution passed at last year's Annual General Meeting, Tullow wrote to all shareholders explaining the new electronic communication arrangements and consulted with shareholders to see how they now wished to interact with the Group. This year nearly 7,000 shareholders will receive this annual report by e-delivery, which has significantly reduced the number of printed documents, leading to a reduction in the environmental impact of waste paper.

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The oil and gas industry uses many technical terms. For ease of use and understanding we have included some of the key terms on this page in a summary glossary. A full glossary can be found on page 124.

Summary glossary

bbl	Barrel
boe	Barrels of oil equivalent
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
CSR	Corporate and Social Responsibility
EHS	Environment, Health and Safety
EPS	Early Production System
FPSO	Floating Production, Storage and Offtake vessel
KPI	Key Performance Indicator
LTI	Lost Time Incident
LTIFR	LTI Frequency Rate measured in LTIs per million hours worked
mmbbl	Million barrels
mmboe	Millions of barrels of oil equivalent
mmscfd	Millions of standard cubic feet per day
PSC	Production Sharing Contract
TSR	Total Shareholder Return

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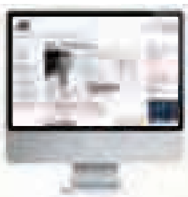


2007 was an exceptional year for Tullow. The Group recorded its largest ever discovery, the Jubilee field offshore Ghana, continued its successful exploration in Uganda, and generated record production, sales revenue, operating cashflow and growth in reserves and resources.

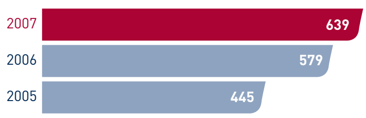
Tullow is capable of growing substantially in the coming years and has the strategy, the assets and the team to achieve this. The outlook for 2008 and beyond is extremely promising.

2007 Results summary

- The financial performance of the Group overall was solid, including record operating cashflow before working capital of £474 million.
- African assets have transformed the Group, driven by exceptional discoveries and strong production growth, up 21% to 40,300 boepd.
- The UK delivered broadly stable production, two new field developments and a successful gas discovery.
- South Asia reported a 143% increase in average production from gas field developments in Pakistan and Bangladesh.

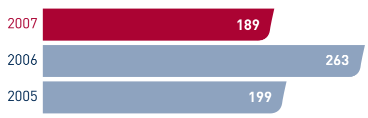
Key financial highlights

Sales revenue (£ million)



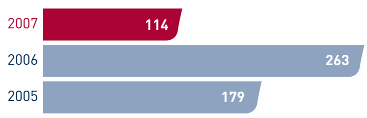
2007 sales revenue increased by 10% as a result of increased sales volumes and higher oil prices, offset by weaker UK gas prices.

Operating profit (£ million)



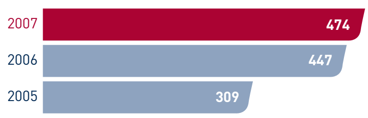
Operating profit before exploration activities declined 28% due to increased depreciation charges, partly offset by production growth and strong oil prices.

Profit before tax (£ million)



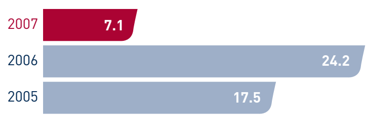
Increased finance costs and recognition of a loss on hedging significantly impacted profit before tax, which declined 57% to £114 million.

Operating cash flow (£ million)



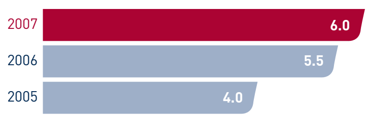
Record operating cash flow before working capital facilitated £370 million capital investment in the Group's exploration and development activities.

Basic earnings per share (p)



The decline in basic earnings per share reflects lower UK gas prices and increased depreciation charges, exploration write-offs and interest charges.

Dividend per share (p)



The Board has a high level of confidence in the Group and its future profit potential and has proposed a 14% increase in the final dividend.

For further information on our results see the Finance review on page 40 to 43.

Tullow Oil plc is one of Europe's largest independent exploration and production companies and operates a versatile and balanced worldwide portfolio of quality oil and gas assets, managed by a team with excellent technical, commercial and financial skills.

Production and development

Jim McCann with Marathon representative on Tchatamba platform in Gabon

Our producing assets performed strongly during 2007, driving Group output to 73,100 boepd. 2008 has the potential to be another transformational year as we prepare to develop and operate the world-class Jubilee field in Ghana.

Tullow has a high quality, diverse portfolio of production and development assets. Over the last few years the Group has developed a strong track record of reserves and production growth and has delivered material value. Tullow is now entering a new phase in its development, operating major projects in both Ghana and Uganda that individually have the potential to more than double current reserves and production.

73,100 boepd +13%

2007 Working interest production

Exploration

Nabors 221 Rig in Uganda

2007 was an extraordinary year for Tullow's exploration team with an overall success rate of 56% across our global exploration programme and the discovery of the Jubilee field, offshore Ghana, the Group's largest oil discovery to date.

Tullow's exploration strategy is to build on the success of recent years, focusing on four core plays where our track record is strongest. Geology is considered over geography as a fundamental principle in Tullow's exploration strategy and only the best prospects are targeted after rigorous technical and commercial evaluation. Exploration is undertaken via efficient regional campaigns, capitalising on success with material acreage positions. Six campaigns are currently ongoing.

551 mmboe +9%

Total reserves and resources

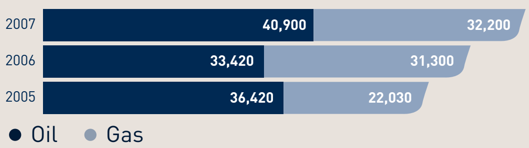
2008 Challenges

- To work with our partners to sanction the development of the Jubilee field in Ghana to ensure we achieve first oil in 2010 from the first phase of field development.
- To commence the development of reserves in Uganda through an Early Production System (EPS). The EPS will allow Uganda to start its first ever oil production in 2009 providing essential oil product and an important new power supply to the region.
- To successfully implement a programme of development and infill wells in the UK Southern North Sea, Africa and South Asia.
- To establish the commerciality of the Group's portfolio of discoveries including assets in Mauritania, Ghana, Uganda and the UK.
- To focus on achieving the full potential of Tullow's current portfolio, which represents an excellent opportunity to transform the Group's reserve and production profile.

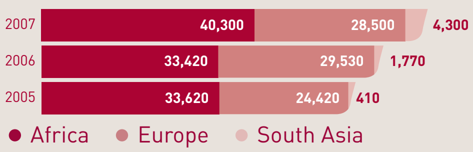
Outlook

The Group expects to drill over 20 development wells in 2008 with production expected to average between 70,000 and 74,000 boepd.

Working interest production by oil and gas (boepd)



Working interest production by core area (boepd)



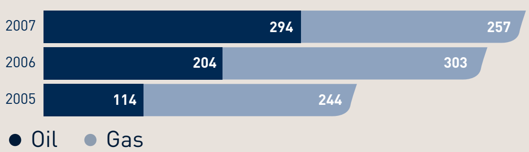
2008 Challenges

- To successfully complete the exploratory appraisal programme to extend the Jubilee field and to target additional high impact prospects in the region. The potential exists to increase Jubilee resources from 170 million barrels to more than 1.3 billion barrels.
- To fully evaluate the prospects in Blocks 1, 2 and 3A in the Lake Albert Rift Basin, Uganda and to exceed the reserves threshold to justify investment in a development and export pipeline.
- To efficiently deliver the high impact exploration campaigns in Uganda, Ghana, India, Mauritania and French Guiana, where considerable gross upside potential exists.
- To continue new ventures activity to build additional campaigns for 2010 and beyond.

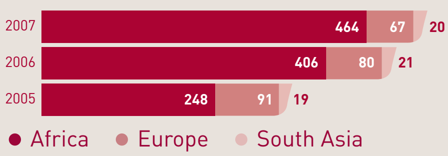
Outlook

Tullow expects to drill over 30 exploration wells during the year, combining a mix of lower impact, near infrastructure prospects with high impact opportunities.

Total reserves and resources by oil and gas (mmboe)



Total reserves and resources by core area (mmboe)



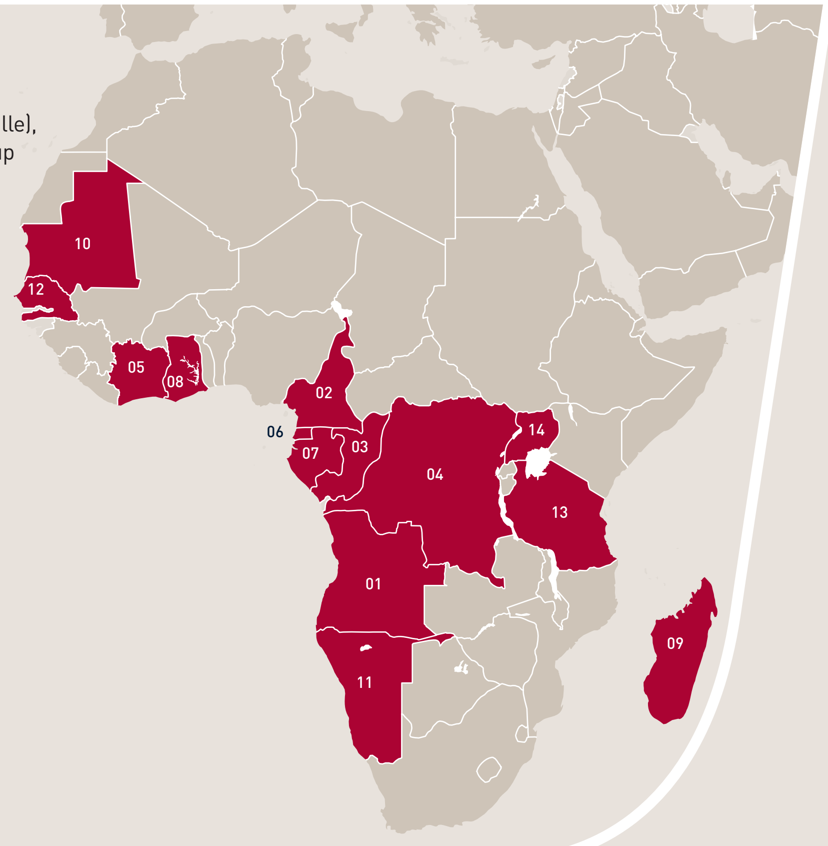
2007 Business summary

Tullow has a balanced portfolio of exploration and production assets with interests in 106 licences across 23 countries in four core areas. The largest core area is Africa, which represents over 50% of Tullow's production and sales revenue and more than 80% of the Group's reserves and resources. Tullow focuses on gas exploration and production in the UK, has a growing South Asia business and has recently gained interests in South America with high impact exploration potential.

Africa

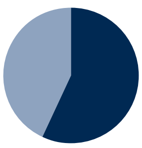
2007 saw Tullow achieve record African production from its operations in Côte d'Ivoire, Congo (Brazzaville), Equatorial Guinea, Gabon and Mauritania. The Group also has an extensive African exploration portfolio.

01 Angola ●
02 Cameroon* ●
03 Congo (Brazzaville)* ▲ ■
04 Congo (DRC) ●
05 Côte d'Ivoire ● ▲ ■
06 Equatorial Guinea ▲ ■
07 Gabon ● ▲ ■
08 Ghana ●
09 Madagascar ●
10 Mauritania ● ▲ ■
11 Namibia ▲
12 Senegal ●
13 Tanzania ●
14 Uganda ●

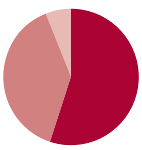


Key: Exploration = ● Development = ▲ Production = ■
Note: *Tullow has agreed the sale of its assets in these countries.

Working interest production 73,100 boepd

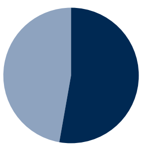


● Oil 57%
● Gas 43%

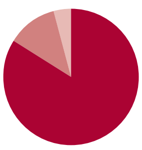


● Africa 55%
● Europe 39%
● South Asia 6%

Reserves and resources 551 mmboe

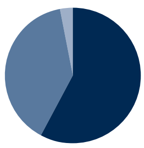


● Oil 53%
● Gas 47%

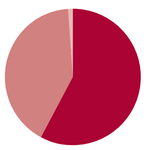


● Africa 84%
● Europe 12%
● South Asia 4%

Revenue £639 million

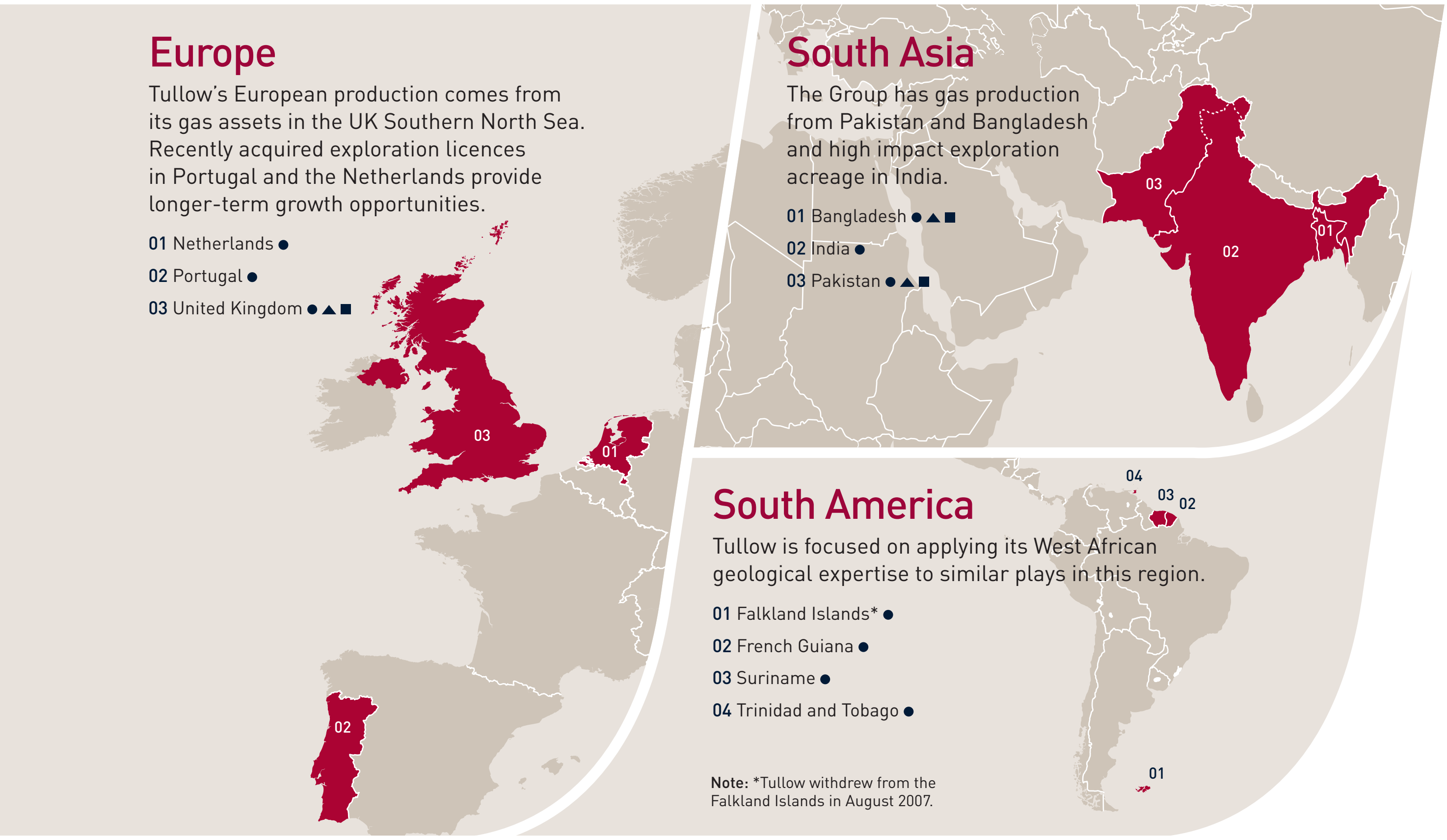


● Oil 58%
● Gas 39%
● Tariff 3%



● Africa 58%
● Europe 41%
● South Asia 1%

> For more information visit **www.tullowoil.com/tlw/operations**



Europe

Tullow's European production comes from its gas assets in the UK Southern North Sea. Recently acquired exploration licences in Portugal and the Netherlands provide longer-term growth opportunities.

01 Netherlands ●
02 Portugal ●
03 United Kingdom ● ▲ ■

South Asia

The Group has gas production from Pakistan and Bangladesh and high impact exploration acreage in India.

01 Bangladesh ● ▲ ■
02 India ●
03 Pakistan ● ▲ ■

South America

Tullow is focused on applying its West African geological expertise to similar plays in this region.

01 Falkland Islands* ●
02 French Guiana ●
03 Suriname ●
04 Trinidad and Tobago ●

Note: *Tullow withdrew from the Falkland Islands in August 2007.

Acreage overview

Region	Licences	Acreage (sq km)
Africa	50	144,076
Europe	39	14,773
South Asia	12	40,004
South America	5	41,367
Total	106	240,220

Drilling activities

Region	Exploration/Appraisal wells	Discoveries	Development wells
Africa	8	5	77
Europe	3	1	3
South Asia	–	–	1
South America	5	3	–
Total	16	9	81

Chairman's statement

Record production, cashflow and exploration success in 2007, supported by strong oil pricing, create a platform for Tullow to continue to grow rapidly over the coming years.

Meeting the challenge

2007 was a year of many firsts for Tullow including our largest oil discovery ever and entry into the FTSE 100 Index. Our business has grown rapidly in recent years and our success is the result of consistent application of a balanced strategy that combines strong operational focus with a commitment to investment in our exploration portfolio.

Of course, continued growth will also bring with it new challenges and risks, and we recognise that our strategy and business management must be sufficiently flexible to adapt to changing circumstances, emerging opportunities and occasional failures.

We believe that Tullow has unique advantages that will enable us to achieve our objectives in each of our core areas:

- Our UK gas business is mature and requires carefully targeted investment in order to maintain production and extend the life of assets and related infrastructure. We have consistently proven our ability to apply an innovative commercial and operational approach to maximise asset value;
- In Africa, we have established an outstanding acreage portfolio and made a number of extremely exciting discoveries. We are focused on rapid growth and commercialisation of our interests, most importantly in Ghana and Uganda, and have more than doubled our team in the Cape Town office to achieve this;
- In South Asia, growing operated production and exciting high impact exploration provide the potential for rapid growth in a region with ever-increasing energy demand; and
- Our recently acquired South American portfolio provides an opportunity to apply our extensive knowledge of the geoglogy of West Africa to analogous and less explored basins and prospects across the Atlantic.

The challenges we've met so far

Oil field acquisition and redevelopment	Acquisition of UK gas business	Acquisition of Energy Africa	Oil discovered in Uganda	Hardman Resources Acquisition	World class oil discovery in Ghana
1997	2001	2004	2005	2006	2007
Acquisition of a stake in the abandoned Espoir field, Côte d'Ivoire. Utilising modern 3D seismic and secondary recovery techniques, the field returned to production in 2002 and has since produced 49 mmbbls.	Mature infrastructure hubs and associated gas fields purchased for £201 million from BP. Significant production and reserve growth achieved through exploration, development and further acquisitions.	Major expansion in Africa with US$570 million acquisition adding 14 producing fields and 37 exploration licences. Strong organic production and reserves growth subsequently achieved.	Major oil province established in the Lake Albert Rift Basin with eight out of eight hydrocarbon discoveries made to date. Potential to transform Tullow's reserves base.	Hardman acquired for US$1.1 billion. Enhanced acreage position and control in Uganda, added full-cycle business in Mauritania and broadened our worldwide exploration portfolio.	Offshore Jubilee field discovered with potential to more than double Tullow's reserves. Field appraisal programme and development planning already commenced.
Year-end share price (pence sterling)					
139	77	153	270	398	652

Attracting and retaining a quality team

We have always given a high priority to recruitment and retention of a strong and versatile team. Although we are part of an industry where skills shortages and adverse demographics have been a major challenge in recent years, Tullow's visible success and growth have been a key advantage in attracting top people and today Tullow has over 350 employees.

Our highly skilled technical team have experience operating in all the major oil and gas play types around the world. Their skills are fundamental to maintaining a comprehensive knowledge of the regions and geological basins where we operate, and evaluating emerging opportunities important for the future of our business.

Our growth has also meant that Tullow has increasingly been able to provide structured career and personal development through international secondment, short-term assignments and individually tailored training programmes.

We believe that this focus on employee development, along with stimulating work, competitive remuneration and equity participation will allow Tullow to continue to meet the staffing challenges that our industry and business face.

Operating responsibly

Tullow's business involves very significant numbers of people and is equipment intensive. Our operations, particularly drilling campaigns, have a very visible physical presence and are frequently in remote areas. Our exploration and development programmes are planned and executed to minimise the negative impacts of our activities, and to assist local communities wherever possible. An excellent example of this is our Groupwide initiative to contribute to children's education, which during 2007 assisted over 7,000 children in seven countries where we conduct business. Corporate Social Responsibility is critical to our long-term ability to conduct our business and run our projects.

Proper assumption of our responsibilities, which is our goal, can also have a very positive impact on regional employment and economic progress and helps to establish a positive working partnership with local communities, regardless of the success or failure of our exploration.

Governing effectively

Tullow has been a listed company since 1987. We entered the FTSE All-Share Index upon registration as a UK Company in December 2000, and proudly became a member of the FTSE 100 Index in September 2007. Overall, Tullow is subject to a high degree of regulation and stakeholder scrutiny and it is paramount that the business is effectively managed by the Executive and governed by the Board. The maintenance of an open and regular dialogue with all shareholders and market participants is also accorded a high priority. A detailed Corporate Governance Report is on page 48 to 56 of this report, including a new introduction and overview by me.

In December 2007 Rohan Courtney retired from the Board of Tullow, having served as a director for over 14 years, including 14 years as Chairman of the Audit Committee and seven years as Senior Independent Director. On behalf of the Board I would like to thank Rohan for his immense contribution to Tullow over this period.

Following Rohan's departure, Steven McTiernan has been appointed as the Senior Independent Director, and David Williams has become Chairman of the Audit Committee. In addition Clare Spottiswoode has been appointed as Chair of the Remuneration Committee. Finally we have commenced a process to identify and appoint an additional non-executive Director during 2008 and will report on progress in due course.

During 2007 the Board engaged PricewaterhouseCoopers LLP to undertake a performance review of the operation and conduct of the Board and to provide specific feedback to individual Directors. This review will be a valuable input in continuing to ensure the Tullow Board provides the optimal level of strategic guidance, executive support and appropriate challenge over the coming years.

Looking ahead

By building on the progress made in 2007 we have the potential to more than double the size of Tullow over the coming years. This is no small task but I believe we have the opportunity and the ability – but most importantly the appetite – to ensure Tullow meets this challenge and continues to deliver superior shareholder value.

I would like to thank shareholders for their support and our employees for their commitment over 2007 and I look forward to reporting to you on our progress in 2008 and beyond.

Pat Plunkett
Chairman

Tullow's strategy is based on having a long-term view and continually investing to increase the value of our business, a strategy which delivered again for us in 2007.

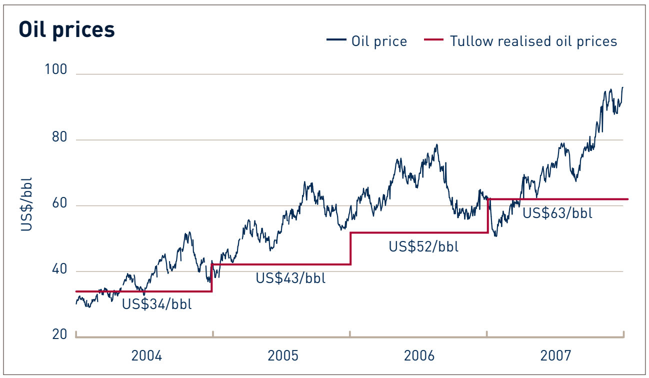
Remarkable exploration success

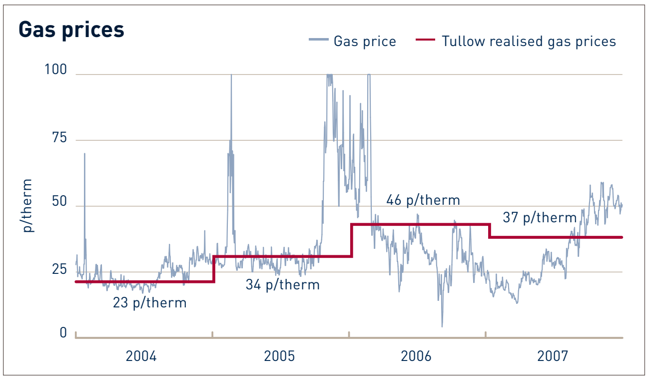
The highlight of 2007 for Tullow was undoubtedly the remarkable success of the Group's exploration and appraisal programmes in Ghana and Uganda. In Ghana, the discovery of the Jubilee field and subsequent success with the Odum exploration well provide a high degree of confidence that Tullow may have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

In Uganda, Tullow achieved continued success in the Lake Albert Rift Basin and in 2007 invested over US$100 million (£50 million) in exploration and appraisal activities. The knowledge and confidence generated by our success to date has led to a plan to invest over US$200 million (£100 million) in 2008. The programme, which will include onshore and offshore drilling, seismic surveys and the anticipated sanction of an EPS, has the potential to more than double Tullow's worldwide reserve base and make a material long-term contribution to Uganda's economy.

Strong portfolio performance

Tullow achieved record production levels during 2007, with average daily output of 73,100 boepd, 13% ahead of 2006 levels. This production generated operating cashflow before working capital movements of £474 million, enabling the rapid progress of development, exploration and appraisal programmes across our core areas, particularly in Africa which accounted for 64% of capital investment during the year.





Solid financial results

While underlying operational performance and operating cash generation were at record levels, reported financial results have been impacted by lower UK gas prices, higher depreciation charges, increased exploration write-offs and higher interest charges. In particular, the disappointing performance of the Chinguetti field in Mauritania has led to a write-down of £27 million in carrying value, while unsuccessful drilling on the Kudu-8 well in Namibia and in the UK North Sea accounts for over 50% of our total exploration write-off for the year.

Our balance sheet remains strong and as a signal of our confidence in the business we have increased our final dividend of 2007 to 4.0 pence per share, an increase of almost 15% on the 2006 level.

Post year-end portfolio management initiatives will result in a very significant profit on disposal, which will be recognised in our 2008 results, following the anticipated completion of the relevant transactions.

Africa

Our African business continues to grow rapidly and highlights for the year, along with the exploration success in Ghana and Uganda, include the exceptional performance of the Okume development and 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 strength of these assets more than offsets the impact of disappointing production and reserve performance from the Chinguetti field in Mauritania.

Increased production allowed Tullow to benefit from the ongoing positive trend in global oil pricing. We believe that the underlying fundamentals remain strong and that oil prices will remain over US$80/bbl for the remainder of the decade at least. While costs have also increased in recent years, strong pricing represents an excellent backdrop to Tullow's ongoing investment plans.

As is the nature of our industry, unfortunately not all our activities in 2007 were successful. The failure of the Kudu–8 well in Namibia was a particular disappointment for both Tullow and its partners. Although more technical work is required to determine the most appropriate future work programme, we remain committed to Kudu and are optimistic regarding the potential for additional gas to be discovered in the region.

Europe

In the UK, production of 171 mmscfd during 2007 was similar to 2006 levels. In 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 gas pricing.

Against this background, Tullow's continual portfolio analysis and overriding focus on value over volume of production was clearly evident as we redirected investment in favour of more attractive international exploration and appraisal programmes.

However, as the year progressed and longer-term UK gas pricing trends became more favourable and visible, Tullow committed funds to selected development and high-graded exploration projects. An excellent example of this strategy was the Kelvin project, which came on stream in October 2007. In addition to exhibiting strong production performance during the peak winter period, the Kelvin facilities represent a valuable hub for future gas developments in the Caister Murdoch System (CMS) area, including the adjacent K4 and nearby Harrison discoveries.

During 2007, we built on our existing position in the UK Southern North Sea by extending Tullow's presence into the less explored Dutch sector. In February 2007 Tullow was awarded an operated interest in three large blocks offshore Portugal, a region with many potential geological similarities to areas of North Africa where Tullow has existing acreage, skills and expertise.

South Asia

Production from Tullow's Asian business has increased steadily in recent years and this trend continued in 2007 with production from the Chachar field in Pakistan commencing in August. In Bangladesh, the Bangora field continued to perform strongly and further expansion of facilities and production is planned for 2008, while in India, steady progress was made on prospect selection for a multi-well 2008 drilling campaign in the onshore CB-ON/1 Block. During 2008, Tullow will seek to develop its Asian business through high impact exploration, ongoing production optimisation, potential new ventures and portfolio management.

South America

Tullow added a new region of operations to its business in 2007 when a portfolio of South American licences was secured through the completion of the acquisition of Hardman Resources. South America has many geological and operational similarities to Tullow's existing interests in West Africa, with the additional benefit that large areas remain underexplored. During 2007 Tullow participated in exploration campaigns in Suriname and French Guiana, as well as considering a number of new venture opportunities, most notably in Trinidad and Tobago. The principal activity planned for 2008 is the drilling of the high impact Matamata prospect in French Guiana, scheduled for the third quarter, 2008.

Chief Executive's review continued

Adapting to a changing industry

The continued strength of oil and gas pricing over recent years has changed the dynamics of our business and the nature of competition within our industry. Larger companies are increasingly cash rich and opportunity constrained, while attractive industry fundamentals have also introduced new participants who are competing for acquisition opportunities and new ventures. In parallel, governments are increasingly proposing licence terms which limit the potential for return or discourage active investment in exploration. These issues, combined with the intense demand for rigs and related oilfield services and equipment mean that effective capital management and allocation are critical.

We continually review our portfolio in relation to Tullow's long-term strategy. Our aim is to build strong positions in core areas, to consolidate niche positions in developing regions and to dispose of assets of lower materiality or where we cannot achieve meaningful operational influence or control. We also seek to retain maximum flexibility to allocate capital between exploration and appraisal, and production and development based on available funds and quality of opportunities.

A clear example of this strategy in action was our decision in late 2007 to consider the disposal of Tullow's interest in the M'Boundi field in Congo (Brazzaville). This field, in which Tullow had a non-operated 11% interest, accounted for approximately 5% of 2007 sales volumes. Recent transactions had led to a consolidation of ownership and the transfer of operatorship to a major oil company, thereby limiting Tullow's ability to contribute to decision making or future plans. The sale of this asset in early 2008 for a total consideration of US$435 million (£218 million) has provided Tullow with significant financial flexibility and will enable us to accelerate investment across the remainder of our business. Further portfolio management is under active consideration as we seek to reallocate our financial and human resources to assets that are more material to the Group's long-term business.

Operating safely and with sensitivity

While we always aim for a perfect safety record, the nature and operational complexity of oil and gas activities means that this is not always possible to achieve.

During 2007 Tullow personnel and contractors performed over five million hours of operated activity spread across eight countries. These operations varied from 2D and 3D seismic surveys and drilling in Uganda to offshore seismic surveys in French Guiana and significant production and development drilling operations on the Schooner and Ketch fields in the UK Southern North Sea.

In 2007, our Lost Time Incident Frequency Rate (LTIFR) increased to 1.95 per million hours worked (2006: 0.81). This is a disappointing outcome and is in contrast to the steady improvements in safety performance we have reported in recent years. In response to this we have launched a number of training, process and operational initiatives on a groupwide basis with the objective of materially improving the 2008 outcome.

Our vision

To be the leading global exploration and production company and to deliver at least 20% TSR each year.

Our strategy

Tullow has a long-term perspective on developing the business. We plan in advance, execute consistently, review regularly and maintain financial and operational flexibility. We have a clear strategy to deliver sustainable profitable growth into the future, which includes:

- Capital and resource allocation to high value opportunities;
- Maintaining a balanced portfolio of quality assets;
- Targeted production and reserves and resources growth;
- Development growth through new ventures, licensing and acquisitions;
- Organic growth through infill programmes;
- Strong social and community support delivering sustainable development;
- Working safely and minimising impacts on the environment;
- Having a structure with open dialogue across the Group; and
- Ongoing investment in people and organisational structure.

Balancing our risks

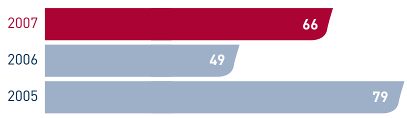
Maintaining our growth will bring with it new challenges and risks, which we recognise are an everyday part of doing business. To continue to prosper, Tullow is required on an ongoing basis to identify, manage and mitigate a wide range of strategic, operational, financial and external risks.

Many of these risks are addressed through the application of Tullow's strategy. However, external risks such as those arising from the actions of our competitors, the volatile nature of oil and gas pricing and the diverse nature and location of operations are not directly controllable.

Wherever possible we seek to mitigate our exposure to these risks through a clear framework of management and communications that incorporates financial, production and exploration management, the three key strategic pillars of the Group.

This year we have outlined in more detail the risks that Tullow faces and what we do to manage and mitigate these on pages 44 and 45 of this report.

Total shareholder return (TSR)



+66%

2007 has been an exceptional year contributing to a three year TSR of 443%

To enhance our planning and risk assessment we monitor near misses and high potential incidents as well as participating in industry surveys and forums.

Ultimately, however, strong safety performance is facilitated by clear leadership and individual responsibility and every single Tullow employee and contractor has both the authority and obligation to stop any operation that might be considered unsafe at any time.

Meeting the challenge of transformational change

These are very exciting and challenging times for Tullow. Exceptional exploration success, and strong production in 2007, have created an opportunity to deliver a transformational step change to our business. Our key priorities for 2008 are to appraise both the Jubilee field in Ghana and the Lake Albert Rift Basin in Uganda, while also testing the significant exploration potential of our wider portfolio. Tullow has the capability to grow substantially in the coming years and I believe we have the strategy, the assets and the team to achieve this. The outlook for 2008 and beyond is extremely promising.

Aidan Heavey
Chief Executive Officer

Key performance indicators (KPIs)

Every year each business unit is set performance targets that are based on and support Tullow's strategy.

Tullow is organised into four core areas and seven business units. These business units have annual performance targets which link directly into and are aligned with our growth strategy and how we measure and maintain our strong progress. In total, across the Group, we look at some 25 metrics in areas such as health and safety, the environment and financial performance. The table below lists the Group's KPIs, which the Board regularly reviews to maintain their appropriateness. In 2008, we will be adding another KPI which focuses on our people performance, to ensure that we continue to attract and retain top quality staff, particularly in an industry where human resources are scarce. On page 34 and 40 of this report you will find additional information on both the financial and non-financial metrics we use to assess the ongoing progress of the business.

KPIs	2007	2006	Change
Lost Time Incident Frequency Rate (LTIFR)	1.95	0.81	+142%
Production (boepd)	73,100	64,720	+13%
Reserve and resource replacement (%)	434	173	+261%
Cash operating costs per boe (£)	5.05	4.74	+ 7%
Operating cashflow before working capital (£m)	473.8	446.7	+6%
TSR (%)	66	49	+17%

Operations review

Tullow manages its exploration activities and production business in an integrated manner with a clear focus on value. We seek material positions in assets where our technical and operational skills can make a real difference.

Production and development

"In recent years we have focused on delivering value from Tullow's growing portfolio and have made significant investments in building our team and enhancing operating capability."

Paul McDade, Chief Operating Officer

Our producing assets performed strongly during 2007, driving Group output to 73,100 boepd, up 13%. This allowed Tullow to capitalise on oil prices that at times approached record levels.

Our production rates in Africa were particularly encouraging, led by the Okume development in Equatorial Guinea. In the UK, investment was redirected in favour of international programmes in response to gas market conditions. This meant that UK production remained broadly stable.

As we grow, we continue to focus on ensuring that our resources, both human and financial, are being applied in the optimum manner to the best opportunities.

Exploration

"Our exploration success has opened up new geological plays with significant upside potential. Our focus is now on the appraisal of these regions while maintaining an active exploration and new ventures programme to generate the next phase of growth."

Angus McCoss, Exploration Director

From an exploration perspective, our discoveries in Ghana and Uganda have created a step change in Tullow's outlook and we will now focus resources on appraisal and further regional exploration campaigns.

Our exploration goal in Uganda is to build on the 100% exploration success rate to date and to drill the remaining prospect inventory as quickly and effectively as possible. In Ghana we are primarily focused on appraising beyond the proven Jubilee field, which has ultimate upside potential of 1.3 billion barrels.

Not all of our campaigns were successful and the outcome of the Kudu-8 well, offshore Namibia, was disappointing. Although the well found gas, reservoir quality would not support commercial flow rates.

2007 Working interest production	2007 Capital investment	2007 Exploration success rate
+13%	£370million	56%

Future production growth

Following the discovery of the Jubilee field in Ghana, we are formulating plans for an extensive operated appraisal and development drilling campaign and the initiation of the first phase of development with first production targeted for 2010.

The completion of the acquisition of Hardman Resources in early 2007, provided us with an opportunity to consolidate our position in Uganda, take operational control of the critical Block 2 and define the pace of investment. During the year we conducted a successful appraisal programme, commenced work on an EPS and are moving towards first oil in 2009.

Elsewhere we continue to rank our many investment opportunities and invest in the high-graded production and development projects to ensure continued production growth from our existing assets.

Longer-term ambitions

2008 will be another busy year for Tullow as we move towards sanction of the Jubilee field development in Ghana, continue to explore, appraise and develop the significant potential of the Lake Albert Rift Basin in Uganda and optimally exploit the asset portfolio. Tullow has, over recent years, prepared for the challenges these important projects will bring by steadily building the organisational experience and knowledge required to control and successfully execute projects of this scale and diversity.

The delivery of value from these world-class projects will provide not only an opportunity for us to leverage from the long-term investment in our team but also the opportunity to build new skills within the organisation to support our longer-term ambitions.

Exploration portfolio

For Tullow, geology outranks geography and our exploration portfolio comprises a healthy blend of risk profiles. Low risk, high return, prospects are prioritised in the drilling schedule to realise value early. Higher risk prospects are targeted with technologies and methodologies which aim to reduce the technical risk and determine the appropriate level of investment or portfolio management action.

Tullow provides challenging professional development opportunities for its technical staff. In doing so, we are able to attract, retain and inspire world-class exploration talent. Our explorationists are fundamentally prospectors and deploy leading edge seismic and other physical technologies in their quest to discover oil and gas.

Our global exploration leadership team assures technical quality, portfolio high-grading and financial discipline.

Exploration focus

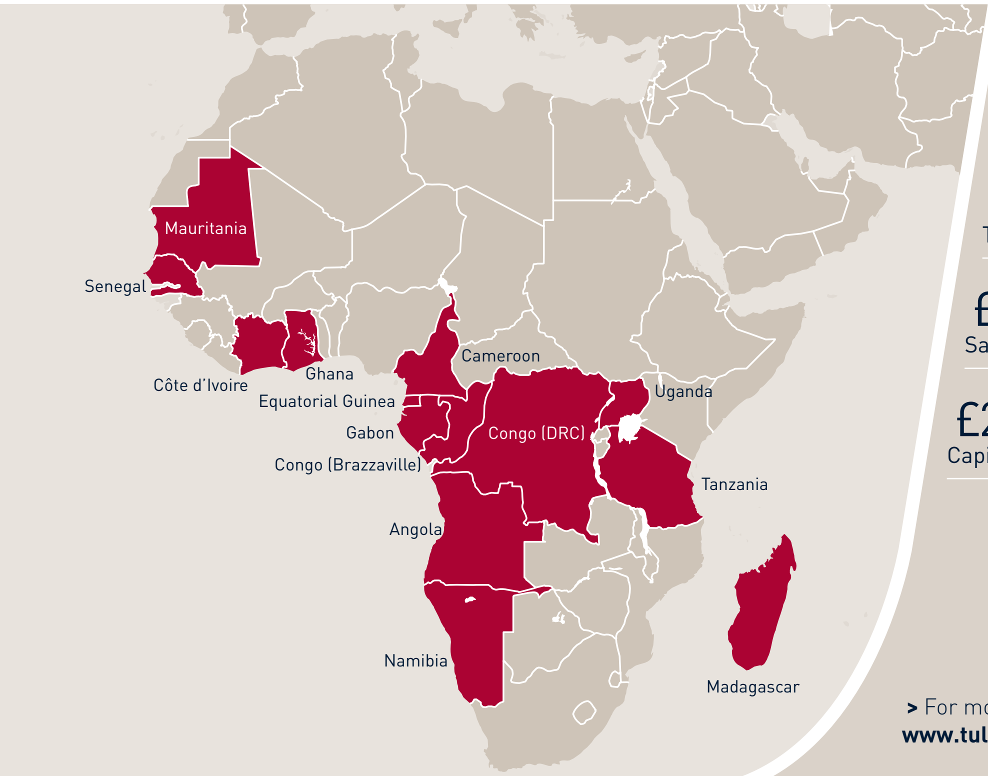
Our focus is maintained on developing our experience in our core geological plays which are 'Salt Basins', 'Stratigraphic Traps', 'Rift Basins' and 'Fold Belts'. Although Tullow found a rare giant field in Ghana, ever fewer of these exceptional traps remain undrilled and many are unavailable as they are held by the oil majors or national oil companies.

Tullow's niche, therefore, is exploring our core geological plays for commercially viable prospects in the scale of a few tens, to a few hundreds, of millions of barrels of oil equivalent.

The upper end of this scale represents a rich set of opportunities for Tullow, and the Group is particularly well skilled and organised to meet the challenge of continuing to grow through exploration.

Operations review: Africa

Tullow's African assets have transformed the Group's business in the last 12 months, driven by exceptional exploration success in Ghana and Uganda and strong production growth, particularly in Equatorial Guinea.



2007 Statistics

40,300 boepd
Working interest production

464 mmboe
Total reserves and resources

£372 million
Sales revenue

£237 million
Capital investment

> For more information visit **www.tullowoil.com**

Key producing assets

Country	Activities	Producing field (Tullow %)	2007 Working interest production (boepd)
Congo (Brazzaville)	▲■	M'Boundi (11%)[1]	5,130
Côte d'Ivoire	●▲■	Espoir (21.33%)	6,280
Equatorial Guinea	▲■	Ceiba (14.25%)	6,090
		Okume Complex (14.25%)	5,240
Gabon	●▲■	Etame/ Avouma (7.5%)	1,530
		Niungo (40%)	5,380
		Tchatamba (25%)	5,250
		Others (3.75% – 40%)	2,580
Mauritania	●▲■	Chinguetti (19.01%)	2,820

Activities in other countries

Angola ●, Congo (DRC) ●, Cameroon [2] ●, Ghana ●▲, Madagascar ●, Namibia ▲, Senegal ●, Tanzania ●, Uganda ●▲

Notes:
[1] Tullow has agreed the sale of this asset to Korea National Oil Company.
[2] Tullow has agreed the sale of its Cameroon assets to MOL.

Key: Exploration = ● Development = ▲ Production = ■

2007 Highlights

- Production averaged 40,300 boepd, 21% above 2006 levels;
- World class oil discovery offshore Ghana; over one billion barrels of upside potential;
- 100% success in Uganda with four discoveries; significant programme in progress to appraise billion barrel potential; and
- Strong production growth from the Equatorial Guinea assets, which exceeded 115,000 bopd gross production in January 2008.

Market environment

Tullow has been active in Africa for over 20 years. Since its first development project in Senegal in 1987 the Group has developed strong relationships and gained valuable commercial and geological experience in basins across the continent. In the last five years Tullow has built on this experience and has rapidly expanded in Africa through acquisitions, licensing rounds and successful exploration. The Group now has production of over 40,000 boepd from five countries, has interests in 50 exploration and production licences and plans to drill approximately 20 exploration wells in 2008.

Ghana

Tullow has interests in three exploration blocks in Ghana – Shallow Water Tano, Deepwater Tano and West Cape Three Points. One well was drilled in each block during 2007. These were the first wells in an extensive regional exploration campaign across the West Africa Transform Margin and yielded exceptional results.

In the deepwater Tano Basin, the Mahogany-1 well was drilled on the West Cape Three Points block in June, followed by the Hyedua-1 well on the adjacent Deepwater Tano block in August. Both wells intersected excellent quality stacked reservoir sandstones with very significant net hydrocarbon pay. Logging and pressure test results suggest that the discoveries form a large continuous accumulation across the two licences. In total these discoveries encountered combined hydrocarbon columns of 361 metres of light, sweet oil and make this a world class discovery which was subsequently named the Jubilee field.

Based on the technical work undertaken to date, the proven recoverable resources of the field are estimated at 170 million barrels, which exceeds the commercial threshold for development. The ultimate upside potential of the discovery is now estimated to be in excess of one billion barrels and an accelerated appraisal programme targeting early development of this asset is under way. A high resolution 3D/4D survey of over 900 sq km covering the entire structure was conducted in late 2007 to assist in building a detailed field model. Up to five appraisal wells are also planned for the field in 2008 using two of the rigs under contract. The purpose of these wells is to prove up the resources and to provide additional information to assist in development. The first appraisal well, Mahogany-2, commenced in March 2008.

Development options are currently being assessed by the partners, with Tullow 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 development scheme is likely to involve FPSO facilities highly suited to fast-track development. In February 2008, Tullow contracted a fifth generation semi-submersible rig, the Eirik Raude, for up to five years of development drilling, scheduled to start in late 2008.

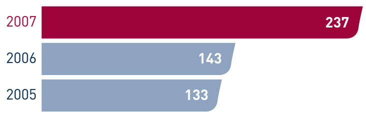
The Jubilee field discovery has opened up a new hydrocarbon province, in which Tullow has established a commanding position and plans to drill further exploration wells in 2008. The first well was drilled in February 2008 on the Odum prospect in the West Cape Three Points block. The well encountered a 60 metre oil column which, located only 13 km from the Jubilee field, is considered a commercial discovery. Further high impact prospects have been identified in the deepwater region and at least two of these, Teak and Tweneboa, are planned for drilling within the next 12 months.

In addition to the deep water programme, Tullow is committed to drilling two wells on the Shallow Water Tano licence. The first well was drilled in September 2007 but was unsuccessful and was plugged and abandoned. The second well is planned for 2008 and is to target a geological play similar to the Odum discovery.

2010

First oil from the first phase of the Jubilee development is targeted for 2010 with Tullow as field operator.

Capital investment (£ million)



Working interest production (boepd)

Uganda

Tullow's exploration in the Lake Albert Rift Basin continues to yield material success, with all four wells drilled in 2007 encountering oil. The knowledge and confidence generated by our success to date have led to an aggressive campaign for 2008 which includes drilling, seismic surveys and the anticipated sanction of an 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 via a pipeline to Mombasa. Following Tullow's successful exploration campaign in the onshore Kaiso-Tonya region of Block 2, the Group is now working closely with the Ugandan Government to commence production from the region via an EPS in late 2009. A successful appraisal programme, comprising 3D seismic acquisition and three appraisal wells, was completed in December. The data collected are now being integrated into the subsurface evaluation to support the sanction of the EPS in the second quarter of 2008. The planned EPS will produce 4,000 bopd to a new-build processing and power generation facility to supply the local area with oil product and power.

Operations review: Africa continued

Recent onshore drilling activity has focused on the high impact Ngassa well targeting the largest structure in the basin with upside potential of 800 million barrels. The well commenced in November 2007 using the Nabors 221 rig but drilling difficulties resulted in the well being suspended in February 2008 at a depth of 1,635 metres. 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 options are being considered.

In the onshore Butiaba region of Block 2 and Block 1, numerous prospects have been identified on the recently acquired 2D seismic. A light rig, the OGEC 750, has been contracted and a drilling campaign of approximately eight wells commenced in March 2008 with the drilling of the Taitai prospect. This campaign has gross upside potential of more than a billion barrels.

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

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 Congo (Brazzaville), Tullow is a partner in the M'Boundi field. During 2007, 12 producers and 14 water injectors were drilled and the field averaged 46,500 bopd gross production. ENI became operator of the field during 2007 and has commenced an active reservoir management programme designed to optimise long-term field recovery.

The M'Boundi field has made a significant contribution to the organic growth of the Group's production and reserves but is now entering a new phase in its development at a time when Tullow is also looking to reallocate capital resources to projects where it has more material participation and influence. In January 2008, Tullow therefore announced the sale of its interest 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. The transaction is expected to complete by mid 2008.

Equatorial Guinea

The Okume Complex in Equatorial Guinea achieved first oil ahead of schedule in December 2006. Since then, 22 wells have been drilled and production performance, 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.

On the Ceiba field, four wells were drilled in 2007 and gross annual production averaged 44,000 bopd. Production from both Okume and Ceiba is blended and exported via the Ceiba Floating Production Storage and Offtake vessel (FPSO) and in January 2008, gross oil production through the processing facilities exceeded 115,000 bopd for the first time.

Côte d'Ivoire

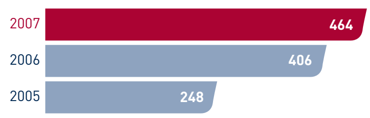
In Côte d'Ivoire Tullow has exploration, development and production interests in six offshore blocks. This acreage forms part of the West African Transform Margin in which Tullow has enjoyed significant success with the discovery of the Jubilee field opening up a new geological play. The region has been identified as a key area for Tullow and during 2007 three new licences, CI-102, CI-103 and CI-105, were secured to complement the existing production from CI-26.

The CI-26 licence contains the producing East and West Espoir fields. Gross production from East Espoir averaged 20,000 boepd and total production from both fields is expected to be maintained at approximately 30,000 boepd gross production during 2008.

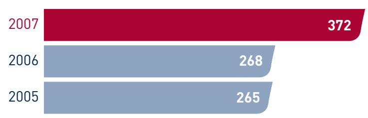
A two-year FPSO upgrade programme commenced in September 2007 and is expected to be completed by the end of 2009. In conjunction with an anticipated East Espoir 2009 infill drilling campaign, this upgrade should increase liquid and gas handling capacity and ensure optimum drainage and reservoir recovery from both reservoirs.

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

Reserves and resources (mmboe)



Sales revenue (£ million)



Ghana

Meeting the challenge of long-term growth

Inside remote operating vehicle (ROV) control cabin on the Belford Dolphin offshore Ghana

World-class discovery in Ghana

Since the late 1990s, through our interest in the Espoir field, Tullow has had an interest in the West Africa Transform Margin, the geological trend that extends from Côte d'Ivoire to Ghana. To exploit our geological knowledge and expertise in the region, Tullow has expanded its interests there, acquiring interests in eight licences over the last three years.

Through opportunistic transactions with both the government and partners in adjacent blocks, three licences were acquired in Ghana during 2006. The three blocks contained both marginal discoveries and acreage with significant exploration potential. The Mahogany prospect, a stratigraphic trap, had been identified on the existing 3D seismic data and was the first prospect to be drilled.

Stratigraphic traps are subtle, have considerable upside potential and are not as intensely explored for as structural traps. They are not easy to identify and they require a determined effort to target. A strong track record from exploration in Europe, Africa and South Asia and our integrated approach give Tullow the confidence to tackle these significant exploration opportunities which are one of our core plays.

By applying our expertise in stratigraphic traps, integrating both continental scale, regional geology and detailed local geological knowledge, the Mahogany and Hyedua prospects stood out as strong candidates for drilling and resulted in the Jubilee discovery in 2007. Appraisal and development work has already commenced on the field and a parallel appraisal programme is under way to determine its significant upside potential.

The same skills applied during the discovery of Jubilee are now being applied to the rest of the West Africa Transform Margin where further upside potential exists. This work has already yielded a success with the Odum discovery, another stratigraphic trap in a new play fairway. Drilling on additional prospects such as Teak and Tweneboa is planned for the next 12 months.

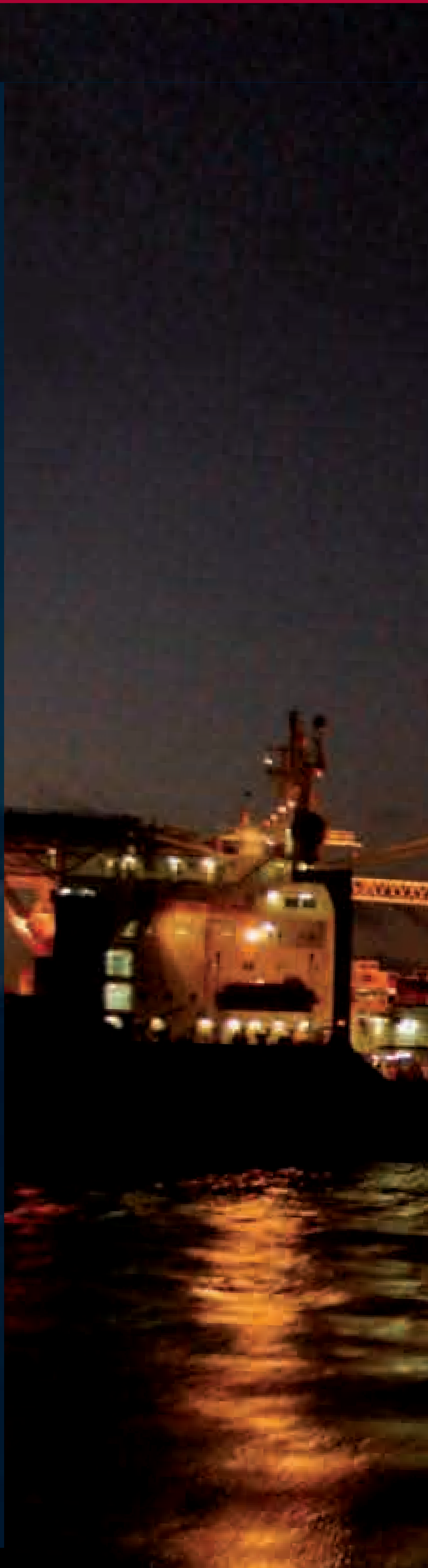
Our success in Ghana arose through the focused application of geological expertise, proactive business development and strong working relationships with government and partners. We expect this success to result in first production from the Jubilee field in 2010, a significant step for Tullow that will make a major contribution to the Ghanaian economy.

Jubilee field recoverable reserves potential

P90 – 170 million barrels

P50 – 480 million barrels

P10 – 1,380 million barrels



Previous page: Rig worker attaching riser tensioner wires on drillship offshore Ghana
This page: Belford Dolphin drillship on location at Mahogany-1 well offshore Ghana

Operations review: Africa continued

Mauritania and Senegal

Tullow's completion of the acquisition of Hardman Resources in early 2007 provided the Group with exposure to eight licences including the producing Chinguetti field.

Chinguetti field production declined gradually through the year to approximately 12,000 bopd gross by year-end. This was well below expectations and, following a review of reservoir performance, ultimate recoverable reserves have been significantly downgraded.

The 2007 work programme included the drilling of the C-18 infill well at the beginning of the year and interpretation of data from the high density 3D and 4D seismic surveys conducted in March. Utilising this data, work is now planned to commence in April 2008 to drill at least two new infill wells and to undertake remedial work which should increase oil production in existing wells.

During 2007 Tullow has been considering development options for Banda and other discoveries. Banda is primarily a gas discovery with a thin oil rim, and has been used for disposal of produced gas from Chinguetti by way of a gas injection well. Tullow has been investigating several approaches for commercialising the gas, and plans to drill the first appraisal well on the structure in April 2008.

The 2007 exploration work programme focused on the assessment of Tullow's expanded portfolio covering both Cretaceous and Tertiary plays with the aim of selecting prospects for a drilling campaign which commenced in February 2008 with the Khop well in Block 6. This well is targeting Cretaceous reservoir intervals, and is potentially more material than the shallower Miocene plays previously drilled in the region.

State of the art seismic acquisition and processing will allow Tullow to drill deeper wells targeting these plays. In 2008 this work includes a 3D seismic survey straddling the border between Block 1 in Mauritania and the St. Louis block in Senegal as well as the reprocessing of seismic data acquired across Blocks 2 and 7.

Gabon

Production from Tullow's Gabon assets in 2007 averaged 14,800 bopd net 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 natural decline on the existing fields and thereby sustaining average production above 14,000 bopd.

On the onshore Niungo field, a five well development drilling programme was completed in March 2007. The field averaged 5,400 bopd net to Tullow for the year and potential for further infill drilling is currently being evaluated.

The offshore Tchatamba field is significant for Tullow, yielding an average of 5,200 bopd net to the Group in 2007 and plans are in place to improve field uptime and enhance production in 2008.

In the Etame field area the Avouma satellite field came on stream in January 2007 and is currently producing at 10,000 bopd. FPSO modifications and the addition of production from the Ebouri satellite field should increase gross production from the Etame area, from 22,000 to 25,000 bopd during 2008.

In late 2006, Tullow acquired interests in a package of licences comprising three producing fields and back-in rights to a further nine licences. These assets performed well through 2007 with the Tsiengui, Obangue and Oba fields now accounting for over 1,000 barrels of Tullow's daily production in Gabon and are expected to be producing approximately 2,000 bopd net to Tullow by the end of 2008.

Tullow's only exploration well in Gabon in 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 of the exploration licence has been requested.

Namibia

In 2007, Tullow farmed down its interest in the Kudu field from 90% to 70% and drilled a key appraisal well in the east of the Kudu area.

Agreement was reached in April to sell a 20% interest in the Kudu gas field to Itochu Corporation. Under the agreement, Itochu agreed to pay 40% of the cost of the Kudu-8 appraisal well and to make further payments conditional on the ultimate volume of reserves developed.

In September, the Kudu-8 appraisal well was drilled to test the Kudu East reservoir within the Greater Kudu field area. The well encountered gas bearing sands that were thicker and cleaner than similar sands intersected in the nearby Kudu-5 well. However, interpretation of wireline logs and data from cores indicated that the reservoir would not flow at commercial rates and the well was plugged and abandoned.

The result of the Kudu-8 well was a disappointment for both Tullow and its partners in the project. Although more technical work is required to determine the most appropriate future work programme, we remain committed to the Kudu project and optimistic as to the potential for additional gas to be discovered in the region.

Angola

Seismic reprocessing of data from Block 1/06, offshore Angola, is in progress using the latest technology. This exercise will assist in the appraisal of the existing Pitangueira and Bananeira discoveries and will be instrumental in locating the first two wells to be drilled in early 2009.

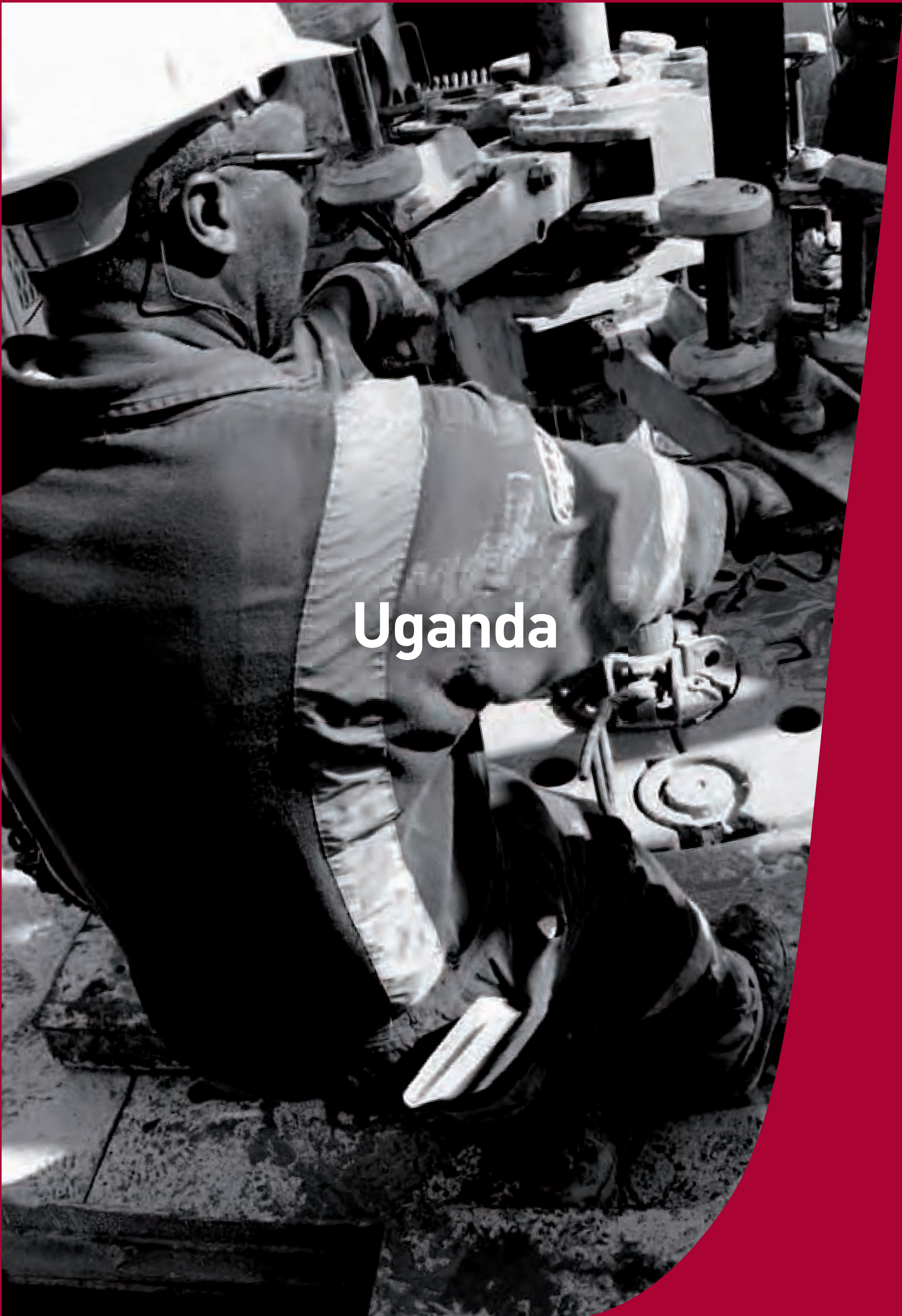
Cameroon

In early 2007, following a comprehensive analysis of the remaining prospectivity in the Ngosso concession offshore Cameroon, Tullow took a decision to dispose of this asset. A Sale and Purchase Agreement was signed with the Hungarian company MOL in November 2007.

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 a phased field development in 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.



Uganda

Meeting the challenge of successful partnership

Hennie Steyn (centre) at meeting in Kampala office, Uganda

Billion barrel potential in the Lake Albert Rift Basin

Tullow gained an interest in the Lake Albert Rift Basin in 2004 through its acquisition of Energy Africa. Since 2006, the Group has drilled nine wells, has expanded its exposure to the region with the completion of the acquisition of Hardman Resources and is now in the midst of an extensive exploration campaign.

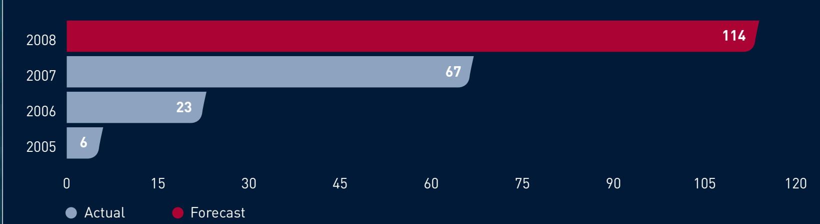
Lake Albert is located in the north west of Uganda and the remoteness of the region provides many challenges. Operationally, access to the land-locked region is either by small aircraft or by road, and major supplies are trucked 1,300 km to the site from Kenya. Commercially, the distance of the acreage from developed world oil markets means that any future development will depend on the discovery of a sufficient reserve base to justify major pipeline and infrastructure investments. While these create risks, the potential reward is huge as the region has billion barrel potential.

To understand the ultimate potential of the region, it is vital to have a basin-wide approach with cooperation between participants and the Government. This enables all parties to share knowledge and equipment, coordinate activities in a cost-effective manner and progress an optimal exploration, development and production plan for the region.

Our work in Uganda has been assisted by our geological understanding of other rift basins such as those in India, Madagascar and the UK. Through this, as well as our support of a specialist study group in Calgary, we have identified rift basins as one of our core play types and are applying our knowledge in our day-to-day operations in and around Lake Albert.

We have made remarkable progress to date. All wells drilled have found oil, and test results have been outstanding. Encouraged by this, we have embarked on a major campaign of drilling and seismic acquisition across all of our licences. Our ultimate objective is to achieve Uganda's first oil production in 2009 through an early production system (EPS) and, ultimately, to establish a long-term business in East Africa. This will bring major changes to Lake Albert, and in cooperation with local elders and regional authorities, we are already supporting the communities where we work in the areas of education, health, sanitation and lake safety as part of our long-term commitment to the region.

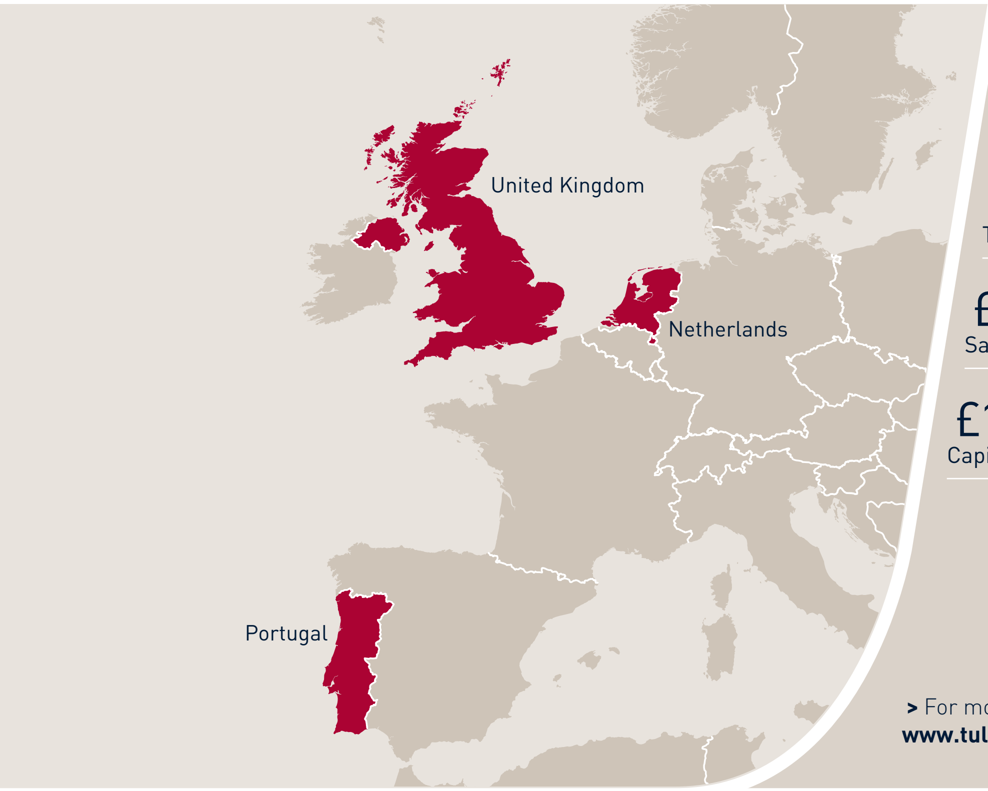
Capital investment in Uganda (£ million)



Previous page: Operating rig tongs on Ngassa-1 well in Uganda
This page: Dan Marlow in discussions with BGP representative during seismic operations in Block 2, Uganda

Operations review: Europe

2007 was a successful year for Tullow in Europe. Despite a volatile gas market and lower capital allocation, results were strong, with fields developed, a successful gas discovery and licences added in two new provinces.



2007 Statistics

28,500 boepd
Working interest production

67 mmboe
Total reserves and resources

£259 million
Sales revenue

£116 million
Capital investment

> For more information visit
www.tullowoil.com

Key producing assets

Country-area	Activities	Producing fields (Tullow %)	2007 Working interest production (boepd)
UK – CMS Area	● ▲ ■	CMS fields Boulton (9.5%) CMS III (14.1%) Kelvin (22.5%) Ketch (100%) Munro (15%) Murdoch (34%) Schooner (90.35%)	15,600
UK – Thames-Hewett Area	● ▲ ■	Thames-Hewett fields Gawain (50%) Hewett (51.69%) Horne & Wren (50%) Orwell (100%) Thames (66.67%) Thurne (86.96%)	12,900

Activities in other countries

Netherlands ●, Portugal ●

Key: Exploration = ● Development = ▲ Production = ■

2007 Highlights

- Production averaged 171 mmscfd, 4% below record 2006 levels;
- Two new gas fields, Thurne and Kelvin, brought on production;
- Wissey field development sanctioned with first gas planned in 2008;
- Continued exploration success in the CMS area with the Harrison gas discovery;
- Migration of activity into Dutch sector with award of acreage covering the entire carboniferous play extension;
- Six blocks awarded in January 2007 in the 24th Licensing Round; and
- Natural gas and carbon dioxide storage under consideration for the Hewett field to greatly extend economic life.

Market environment

In Europe Tullow's producing assets are focused on gas in the UK Southern North Sea where the Group has established a strong portfolio of production, development and exploration assets around two key infrastructure hubs, Thames-Hewett and the CMS. Tullow has added significant value to this business and continues to actively manage its portfolio through targeted exploration and development programmes and cost reduction initiatives.

In 2007 Tullow averaged 171 mmscfd from the UK portfolio, 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 extreme uncertainty and weak pricing. As the year progressed and longer-term pricing trends became more favourable, Tullow made funds available to invest in selected development and high-graded exploration projects with a focus on value rather than growth in production. Tullow expects this trend to continue in 2008.

Thames-Hewett area

Over the last seven years, Tullow has steadily grown its asset base in the Thames-Hewett area through acquisition, development of marginal fields and third party tariff business. The Group has developed a reputation as an efficient, low cost operator with a track record of extending the life of mature fields. In 2007 Tullow's net production from these assets averaged 77 mmscfd.

During 2007, first gas was achieved from the Tullow-operated Thurne field in August at a gross rate of 50 mmscfd. The development plan for the Wissey discovery in block 53/4d was sanctioned in May 2007 and first gas is planned for August 2008 at a gross rate of 70 mmscfd. The Horne & Wren fields continued to produce above expectation through 2007.

To further extend the economic life of the Thames infrastructure, Tullow is currently evaluating the potential of infill wells on existing Thames area fields.

Hewett Complex

Since taking over operatorship of the Hewett Complex and Bacton Terminal in 2003, Tullow has successfully enhanced field production, extended the life of the facilities and significantly reduced operating costs.

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 the economic life of this asset regardless of any new gas production.

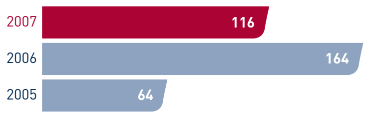
An exploration well on the Doris prospect spudded in January 2008 but was unsuccessful. Tullow also plans to drill a development well in mid-2008 in the Hewett main field. In the event of success, first gas could be achieved in late 2008.

In addition to activities to extend production life, Tullow is also investigating the potential longer term use of Hewett reservoirs and infrastructure for both natural gas and carbon dioxide storage. As part of these projects, Tullow is planning to enter the Government sponsored Carbon Capture and Storage Competition this year as a partner in two separate consortia. One will be led by E.ON UK plc and the other by RWE npower plc. Under the partnership's proposal, Hewett would act as the major carbon sink for disposal and long-term storage of carbon dioxide flue gases produced from coal-fired power stations to be built in the region in the next five to 10 years. Both natural gas and carbon dioxide storage are seen as viable schemes for extended use of the infrastructure after gas production ceases.

100%

success rate maintained in the CMS area with the discovery of the Harrison gas field.

Capital investment (£ million)



Working interest production (boepd)

Operations review: Europe continued

CMS Area
Production from the CMS Area averaged 94 mmscfd for the year, slightly less than 2006, reflecting natural decline. However, first gas was produced from the Kelvin field in November, boosting overall CMS production which by year-end was over 120 mmscfd net to Tullow.

The strong performance from the Kelvin field has meant a key focus for 2008 will be the sanction of the adjacent K4 and nearby Harrison discoveries for simultaneous development via the existing Kelvin and CMS infrastructure.

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

Other opportunities in the area include infill drilling on the existing fields and plans are well advanced for a further well on the Boulton field in the second quarter of 2008. Further infill wells in the region are also being considered.

Tariff revenue from the CMS system provides a steady cashflow for the Group. New third party business in the CMS system came on stream in 2007 with the completion of the Cavendish project. Several new third party developments in the area are also close to sanction and may provide a source of future revenue.

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

Netherlands
In the Netherlands, Carboniferous prospectivity remains highly under-explored and, by comparison to the adjacent UK acreage, the prospects are materially bigger. Tullow made its first entry into the province in 2007 with the award of a 10% non-operated interest in Block E13 and a 100% interest in the Epidote discovery.

In July 2007, Tullow also made applications for five new blocks in the Epidote area. Three of these blocks have been awarded to Tullow, and we anticipate acquiring an operated position in the additional two blocks via post-award licence assignments.

In addition, Tullow acquired operated interests in Netherlands Blocks L12a, L12b and L15b, where interesting prospectivity has been recognised in the Permian reservoir section.

Activity in 2008 in relation to this new acreage will largely be seismic reprocessing and interpretation in preparation for an integrated Netherlands drilling campaign in 2009.

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

24th Licensing round
Tullow was awarded six new blocks in both the Hewett and CMS areas in the 24th Licensing Round, five of these as operator. All blocks lie in our core Southern North Sea area.

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. A detailed seismic infill programme across the acreage is planned for 2008, and a 3,000 km 2D seismic survey is scheduled to commence during the second quarter of 2008.

Positive outlook
The Group has an active programme for its European assets in 2008 with two exploration/appraisal wells, completion of development of the Wissey field, and up to three infill development wells planned on its UK Southern North Sea acreage.

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

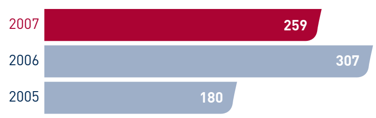
The Group has also entered Hewett in the Government's Carbon Capture and Storage competition in 2008 with the aim of significantly extending the life of the infrastructure once production ceases.

Seven

Tullow has expanded its interests in the Carboniferous play by gaining seven blocks in the Dutch sector.

Reserves and resources (mmboe)

Sales revenue (£ million)



United Kingdom

Meeting the challenge of a mature basin

Dave Malony and Charlie Taylor discussing cementing operations on the Wissey well offshore UK

Extending the life of Southern North Sea fields

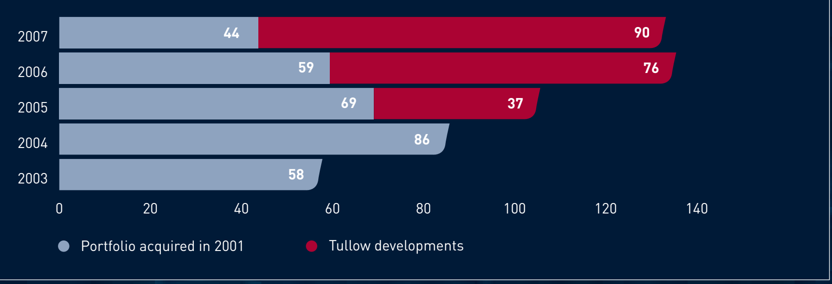
Since entering the Southern North Sea in 2000 and assuming operatorship of the Hewett/Bacton complex three years later, Tullow has been actively pursuing ways in which to prolong the life of these and other assets in our portfolio. Our strategy is threefold:

Continually improve operational efficiency
2007 saw a move towards investment in remote operations of the Hewett platforms. Through de-manning of the offshore installations, centralised control systems and optimised logistics we will not only realise significant cost savings in future years but also reduce the exposure of our personnel working offshore.

Targeted incremental investment
Our technical teams have developed a deep knowledge of the subsurface environment. With the infrastructure approaching the end of its productive life, Tullow has identified a number of infill and near field investment opportunities. The resulting drilling and development campaign commenced in the third quarter of 2007 and is expected to deliver significant value both in terms of new gas production and an extension to the economic life of the area.

Explore future opportunities 'Beyond Gas'
As the focus sharpens on ways of reducing and mitigating the impact of human activity on the climate, Tullow has been working with government, industry and NGOs to assess opportunities to contribute to the reduction of Carbon Dioxide emissions. The re-use of the Hewett main reservoir as a permanent, safe store for carbon dioxide is being studied in detail and could provide a significant contribution to the UK's climate change targets. The Hewett/Bacton infrastructure is strategically well placed, consequently we have also focused activity on developing commercial gas storage opportunities utilising these assets.

Thames-Hewett Area gross incremental production (mmscfd)



Previous page: Rig floor during Wissey well offshore UK
This page: Hewett Field Satellite Platform in block 52/5a offshore UK


52/5A

Operations review: South Asia

During 2007 Tullow's South Asia business reported good production growth, delivered two development projects and established a high impact exploration campaign in India.

2007 Statistics

4,300 boepd
Working interest production

20 mmboe
Total reserves and resources

£8 million
Sales revenue

£10 million
Capital investment

> For more information visit
www.tullowoil.com

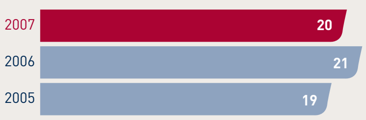
Key producing assets

Country	Activities	Producing fields (Tullow %)	2007 Working interest production (boepd)
Bangladesh	● ▲ ■	Bangora – Lalmai (30%)	3,260
Pakistan	● ▲ ■	Chachar[1] (75%)	750
		Sara/Suri (38.18%)	290

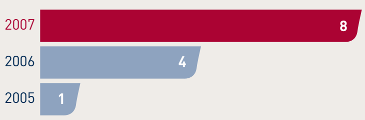
Notes: [1]Production commenced in August 2007.

Activities in other countries
India ●

Reserves and resources (mmboe)



Sales revenue (£ million)



Key: Exploration = ● Development = ▲ Production = ■

2007 Highlights

- Net production averaged 4,300 boepd, 143% above 2006 levels;
- Gross production from Bangora in Bangladesh stable at 70 mmscfd, upgrade to 120 mmscfd ongoing;
- First gas from the Chachar field in Pakistan achieved in August 2007; and
- Delineation of CB-ON/1 exploration drilling prospects in India in advance of an active drilling campaign in 2008.

Market environment

Tullow has established a strong position in South Asia and is involved in exploration, development and production activities in Bangladesh, Pakistan and India.

The Asian economy has witnessed unprecedented economic growth over the past few years, leading to steadily increasing demand for energy. We view South Asia as an area with significant further 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, drilled in February, tested at a gross maximum rate of 73 mmscfd. This well was tied back in April 2007 and thereafter the field has been producing at the 70 mmscfd capacity of the processing facility.

The second phase of development is currently under way, involving a further upgrade of the processing capacity to 120 mmscfd. This should allow gross field production to be increased to in excess of 100 mmscfd by the end of 2008 and provide capacity for further infill drilling.

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. The exploration programme resumed in the last quarter of 2007 with an extensive bathymetry survey in the Bay of Bengal. A focused 3D seismic survey will follow in the first quarter of 2008.

Pakistan

The Chachar field came on stream in August 2007 with gas being processed on site and delivered to the Guddu power station. Production commenced at a rate of 23 mmscfd from three wells, two of which have dual completions. Further wells and workovers are planned for 2008 to increase production from the field.

Compression facilities were successfully installed at Sara and Suri in May 2007, increasing production to approximately 6 mmscfd and extending the productive life of the field.

On the Kohat exploration block, we have completed seismic processing and interpretation and selected two drilling prospects. The drill site for the first well has been constructed but operations have been delayed as a consequence of the security situation in Pakistan. The Government of Pakistan has granted a one-year extension to the licence and we now plan to commence drilling in the latter part of 2008.

Exploration activities elsewhere in Pakistan have also been affected by access problems and the Government has granted an extension on the Bannu West block. However, progress was made on the Kalchas exploration block and planning is under way for seismic operations in the area during 2008.

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

India

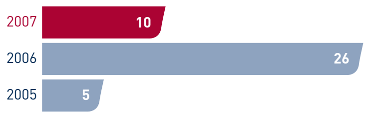
The main focus for Tullow in India during 2007 was on CB-ON/1. Following the acquisition and processing of data from the initial 2D seismic programme an additional 415 km of 2D data was acquired and processed towards the end of 2007. This focused on firming up a number of leads in the northern part of the block.

A drilling programme has been agreed for four wells and three contingent wells to 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 for the second quarter of 2008.

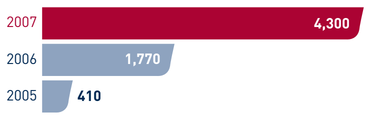
150 mmboe

Four-well exploration campaign in India to commence in 2008 targeting a gross upside of 150 mmboe.

Capital investment (£ million)



Working interest production (boepd)



2008 Outlook

2008 will be a year of active portfolio management, production growth and exciting exploration activity in South 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.

Operations review: South America

Tullow made steady progress in South America in 2007 with the integration of the Hardman portfolio, the pursuit of new business opportunities and preparation for drilling the high impact Matamata prospect in 2008.

2007 Statistics

5
Licences

3
Successful wells

5
Wells drilled

£5 million
Capital investment

> For more information visit **www.tullowoil.com**

Activities by country

Country	Activities
Falkland Islands*	●
French Guiana	●
Suriname	●
Trinidad and Tobago	●

Note: *Tullow withdrew from the Falkland Islands in August 2007.

Key: Exploration = ● Development = ▲ Production = ■

2007 Highlights

- Successful bidder in two key Trinidad and Tobago blocks;
- Execution of Production Sharing Contracts (PSCs) for two onshore Suriname blocks;
- Five exploration wells drilled in Suriname, three encountering oil;
- CSEM survey over the large Matamata prospect; and
- Divestment of the non-core Falkland Islands assets.

Market environment

Tullow gained its interests in French Guiana, Suriname, Trinidad and Tobago and the Falkland Islands through the Hardman Resources acquisition. 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.

French Guiana

Tullow holds a 77.5% interest in the extensive (35,200 sq km) Guyane Maritime licence which covers all of the prospective acreage offshore French Guiana. The licence is in a proven hydrocarbon basin but is underexplored with only two wells drilled to date, the most recent in 1978.

Since 2001, 2D and 3D seismic data have been acquired along with the reprocessing of existing 2D seismic. This new data has highlighted the presence of a very large structural prospect, Matamata, along with numerous additional structural and stratigraphic leads.

The Matamata prospect is an Albian prospect, in a water depth of 1,200 metres, with upside potential of up to a billion barrels. At the end of 2007, Gaz de France executed a Control Source Electromagnetic (CSEM) survey over the structure and Tullow, as Operator, is now advancing plans for first exploration drilling in the latter part of 2008. Tullow is also looking to reduce its capital exposure on this forthcoming deep-water well and will most likely farm down its interest in this licence before the well is drilled.

Suriname

PSCs for the onshore Uitkijk and Coronie blocks were formally executed in February 2007. The blocks have a total area of 3,351 sq km and lie adjacent to the country's main producing oil field, Tambaredjo.

Exploration drilling in the Uitkijk Block commenced in July, and a five well drilling campaign was completed during July and August. Oil was encountered in three of the wells. The commercial viability and the forward programme for these prospects are currently being evaluated.

Trinidad and Tobago

In 2007, Tullow was the successful bidder for two blocks in the Sixth Trinidad Exploration Licensing Round and was awarded offshore Block 2(ab) and the onshore Guayaguayare Block. Commercial negotiations for PSCs for both blocks are in progress. It is anticipated that negotiations will complete in the first half of 2008 and that initial seismic acquisition will commence at the beginning of 2009.

Offshore Block 2(ab), is approximately 1,600 sq km in area and lies in shallow water off the east coast of Trinidad and is on trend with a number of producing oil and gas fields, notably BHP Billiton's Angostura development. Tullow, as operator, jointly bid with Centrica to each gain a 32.5% interest in the block. The remaining working interest will be held by the state oil company, Petrotrin.

The 1,192 sq km Guayaguayare Block, contains both onshore and offshore areas and lies in the southeast of Trinidad adjacent to a number of producing oil fields. Tullow bid alone on this block and will likely consider farming out a portion of the interest prior to any major investment.

Falkland Islands

At the beginning of 2007, Tullow held a 22.5% interest in seven offshore production licences covering approximately 14,500 sq km to the south and east of the Falkland Islands. The outstanding Phase I work commitments (2D seismic acquisition and a sea-bed logging survey) were completed during the first part of the year, but in light of the non-core nature of these assets, and potential major forward drilling expenditures, Tullow transferred its interests in all seven licences to the operator, Falklands Oil and Gas Ltd.

One billion

The high impact Matamata well in French Guiana is planned for 2008 and has a one billion barrel upside potential.

New ventures

The Group has assessed a number of new opportunities over the course of the year. In doing so, Tullow has pre-qualified as a deep-water operator for Brazil's Ninth Exploration Round and is also currently evaluating data for possible participation in the forthcoming Barbados bid round.

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, the completion of the Trinidad PSC negotiations and potential entry into new South American oil and gas provinces.

Corporate and social responsibility

At Tullow, Corporate and Social Responsibility (CSR) is a core value. As part of our culture we support the communities where we work and protect people and the environment.

A clear link

Good CSR helps us develop a political and community profile that supports our business and strategic objectives. Our focus is on delivering the most appropriate CSR activities to ensure we achieve the best outcome. Our CSR and Environment, Health and Safety (EHS) policies, which are reviewed annually by the Board and signed off by Aidan Heavey, Tullow's Chief Executive, describe our core values and formalise our long standing commitment to these areas.

CSR in Tullow is embedded in our business processes and aligned to our 'Working with Communities' initiative, which encompasses all our community based activities.

Tullow's CSR Committee manages our growing support for community sponsorship programmes and provides guidance to those responsible for CSR.

We prioritise our support for carefully selected projects, which can be as basic as the provision of clean water through to programmes aimed at socio-economic change. Where we have long-term operations we have a greater opportunity to engage in longer-term CSR activities such as assisting schools and building birthing centres. However, in the early exploration phase we typically focus on short-term, stand-alone projects such as the distribution of mosquito nets.

We operate in numerous countries where core EHS standards are either not yet in place or not enforced. It is under these circumstances that we must meet the challenge of developing programmes which provide social and community support, but which also drive improvements in EHS awareness and help to create a culture which minimises risk to people.

Key EHS metrics

	2007	2006	2005	
Groupwide				
Lost Time Incident (LTI)	10	5	3	↑
Lost Time Incident Frequency Rate (LTIFR)	1.95	0.81	0.82	↑
High Potential Incident (HIPO)	29	3	2	↑
Total Recordable Incidents (TRI)	65	74	11	↓
Total Recordable Incident Frequency Rate (TRIFR)	12.7	12.1	3	↑
Hours worked (millions)	5.1	6.1	3.7	
Oil and chemical spills	1	2	2	↓
UK only				
EUETS CO_2 emissions (tonnes)	190,508	215,407	258,407	↓
UK Produced water quantity (m^3)	6,920.1	9,725.4	7,871.9	↓
UK Total oil in produced water (tonnes)	0.2125	0.1624	–	↑
Water usage (m^3)	31,899	18,678	29,200	↑
2007 new Group figures				
Production water usage (m^3)	39,496			
Full production emissions (tonnes CO_2)	204,961			
All drilling emissions (tonnes CO_2)	23,597			
All well test emissions (tonnes CO_2)	11,667			

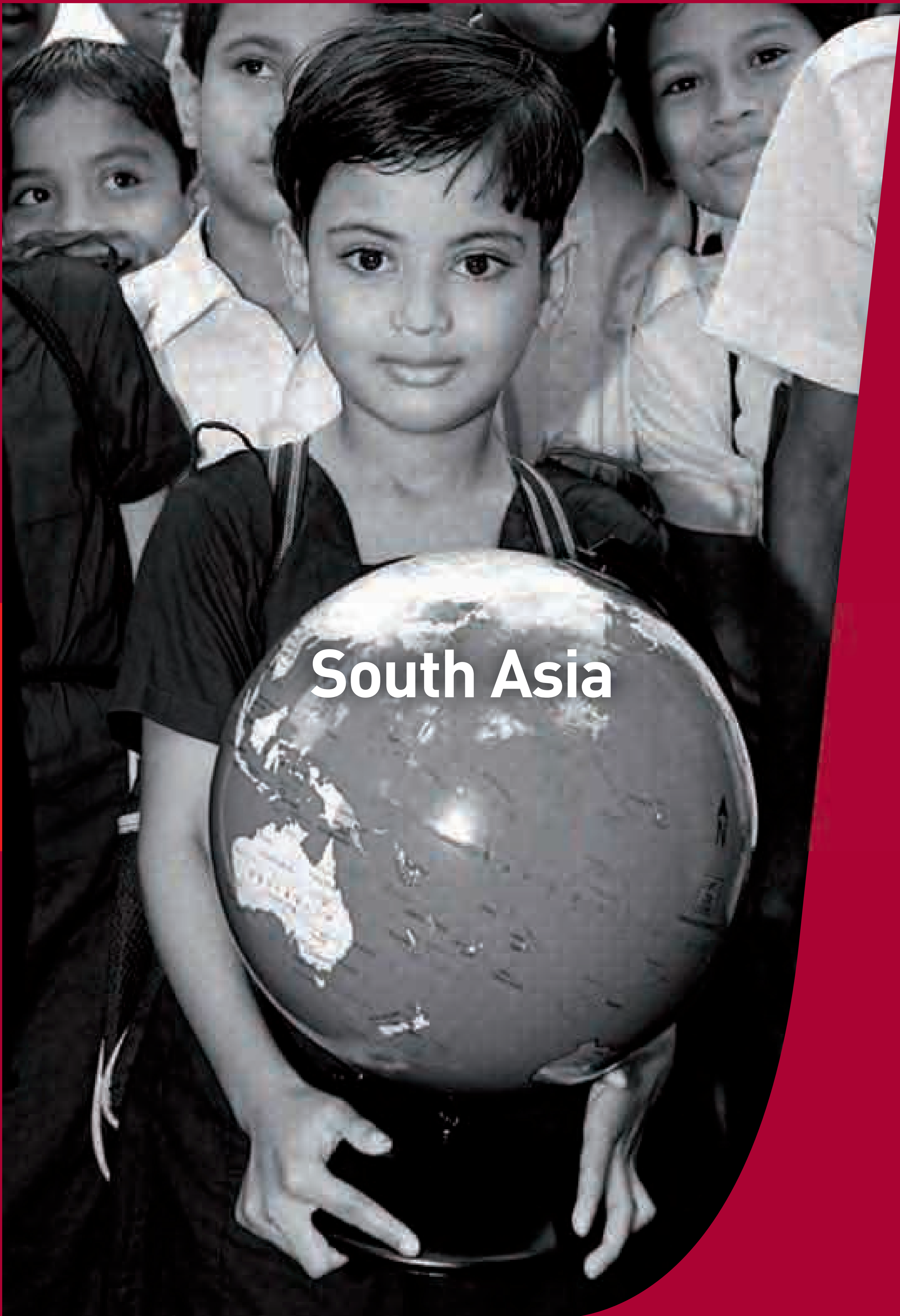
Growing support

In 2007, we were involved in 120 projects across 19 countries and our discretionary spend was US$0.9 million (£0.5 million) on social and community development projects, compared to US$0.5 million (£0.3 million) in 2006.

Some of the many new projects we were involved in included drilling water wells in Uganda and Ghana, donating funds to emergency relief efforts for children in Sudan and flood relief in Bangladesh and the construction of a shelter home for abused children in Cape Town. We also retained our commitment to numerous long-term projects including ECOFAC gorilla conservation in Central Africa, Noluthandu School for the Deaf in Cape Town, assistance to local schools in Bangladesh and support for the communities local to our UK operations.

To assist in fully utilising our 2008 discretionary budget of US$2 million (£1 million) for social and community development, we have made a number of key changes:

- We refined our internal communication to ensure regular monitoring and management of the budget spend;
- We improved communication and clarity around the allocation of funding with a formal arrangement to assess and approve projects; and
- We recruited a CSR Advisor to facilitate the approvals process, report monthly to the CSR committee and assist budget holders with their project selection and analysis.



South Asia

Corporate and social responsibility case study

Meeting the challenge of supporting education

Gordon Phillips at the Gopalnagar High School, Bangladesh

Delivering longer term socio-economic benefits

Across the Group in 2007 we spent over US$239,000 (£120,000) on educational initiatives. In developing countries, education ensures longer term socio-economic benefits for the population, thereby building stronger and more self sustaining communities. In many cases the most common need is for basic facilities ranging from individual desks and learning equipment through to construction of the school itself.

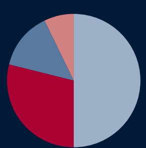
Improved education provides additional opportunities to the younger generation and this in turn will enable Tullow and others to recruit locally trained personnel, thereby building further skills and delivering additional benefits to the community.

In Uganda, Tullow-constructed facilities support in excess of 800 students. In Pakistan, we supported over 1,600 students with books, stationery and school bags. In Bangladesh, our efforts helped over 5,000 children in 10 schools. We provided education and sports equipment, school uniforms, book bags and furnishings according to their specific needs.

In developed countries, Tullow focuses on advancing student knowledge and understanding of the industry and for the last two years we have engaged with Year 7 (aged 11 to 12 years old) of Norbury School in London, addressing a wide range of industry related constructive and challenging questions.

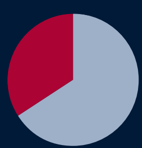
Tullow Oil plc Working with Communities

2007 by category



- Working with communities **50%**
- Other **29%**
- Education **14%**
- Conservation **7%**

2007 by length of commitment



- On-going **66%**
- One-off **34%**

Previous page: Visit to Gopalnagar East primary school, Bangladesh
This page: Visit by Tullow CSR team to Nabipur primary school, Bangladesh


TULLOW
OIL

Corporate and social responsibility continued

A challenging year for health and safety

It was a challenging year for health and safety at some of our operations and this impacted on overall results for key health and safety performance indicators. We are disappointed by the increase in LTIs across our operations with 10 LTIs in 2007, raising our LTIFR to 1.95 per million hours worked. There was also a significant increase in the number of HIPOs reported which cannot be wholly explained by a revision of accident and incident reporting. Paying specific attention to HIPOs is a way of identifying key learnings and creates the opportunity to implement improvements before an actual incident occurs.

In 2007, we had two examples of excellent health and safety performance within the Group. Our Bangora facility in Bangladesh completed its first year of production with zero LTIs and Lüderitz, our temporary logistics base in Namibia, operated through the full well programme for over 200 days without an LTI.

Overall the 2007 outcome is in contrast to the steady improvement in safety performance we have had in recent years and is unacceptable. We have already taken significant steps to meet the challenge of improving our results and through positive leadership from Senior Management plan to return to top quartile industry performance in 2008.

A strong environmental performance

Our environmental performance over the year has been good with no significant incidents and only a single spill of 10 barrels in Uganda. We also saw a 12% reduction in CO_2 emissions covered by the EU Emissions Trading Scheme (EUETS) reinforcing the benefits of the Bacton plant rationalisation programme for which we received the Business in the Community 'Big Tick' award in 2007.

Over the course of 2007 the environmental performance of our operated activities complied with an increasingly diverse range of regulatory regimes, and we continued to set our own appropriate standards and controls where local legislation is less developed. Key to setting these standards is the preparation of Environmental and Social Impact Assessments (ESIA) and linking these to management programmes that address the environmental risk of our planned activities. Our focus on ESIAs has been extensive and in Uganda, for example, we have carried out numerous assessments across the Kaiso-Tonya valley including reworking existing assessments where we felt key environmental issues had not been fully addressed.

Better reporting

Previously, reported data has been mainly for UK operated assets and while these are still the most significant contributors we recognised the need to reflect our widening operational base and to expand the reach of our environmental metrics. A mid-year review of environmental data was undertaken in 2007, to set appropriate corporate reporting requirements. Group production, drilling and well test data have been collated for

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Tullow people

Last year, we spoke about being a great place to work and an employer of choice in the industry. In 2007, we decided to test this by entering our London Head Office in the annual 'Best Companies to Work For' competition for the first time.

The Best Companies organisation was set up six years ago to identify the drivers of sustainable business performance. Their research shows that the key is 'workplace engagement' and they set about developing an academically rigorous methodology to measure the levels of workplace engagement in companies.

The Best Companies Accreditation Scheme recognises those organisations that have achieved high levels in key areas. The accreditation is a year-round reminder of an organisation's performance according to eight key factors.

These factors are significant as they are defined through survey results, and therefore by employees themselves, as critical factors in workplace engagement.

1. Linda Biribonwa, Environmental Adviser in Uganda
2. Leigh Reeder, Well Services Supervisor in the UK
3. Declan Byrne, John Doherty, Joe Mongan, Geophysical Technology Group in the Dublin office

the first time, offering a greater understanding of our contribution to emissions of greenhouse gases. This is the first step in benchmarking our performance.

Throughout 2008 we will continue to expand the scope of our data collation to develop an even more comprehensive view of the Group's environmental performance.

External assurance

Over the last two years we have steadily improved the overall level, quality and detail of the data we report in our CSR Report. One common issue in feedback from stakeholders is external assurance of the CSR Report, to provide greater confidence in the data being reported and verification of the robustness of Tullow's internal data collation and calculation processes.

In response we have commenced a three-year programme with Deloitte & Touche LLP to give assurance on Tullow's EHS data at Group level for 2007.

The 2007 data in the EHS key metrics table on page 34 are taken from the data set that will be assured in the 2007 CSR Report, which will be published in May this year.

Furthermore, we plan to widen assurance coverage over the next two years.

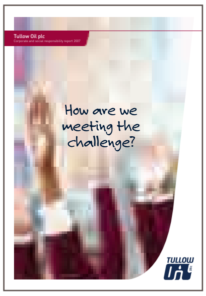
Outlook for 2008

Our focus for the immediate future is on restoring a strong health and safety performance, building fully representative environmental data and increasing our social and community spending to targeted levels. Our goals for 2008 are challenging and we look forward to achieving them.

Find out more about Tullow Oil and CSR

Our 2007 CSR Report will be available in May and for further information on our CSR activities you can also visit

> www.tullowoil.com/tlw/cr



The factors are:

- Leadership – how employees feel about the senior managers' and the company's values;
- My manager – how employees feel about and communicate with their direct manager;
- Personal growth – what employees feel about training and their future prospects;
- Wellbeing – how employees feel about pressure at work and work life balance;
- My team – feelings towards their immediate colleagues and how well they work together;
- Giving something back – the extent to which employees feel their organisation has a positive impact on society;
- My company – the level of engagement employees have for their job and the organisation; and
- Fair Deal – how happy employees are with their pay and benefits.

Tullow achieved 3-Star status on the first attempt, which is the highest possible award status. Only 15% of companies who entered this year achieved this, so we are naturally proud of this result.

However, while we do appreciate that this is a just snapshot in time we have set the standard now and must work hard to ensure that we maintain this through feedback and engagement across Tullow.

This is one of the challenges we face as we grow into a larger, more diverse Group operating major projects in many different countries.

In response, we will continue to recruit the best talent into the organisation and keep people at the top of the agenda to ensure we remain a great place to work.

Finance review

During 2007, Tullow focused on allocating resources to assets which will drive future growth. Our financial strategy supports our long-term business objectives.

During 2007, Tullow's business reached a new level of scale in terms of production, operating cashflow, market value and future growth potential. Total shareholder return in 2007 was 66% (2006: 49%), placing Tullow in the top quartile of its peer group. Over the three-year period from 2005 to 2007, Tullow's total shareholder return has been in excess of 440%.

Overall, results for the year were solid. However, a 19% decline in realised gas price, which represents 40% of revenue, impacted our performance and this, combined with increased depreciation and interest charges and exploration write-offs, meant that basic earnings per share declined 71% to 7.1 pence per share.

Our financial strategy is to maintain financial flexibility to support the Group's significant appraisal and development programmes in Ghana and Uganda and effectively allocate capital across the remainder of our business.

Strong production and pricing

Working interest production averaged 73,100 boepd, 13% ahead of 2006. Sales volumes averaged 62,600 boepd, representing an increase of 9%. As a result of increased sales volumes and higher oil price, offset by the weaker UK gas price, 2007 revenue increased by 10% to £639.2 million (2006: £578.8 million).

The bulk of production growth came from our African oil portfolio, which represented 55% of total output and 58% of Group revenue. This was driven by an exceptional performance from the Okume development and the Ceiba field in Equatorial Guinea and a first year of production for Tullow from the Chinguetti field following the completion of the Hardman acquisition.

Key financial metrics

	2007	2006	Change
Production (boepd, working interest basis)	73,100	64,720	+13%
Sales volume (boepd)	62,600	57,300	+9%
Realised oil price per bbl (US$)	62.7	52.2	+20%
Realised gas price (pence per therm)	37.3	46.2	-19%
Cash operating costs per boe (£)[1]	5.05	4.74	+7%
Operating cashflow before working capital per boe (£)	17.77	18.76	-5%
Net debt (£m)	479.5	122.1	+293%
Interest cover (times)	10.4	24.0	-13.6
Gearing (%)[2]	67	16	+51%
TSR (%)	66	49	+17%

1. Cash operating costs are cost of sales excluding depletion, depreciation and amortisation and under/over lift movements.
2. Gearing is net debt divided by net assets.

Gas production from South Asia also rose significantly, due to new production from the Chachar field in Pakistan in August and continuing strong performance from the Bangora field in Bangladesh. Gas production from Europe of 171 mmscfd (28,500 boepd) showed a modest decline from 2006 levels.

Oil prices continued to be strong throughout the year and Tullow's realised oil price after hedging was US$62.7/bbl (2006: US$52.2/bbl), an increase of 20%. Tullow's oil production sold at an average discount of 3% to Brent during the year (2006: 5% discount).

Whilst oil pricing was positive, UK gas price realisations fell by 19% to 37.3p/therm (2006: 46.2p/therm). Following a period of exceptional pricing, particularly in early 2006, new sources of supply and a mild winter combined to significantly reduce gas price in the first half of 2007 and despite strengthening prices in the second half, the average UK day ahead gas spot price for 2007 was 29.7p/therm. Tullow's UK gas hedge programme proved highly effective during 2007, contributing approximately 7.6p/therm to the Group's realised price, amounting to an additional £39 million to Group revenue. The Group also recorded tariff income of £17.5 million (2006: £16.6 million) from its UK infrastructure interests.

Disciplined cost management offset by higher depreciation

Underlying cash operating costs, which exclude depletion and amortisation and movements on under/overlift, amounted to £134.7 million (£5.05/boe). These costs were 7% above 2006 levels, principally due to upward cost pressures in oil and gas services and in our UK business.

Depreciation, depletion and amortisation before impairment charges for the year amounted to £203.0 million (£7.61/boe). This represents a 19% increase over 2006, principally as a result of a higher depreciation charge on UK assets, and the addition to Tullow's portfolio in early 2007 of the Chinguetti field where performance was significantly below expectations, leading to a 25% increase in depreciation rates above initial estimates. In addition we have recognised an impairment charge of £13.8 million (£0.48/boe) on Chinguetti, which is due to the ultimate recoverable commercial reserves being downgraded by 50%.

Tullow continued to invest in people during 2007 increasing average staff numbers by 33% to 277 people, due to the significant increase in investments being made during the year and also the need to establish an appropriate resource pool to fulfil our long-term growth objectives. As a result, underlying general and administrative costs have increased by 43% to £26.2 million (2006: £18.3 million). The total general and administrative costs charge of £31.6 million also includes a charge of £5.4 million in respect of the Group's share-based incentive schemes (2006: £4.2 million).

Total dividend distribution

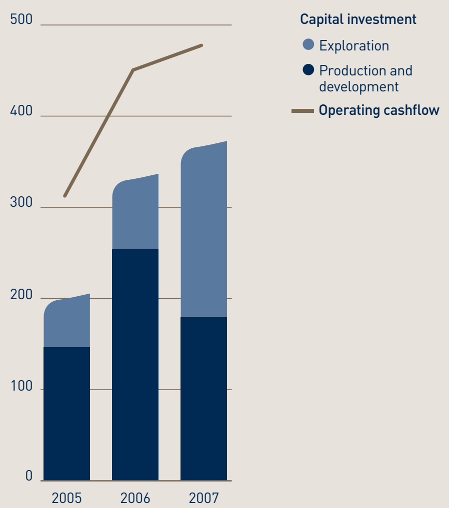
£97 million

Since 2003 Tullow has returned £97 million to shareholders in the form of dividends. Over the same period the Group has shown a total shareholder return of over 700%.

Exploration write-off

Exploration costs written off were £64.2 million (2006: £32.5 million), in accordance with the Group's 'successful efforts' accounting policy, which requires that all costs associated with unsuccessful exploration are written off to the Income Statement. Of this write-off £51.1 million

Operating cashflow and capital investment (£million)



£474 million +6%

Operating cashflow

Tullow demonstrated strong cashflow growth in 2007 which enabled us to continue our aggressive growth in capital investment. During 2007, approximately 48% of our investment was allocated to production and development assets, with the balance invested in our exploration portfolio.

The success of our 2007 exploration programme has led to major appraisal and development programmes in 2008. Our assets in Ghana and Uganda will together account for over 50% of expenditure during the year.

Finance review continued

is principally associated with unsuccessful exploration activities in the UK, Gabon, Ghana, Namibia and new ventures/pre-licence costs and a recent decision to relinquish Blocks 107 and 108 in Côte d'Ivoire. The remaining £13.1 million is in relation to a downgrade of Chinguetti contingent resources as at 31 December 2007. In addition to the impairment charge set out above, this brings the total charge associated with Chinguetti to £26.9 million.

Operating profit

Operating profit before exploration activities amounted to £253.3 million (2006: £295.1 million), a decrease of 14%, due to the increased depreciation charges, partly offset by production growth and strong oil prices.

Derivative instruments

Tullow continues to undertake hedging activities as part of the ongoing management of its business risk and to protect the availability of cashflow for reinvestment in capital programmes which are driving business growth. Hedges undertaken in respect of 2008 combined with portfolio management provide downside protection on revenue of over £300 million, representing approximately 70% of planned 2008 capital investment.

At 31 December 2007, the Group's derivative instruments had a negative mark to market value of £158.0 million (2006: £21.0 million). Of this, £136.9 million relates to a negative mark-to-market on oil contracts, the majority relating to hedges acquired as part of the acquisition of Energy Africa in 2004 and £21.1 million relating to a negative mark-to-market on gas contracts.

While all of the Group's commodity derivative instruments currently qualify for hedge accounting, a charge of £29.3 million (2006: credit of £15.7 million) has been recognised in the income statement for 2007. Of this charge £23.4 million relates to oil and gas hedges while the balance of the charge comprises £5.9 million relating to the Group's foreign exchange derivatives associated with the acquisition of Hardman Resources.

The Group's hedge position as at 5 March 2008 can be summarised as follows:

Hedge position

	2008	2009	2010
Oil			
Volume – bopd	19,293	11,000	2,000
Current Price Hedge - US$/bbl	70.9	63.4	89.4
Gas			
Volume – mmscfd	81.0	38.7	12.3
Current Price Hedge - p/therm	50.1	50.4	54.1

Gearing, financing costs and interest cover

The net interest charge for the year was £45.6 million (2006: £15.0 million) and reflects the significantly increased levels of net debt during 2007 following the completion of the Hardman Resources acquisition in January. In addition the amortisation of finance costs associated with the US$1 billion Bridge Facility negotiated to effect this transaction and a reduced level of interest capitalisation in relation to development assets has also contributed to this increase.

At 31 December 2007, Tullow had net debt of £479.5 million (2006: £122.1 million), which was approximately one times the Group's operating cashflow before working capital movements for the year. Interest cover has reduced to 10.4 times (2006: 24.0 times) however both overall debt levels and interest costs remain very comfortable in the context of the Group's overall production profile, recent portfolio management transactions and future growth opportunities.

Taxation

The tax charge of £61.6 million (2006: £105.9 million) relates to the Group's North Sea, Gabonese, Equatorial Guinea and Mauritanian activities and represents 54% of the Group's profit before tax (2006: 40%). After adjusting for exploration costs and movements associated with overlift balances, the Group's underlying effective tax rate is 34% (2006: 35%).

Dividend

The Board has a high level of confidence in the Group's business and future profit potential, as well as a strategy of maintaining capital discipline through periods of strong oil and gas pricing. Consequently the Board has proposed a final dividend of 4.0 pence per share (2006: 3.5 pence per share). This brings the total payout in respect of 2007 to 6.0 pence per share (2006: 5.5 pence per share). The dividend will be paid on 21 May 2008 to shareholders on the register on 18 April 2008.

Strong cashflow and capital investment

Increased production and the strong oil price environment led to record operating cashflow before working capital movements of £473.8 million (2006: £446.7 million), 6% ahead of 2006. This cashflow facilitated investment of approximately £370 million in exploration and development activities, payment of an increased final 2006 dividend and servicing of the increased debt facilities.

Tullow currently plans a total 2008 capital investment of approximately £440 million, with Tullow's Africa activities accounting for approximately 75% of this anticipated investment. In addition to our 2008 commitments we are planning for the future, as evidenced by the US$700 million (£350 million) contract on behalf of the Jubilee field partners for the Eirik Raude rig as part of the Ghana development programme, which is targeting first oil in 2010.

Effective portfolio management

The exploration and appraisal investments planned for 2008 will drive future growth and as we seek to prioritise our allocation of capital, we have identified a number of interests which are not central to our longer-term strategy. As at 31 December 2007, our interest of 40% in the Ngosso permit in Cameroon and our interest of 11% in the M'Boundi field in Congo (Brazzaville) have been classified as 'assets held for sale' in accordance with IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations. Both transactions are expected to complete in 2008 for a total consideration of US$480 million (£240 million) with the M'Boundi sale still being subject to partner pre-emption. The disposals are also subject to government approvals. The Group expects to recognise a very substantial profit on these disposals in the 2008 financial statements.

The successful completion of portfolio management efforts announced year to date will halve Tullow's net debt at 31 December 2007 and provide substantial additional cash resources for investment in key assets. These transactions also indicate the inherent value of Tullow's asset portfolio at a time where many players in our industry are becoming increasingly opportunity constrained.

The Board will continue to actively monitor the Group's portfolio and consider asset divestments or acquisitions as appropriate to ensure shareholder value is maximised and resources allocated in the most effective manner.

Hardman Resources acquisition completion

The Hardman acquisition was completed on 10 January 2007 with the payment of £334.9 million and the issue of 65 million shares to Hardman shareholders. A final review of the fair value allocation to the acquired assets and liabilities was undertaken in accordance with the provisions of IFRS 3 – Business Combinations. The final total fair value attributed to the transaction amounts to £759.4 million, comprising £595.2 million of consideration and associated costs and an additional £164.2 million of deferred tax uplift in accordance with IAS 12 – Income Taxes.

Accounting policies

UK listed companies are required to comply with the European regulation to report consolidated statements that conform to International Financial Reporting Standards (IFRS). The Group's significant accounting policies and details of the significant accounting judgements and critical accounting estimates are disclosed within the notes to the financial statements where appropriate on pages 73 to 76. Other than the mandatory adoption of IFRS 7 – Financial Instruments: Disclosures, which increased the disclosure requirements in respect of financial instruments, the Group has not made any material changes to its accounting policies in the year ended 31 December 2007.

Financial strategy and outlook

During 2007 the value of Tullow's business was transformed by successful exploration activity in Ghana and the ongoing programmes in the Albertine Rift basin in Uganda. With focused investment in appraisal and development over the coming years, reserves and production have the potential to reach multiples of current levels.

A successful phased development in Ghana and the achievement of commercial volumes for pipeline export in Uganda will materially extend the Group's reserve life and financial profile. In anticipation of this we are evaluating long-term financing options with the support of our bank syndicate.

While the global credit environment has been challenging in recent months, operating fundamentals in the oil and gas industry remain strong and there continues to be encouraging bank support for transactions involving exploration and production companies.

Our financial strategy must support these plans by ensuring sufficient funds are allocated to our growth assets, by maintaining an appropriate level of gearing and financial risk and by constantly analysing our portfolio to ensure our asset mix is aligned with our long-term business strategy.

Investor Relations

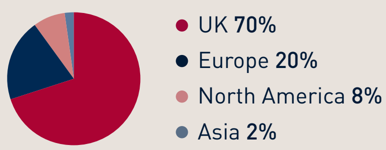
2007 was an active year for Tullow's Investor Relations, with significant positive newsflow and the Group's entrance into the FTSE100 leading to increased investor interest. During the year Senior Management participated in over 250 investor meetings in 11 countries, presented at over 20 conferences and hosted an investor trip to Uganda for sell-side analysts. Tullow is now covered by 22 sell-side analysts and has a broad shareholder base across the UK, Europe and North America.

We always welcome shareholder queries so please feel free to contact Chris Perry, the Head of Investor Relations by email on chris.perry@tullowoil.com.

Shareholder analysis

March 2008 by segment

March 2008 by geography



Risk factors

Our rapid growth brings many opportunities but also new challenges. Effective risk management is a critical part of our strategy, business objectives and day to day activities.

Clear risk identification

The table opposite sets out the key risks facing Tullow, their potential impact and mitigation strategies developed. Risks are grouped into four main categories: strategic; financial; operational; and external. Effective risk management is critical to achieving our strategic objectives and protecting our people and reputation. Tullow manages and mitigates its risks by maintaining a balanced portfolio, through compliance with the terms of its licences and application of policies and procedures appropriate for an international oil and gas company of its size and scale and through the recruitment and retention of skilled personnel throughout its business.

Comprehensive risk management systems

Tullow has a systematic approach to risk identification and management and undertakes both 'top-down' (driven by the Board) and 'bottom-up' (originating from the business units and operations) processes facilitated by the Group's Internal Audit Function under the ultimate supervision of the Audit Committee. The Board, through the Audit Committee, completed a review of internal controls and risk management. No significant gaps or weaknesses were identified as part of the 2007 review.

Clear targets and responsibility

The Board's strategic risk identification process feeds into the annual strategy review as part of the overall annual planning cycle. Annual objectives and targets covering production, development and exploration are established for each business unit with the identification, management and reporting of risk as an integral part of the process. Tullow recognises that risk is inherent across its operations, and all activities with a potential corporate or business impact are subject to an appropriate review to ensure that risks can be mitigated and controlled.

Appropriate policies and procedures

Detailed procedures have been developed to support risk management across the activities of the Group and the application and consistency of these procedures is regularly reviewed by the Group's Internal Audit function. In addition the Group has also successfully applied for external certification of critical processes such as International Standards Organisation (ISO) 14001 certification for environmental management in the UK, Ireland, South Africa and Bangladesh and ISO 9001 quality certification for our UK gas receiving and processing terminal. The review process for each standard involves an assessment of the management of material risks and business and operational controls employed to mitigate such risks.

The Directors have ultimate responsibility for the effectiveness of the Group's risk management activities and internal control processes. Any system of internal control can provide only reasonable, and not absolute, assurance that material financial irregularities will be detected or that the risk of failure to achieve business objectives is eliminated. The Board's objective is to ensure Tullow has appropriate systems in place for the identification and management of risks.

Risk description and potential impact	Mitigation
Strategic risk **Ineffective or poorly executed strategy fails to create shareholder value.**	
Ineffective mix of oil and gas interests	Spread of oil and gas interests across diverse geographical locations.
Insufficient portfolio balance	Annual formal review and validation of strategy by the Board.
Organic and acquisition-led growth	Consistent investment appraisal process and Board approval for acquisitions.
Inefficient capital allocation	Comprehensive annual budgeting process covering all expenditure approved by the Board. Effectively managing capital allocation.
Ineffective management processes	Policies and procedures appropriate for Tullow's size and scale.
Loss of key staff/succession planning	Remuneration policies to attract and retain staff and specific staff development and training policies implemented.
Financial risk **Asset performance and excessive leverage results in the Group being unable to meet its financial obligations.**	
Excessive or inappropriate debt	Access to competitive financing. Conservative approach to debt/equity financing. Maintain financial flexibility by portfolio management.
Inadequate or excessive hedging	Hedging strategy agreed by the Board utilises a mix of physical and derivative products appropriate to Tullow's size and production base.
Underperforming assets	Portfolio spread reduces dependence on a single asset. Regular asset financial performance reporting.
Industry cost inflation	Rigorous contracting procedures with competitive tendering.
Mis-priced corporate acquisitions	Consistent investment appraisal and Board approval for acquisitions.
Uninsured events	Comprehensive insurance programme.
Operational risk **Operational event impacts staff, contractors, communities or the environment leading to loss of reputation and/or revenue.**	
EHS incident	EHS standards set and monitored regularly across the Group.
Security incident	Integrated Management System covers day to day operational risks. Crisis management system implemented.
Key development failure	Technical, financial and Board approval for all projects and progress reports.
Failure to secure equipment, services and resources	Rigorous contract and procurement procedures. Comprehensive long-term planning to resource key projects.
Corruption or reputation risk	Consistent ethical standards established and documented.
Corporate and Social Responsibility	Social and community programmes. Social and ethical policies.
Sustained exploration failure	Exploration process validates programmes prior to Board approval.
Hostile acquisition	Robust defence strategies against hostile acquisitions. Effective investor engagement and ongoing communications programmes.
External Risks **The overall external political, industry or market environment may negatively impact on the Group's ability to independently manage and grow its business.**	
Political risk and fiscal change	Developing successful relationships with governments and communities.
Lack of control of key assets	Joint venturing with partners and governments.
Corporate governance failings	Regular review of compliance requirements.
Shareholder sentiment	Active engagement with the investor community.
Oil and gas price volatility	Hedging strategy agreed by the Board.

Board of Directors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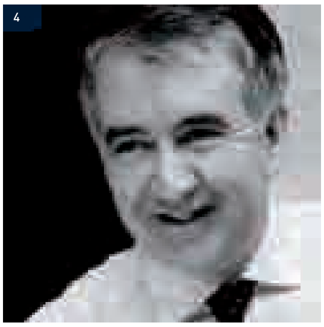
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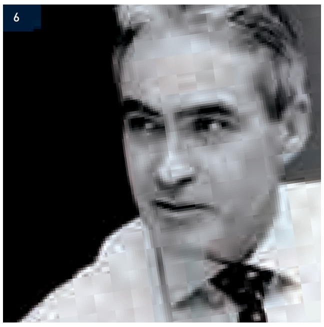
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1. Patrick Plunkett
Chairman (Age 57)
Pat Plunkett joined the Board as a non-executive Director in 1998 and was appointed non-executive Chairman in 2000. He is also Chairman of the Nominations Committee and a member of the Remuneration Committee. Mr Plunkett is an accountant with over thirty years' experience in the financial services sector and is a former director of the Irish Stock Exchange. He managed the stockbroking and corporate finance businesses of ABN AMRO Bank in Ireland from 1993 to 1998. Since then he has been providing strategic advice and non-executive director services to a number of private companies.

2. Aidan Heavey
Chief Executive Officer (Age 55)
A founding Director and shareholder of the Company, Aidan Heavey has played a key role in the development of Tullow from its formation in 1985 to its current international status as a leading independent oil and gas exploration and production group. A Chartered Accountant, he previously held roles in the airline and engineering sectors in Ireland. He is a member of the Nominations Committee.

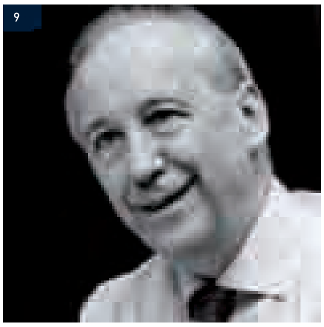
Aidan is a director of Traidlinks, an Irish-based charity established to develop and promote enterprise and diminish poverty in the developing world, particularly Africa.

3. Tom Hickey
Chief Financial Officer (Age 39)
A Chartered Accountant, Tom Hickey was appointed Chief Financial Officer and to the Board in 2000. Prior to joining Tullow he was an Associate Director of ABN AMRO Corporate Finance (Ireland) Limited, which he joined in 1995. In this role, he advised public and private companies in a wide range of industry sectors in the areas of fund raising, stock exchange requirements, mergers and acquisitions, flotations and related transactions. He is a non-executive director of Ikon Science Limited, a specialist geological software company in which Tullow has a minority equity stake, and of PetroNeft Resources plc, an Irish oil and gas company with development interests, principally in Russia.

4. Angus McCoss
Exploration Director (Age 46)
Angus McCoss was appointed to the Board in December 2006. He joined Tullow in April 2006 as General Manager Exploration. A geologist; he has 20 years of wide-ranging exploration experience, working primarily with Shell in Africa, Europe, China, South America and the Middle East. He has held a number of senior positions within Shell including Americas Regional Vice President Exploration and ultimately as the General Manager of Exploration throughout onshore and offshore Nigeria.

5. Paul McDade
Chief Operating Officer (Age 44)
Paul McDade was appointed to the Board in March 2006. Mr McDade joined Tullow in 2001 and was appointed Chief Operating Officer following the Energy Africa acquisition in 2004, having previously managed Tullow's UK gas business. An engineer with over 20 years' experience, he has worked in various operational, commercial and management roles with Conoco, Lasmo and ERC. He has broad international experience having worked in the UK North Sea, Latin America, Africa and South East Asia and holds degrees in Civil Engineering and Petroleum Engineering.

6. Graham Martin
General Counsel and Company Secretary (Age 54)
A solicitor, Graham Martin joined Tullow as Legal and Commercial Director in 1997 from Vinson & Elkins, a leading international law practice, where he was a partner. Prior to that, he was a partner in Dickson Minto WS, a UK corporate law firm. He has over 25 years' experience of UK and international corporate and energy transactions. He has been the principal legal adviser to Tullow since its formation in 1985 and was appointed to his current position as General Counsel in 2004. He recently also assumed the role of Company Secretary.



7. Matthew O'Donoghue*
General Manager Projects (Age 63)
Matthew O'Donoghue was appointed to the Board as Operations Director in 1998 having joined Tullow in 1987 as General Manager in Senegal. An engineer, he has over 35 years' experience in the oil and gas exploration sector and held a number of senior roles with Schlumberger Wireline, working in Europe, Africa and the Middle East. A core member of the original team that has developed the Group's business and international operating capability. He was appointed to his current position in 2004.

8. Clare Spottiswoode CBE
Non-Executive Director (Age 55)
Clare Spottiswoode was appointed as a non-executive Director in 2002. She is Chairman of the Remuneration Committee and a member of the Audit and Nominations Committees. A mathematician and an economist by training, Ms Spottiswoode began her career in the Treasury before starting her own software company. Between 1993 and 1998 she was Director General of Ofgas, the UK gas regulator. She is Chairman of Gas Strategies Limited, and also a non-executive Director of Bergesen ASA. In November 2006, she became the Policyholder Advocate for Aviva plc. Previously, she was Deputy Chairman of British Energy from 2002 to 2007. In 1999, she was awarded a CBE for services to the Gas industry, and also holds an Honorary Doctorate of Social Sciences from Brunel University.

9. Steven McTiernan
Senior Independent Director (Age 56)
Steven McTiernan was appointed as a non-executive Director in 2002 and was appointed Senior Independent Director on 1 January 2008. He is a member of the Audit, Nominations and Remuneration Committees. Mr McTiernan began his career as a petroleum engineer, working with BP, Amoco and Mesa in the Middle East and the UK. In 1979, he joined Chase Manhattan Bank, where he became Senior Vice-President and head of the bank's energy group based in New York. From 1996 to 2001 he held senior energy-related positions at NatWest Markets and then CIBC World Markets. He is currently principal of Sandown Energy Consultants Limited, a natural resources advisory firm based in London.

*On 31 March 2008, following the dating of this report on 11 March 2008, Matthew O'Donoghue retired from the Board with immediate effect.

10. David Bamford
Non-Executive Director (Age 61)
David Bamford was appointed as a non-executive Director in July 2004. Mr Bamford is a member of the Audit, Nominations and Remuneration Committees. With a PhD in Geological Sciences from the University of Birmingham, he has had over 23 years' exploration experience with BP where he was Chief Geophysicist from 1990 to 1995, General Manager for West Africa from 1995 to 1998, and acted as Vice President, Exploration, directing BP's global exploration programme, from 2001 to 2003. He is a non-executive Director of Paras Limited, a specialist oil and gas industry consulting firm.

11. David Williams – Non-Executive Director
Non-Executive Director (Age 62)
David Williams was appointed as a non-executive Director in 2006. He is Chairman of the Audit Committee and a member of the Nominations and Remuneration Committees. A Chartered Accountant, he brings a wealth of public company experience to Tullow from many years with Bunzl plc where he was Finance Director, until he retired in 2006, and prior to that as Finance Director of Tootal Group plc. He is a non-executive Director, and also the Senior Independent Director of each of Taylor Wimpey plc and Mondi plc. He is also a non-executive Director of Meggit PLC and DP World Limited, a Dubai quoted company. Mr Williams was a non-executive director of The Peninsular and Oriental Steam Navigation Company until its acquisition in 2006.

Corporate governance

Board performance

Achievements

- **Audit Committee** New Chairman appointed and relevant financial experience of Committee strengthened.
- **Nominations Committee** New Senior Independent Director appointed.
- **Remuneration Committee** New Chairman appointed and comprehensive review of Executive Director remuneration undertaken.
- **Board Evaluation** Comprehensive Board performance review undertaken with support from external facilitator.

Looking ahead to 2008

- Supervise and guide the management of Tullow's first operated deepwater development project in Ghana.
- New non-executive Director to be appointed to replace Rohan Courtney who retired in December 2007.
- Seek shareholder approval to changes to long-term incentive arrangements to encourage long-term performance.
- Outcomes from 2007 Board performance review to be addressed.

The growth that Tullow has experienced, in recent years, allied to the extremely dynamic nature of the oil and gas exploration and production business, means that the Group has changed significantly over the period since I became Chairman in 2000. At that time, Tullow was an Irish registered company with 99 employees, producing 2,800 bopd and active in fewer than 10 countries worldwide. We had 5,000 shareholders and the total capital investment for the year was £16 million. The year-end oil price was $22.75.

While the business has been transformed on a number of occasions since, the overall objective of the Board remains unchanged – this is to provide strategic leadership, guidance and perspective to the business on behalf of shareholders. In doing this, the Board must ensure that the risks and rewards of the business are properly managed through different phases of the industry cycle, assess the most appropriate balance between organic and acquisition-led growth and constantly evaluate and challenge strategy to ensure it remains appropriate and relevant to the Group's business as it becomes progressively larger and more complex.

In practice, this governance and stewardship obligation requires individual Directors and the Board to regularly evaluate our performance and identify areas where improvements can be made or new opportunities exist. It also requires Directors to maintain a high degree of awareness of the wider industry environment and the potential impact on Tullow of the actions of peers and competitors.

The majority of Tullow Board business is conducted through regular meetings (there were ten Board meetings during 2007) with other matters also dealt with by the Audit, Nominations and Remuneration Committees. In addition there is frequent dialogue between the Executive Directors and the non-executive Directors between meetings.The full Corporate Governance Statement on pages 50 to 56 presents a review of how the Board and its Committees operate, the nature of the work they undertake and their responsibilities. Ahead of that, however, I would like to provide a more personal overview of activities during 2007.

Audit Committee

The increasing scale and complexity of Tullow's business, allied to the continual evolution of Accounting Standards and corporate reporting requirements means that an effective Audit Committee is an essential part of our corporate governance.

The Tullow Audit Committee has a wide-ranging role, and in addition to normal meetings with external auditors also reviews the Group's internal audit programme, risk management processes, internal control environment and whistle-blowing provisions. During 2008, the Committee will meet the Group's independent reserve auditors, the Group's Chief Information Officer, Head of Tax and Well Engineering Manager. The Audit Committee is now chaired by David Williams, who has over 30 years' financial experience, most recently as Finance Director of Bunzl plc from 1992 to 2006. David is also a member of a number of other audit committees and his skills and experience are already proving invaluable to the Committee and Executive of the business.

Nominations Committee

The role of the Nominations Committee is critical in ensuring that Tullow's Board composition and balance supports both our business ambitions and best practice in the area of corporate governance. Following the retirement of Rohan Courtney at the end of 2007, the Committee is currently active in seeking an additional non-executive Director. Steven McTiernan was appointed to the role of Senior Independent Director following Rohan's retirement .

Remuneration Committee

The principal objective of the Remuneration Committee is to develop and maintain a remuneration strategy that ensures Executive Directors and senior management are rewarded

Corporate governance committee structure

in a manner that is aligned with the long-term interests of shareholders. This requires the Committee to set base salaries at a competitive level, agree targets and objectives for annual bonus schemes and establish longer-term equity based incentive plans, which are designed to allow staff to share in the Group's ongoing growth. Typically, these schemes will have performance criteria based on Tullow's absolute performance and also relative performance against a group or index of peer companies active in similar regions or of equivalent scale to Tullow.

During 2007, the Committee undertook a review of the components of executive remuneration which is reported more fully in the Directors' Remuneration Report on pages 57 to 66. Linked to the review, shareholder approval is being sought at the AGM to changes to the Performance Share Plan. I believe the overall changes to Tullow's executive remuneration arrangements will ensure that we assess our results and performance against the most appropriate comparators, and that the Executive Directors and senior management will continue to be properly motivated and aligned with shareholders' interests.

The Remuneration Committee is now chaired by Clare Spottiswoode.

Board performance and development

One of the most important roles of any Board is to provide strategic guidance and perspective over and above the day to day operations of the business. As Tullow has grown, the role and composition of our Board has changed significantly with both new Executive and non-executive appointments. During 2007, the annual Board performance review was conducted with the assistance of PricewaterhouseCoopers LLP. The objective of the review, as well as evaluating Board and individual performance, was to help the Board to set its own objectives and strategy for the future. These range from simple procedural and logistical objectives to longer-term themes such as succession planning, ongoing professional development for Directors and key feedback points for individual Directors to enhance the overall function of the Board. Personally, I felt the process was immensely helpful in assisting the Board to reflect on the very positive changes in the Group over recent years and prepare for future opportunities and challenges that our business will face.

Planning for the future

We are committed as a Board to maintaining an open and transparent relationship with shareholders through our Annual Report, website, market announcements, Investor Relations programme and Annual General Meeting. We always welcome shareholder feedback and if you have any comments or observations about this report or our business in general, I would urge you to contact me by email at: chairman@tullowoil.com or in person at our AGM on 14 May 2008.

Pat Plunkett
Chairman

Corporate governance continued

The Tullow Board recognises the importance of good corporate governance and is committed to business integrity and high ethical values across the Group's activities, which it views as an integral part of managing the Group's business.

Compliance with the Combined Code on Corporate Governance (the Code)

The Board recognises that it is accountable to shareholders for the Group's standard of governance and this report, together with the Directors' Remuneration Report, aims to demonstrate how the principles of good governance promoted by the Code have been and will continue to be applied across the Group.

This report explains how the Company has applied the principles set out in Section 1 of the Code. It also discloses the extent to which the Company has complied with the detailed provisions of the Code.

The Board considers that the Company has complied with the provisions of the Code throughout the year under review (and subsequently up to the date of this report) with the following two exceptions:

- Independent non-executive Directors did not comprise at least half the Board throughout the year as recommended by the Code. Whilst the Board considers its current composition to be appropriate and effective at the present time, it continues to keep this Code provision under regular review through its Nominations Committee.
- Throughout 2007, Pat Plunkett, the Company Chairman, was a member and the Chairman of the Remuneration Committee. He had held the role of Chairman of the Committee since 2000 providing continuity during the period of major growth enjoyed by the Company. However, mindful of the Combined Code provision that the Company Chairman should not chair the Remuneration Committee, the Board approved the appointment of Clare Spottiswoode as Committee Chairman in his place with effect from 1 January 2008. Pat Plunkett remains a Committee member. Following this change, the composition of the Remuneration Committee now complies with the Code.

Board and Committee structure

To support the principles of good corporate governance, the Board and its Committees operate as described below.

Board of Directors

Role of the Board

The Board sets the Group's strategic aims, ensuring that the necessary resources are in place to achieve those aims, and reviews management and financial performance. It is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. To achieve this, the Board directs and monitors the Group's affairs within a framework of controls which enable risk to be assessed and managed effectively through clear procedures, lines of responsibility and delegated authorities. The Board also has responsibility for setting the Group's core values and standards of business conduct and for ensuring that these, together with the Group's obligations to its stakeholders, are widely understood throughout the Group.

Composition

The Board currently comprises a non-executive Chairman, six Executive Directors and four independent non-executive Directors. Each of the Executive Directors has extensive knowledge of the oil and gas industry. Together, the non-executive Directors bring a broad range of business and commercial experience to the Board, with three of the four non-executive Directors either currently holding or having previously held appointments in oil and gas companies or companies with energy interests. Biographical details of the Board members including details of any other major directorships held are set out on pages 46 and 47.

Following the announcement in October 2007 that Rohan Courtney was to step down from the Board at the end of 2007, the Nominations Committee commenced a search for an additional non-executive Director to replace Mr Courtney. This is more fully reported in the Nominations Committee section later in this report.

Chairman and Chief Executive

There is a clear separation of the roles of the Chairman, Pat Plunkett, and the Chief Executive, Aidan Heavey, to ensure an appropriate balance of responsibility and accountability. The division of responsibilities is clearly established and has been set out in writing and agreed by the Board.

The Chairman is responsible for the effective running of the Board, ensuring that the Board plays a full and constructive part in the development and determination of the Group's strategy, and acting as guardian and facilitator of the Board's decision-making process.

The Chief Executive is responsible for managing the Group's business, proposing and developing the Group's strategy and overall commercial objectives in consultation with the Board and, as leader of the executive team, implementing the decisions of the Board and its Committees. In addition, the Chief Executive is responsible for maintaining regular dialogue with shareholders as part of the Group's overall investor relations programme.

Non-Executive Directors

Appointment

Non-executive Directors are appointed for an initial term of three years, which may be extended by mutual agreement subject to satisfactory performance. The letters of appointment of each non-executive Director are available for inspection at the registered office.

Meetings of Non-Executive Directors

In addition to their attendance at Board and, as appropriate, Committee meetings, the non-executive Directors also met formally on three occasions during 2007 without executive management present. At these meetings, the non-executive Directors examine and review the performance of the executive management. This review process is in part dealt with by the Board Committees referred to below. Separately, the Chairman and Chief Executive held informal meetings with the non-executive Directors to discuss issues affecting the Group such as target objectives, strategy, key performance indicators and remuneration matters.

Senior Independent Director
The Senior Independent non-executive Director is Steven McTiernan who replaced Rohan Courtney in this role with effect from 1 January 2008. In this role Mr McTiernan is available to shareholders who have concerns that cannot be resolved through discussion with the Chairman, Chief Executive or Chief Financial Officer or where such contact is inappropriate. No such meetings were held during the year.

Independence
The Board considers each of the current non-executive Directors to be independent in character and judgement and there are no relationships or circumstances which are likely to affect (or could appear to affect) the Director's judgement.

Election and re-election
All new Directors are required by the Company's Articles of Association to be elected by shareholders at the first Annual General Meeting (AGM) after their appointment. Subsequently, Directors are subject to re-election by shareholders every three years. Where a non-executive Director has served longer than nine years, it is Board policy that the Director be subject thereafter to annual re-election in accordance with the Code. The directors seeking re-election at the 2008 AGM are identified on page 67 of this report and in the separate Notice of AGM that accompanies this document.

How the Board operates
Board meetings
The Board meets regularly during the year and on an ad hoc basis as required. The Board has arranged to hold at least one Board meeting each year at one of the overseas offices of the Group. This provides senior managers from across the Group the opportunity to present to the Board and to meet the Board members informally. It also provides the Board with an opportunity to assess senior managers at first hand.

The attendance record of each Director is shown in the table on this page. During 2007, the Board met formally on ten occasions including two formal strategy review meetings held with senior management. In addition to the formal meetings of the Board, the Chairman and Chief Executive maintain frequent contact with the other Directors to discuss any issues of concern they may have relating to the Group or as regards their area of responsibility and to keep them fully briefed on the Group's operations.

Information flow
Directors have access to a regular supply of financial, operational, strategic and regulatory information to assist them in the discharge of their duties. Such information is provided as part of the normal management reporting process. Board papers are circulated in time to allow Directors to be properly briefed in advance of meetings. In addition, Board meetings generally include a review of the history, performance and future potential of an individual asset or business unit. This is designed to ensure that all material assets are considered on a cyclical basis and to enable Board members to familiarise themselves with the key assets and operations of the Group.

Independent professional advice
All Directors and Committees have access to independent professional advice, at the Company's expense, as and when required.

Insurance cover
The Company maintains Directors' and Officers' Liability insurance cover, the level of which is reviewed annually.

Matters reserved
A formal schedule of matters reserved for Board approval is in place and is reviewed annually. The matters reserved include (amongst others):

- the Group's overall strategy;
- approval of financial statements, material acquisitions and disposals, material contracts, major capital expenditure projects and budgets; and
- a regular review of the Group's overall corporate governance arrangements.

Subject to these reserved matters, the Board delegates authority for the management of the day-to-day business and operational matters, primarily to the Chief Executive, the other Executive Directors and certain other senior executives. Certain other matters are delegated to the Audit, Nominations and Remuneration Committees, each of which is described in more detail below.

Attendance at meetings
The attendance of Directors at meetings of the Board and its Committees during 2007 was as follows:

No. of Meetings	Board (10)	Audit (4)	Nominations (2)	Remuneration (5)
Pat Plunkett	10/10	–	2/2	5/5
Aidan Heavey	10/10	–	2/2	–
David Bamford	9/10	3/4	2/2	4/5
Rohan Courtney*	6/10	4/4	2/2	4/5
Tom Hickey	10/10	–	–	–
Angus McCoss	10/10	–	–	–
Paul McDade	10/10	–	–	–
Steven McTiernan	10/10	4/4	2/2	5/5
Graham Martin	9/10	–	–	–
Matthew O'Donoghue	10/10	–	–	–
Clare Spottiswoode	10/10	2/4	2/2	3/5
David Williams	10/10	3/4	2/2	4/5

* Rohan Courtney retired from the Board on 31 December 2007.

Board performance evaluation
During 2007, the Board considered whether the annual evaluation of it and that of its Committees and Directors should be conducted by way of an internal review as in 2006 or, as in 2004 and 2005, by using the assistance of an external body. The Board concluded that a full external review was appropriate and engaged PricewaterhouseCoopers LLP for this purpose. The review consisted of a tailored questionnaire completed by each Director with a follow-up interview and also a peer assessment.

This review focused on matters such as Board composition and conduct; succession planning; roles and responsibilities of Board members; the administration of Board and Committee meetings; Board discussions; Board induction and training and communications with the wider organisation.

Corporate governance continued

The review concluded that the Board operates effectively and that Board meetings are conducted in a manner that encourages open and honest discussion in an environment of trust and mutual respect. The separation of duties between the Chairman and Chief Executive is clear and the Board Committees function effectively within clear terms of reference. The review identified certain areas for improvement including: a requirement for more formal succession planning for executives and for key non-executive roles; the need to review the balance of the Board between executive and non-executive Directors; to organise and monitor a broader induction and training regime for Directors and for more regular review meetings between the Chairman and each Director. These areas for improvement are now being considered by the Chairman and various related actions and targets will be included in the Board's own objectives for 2008.

The Chairman has had discussions with each of the Directors on his or her individual performance and separately, the non-executive Directors have reviewed the performance of the Chairman with input from the Executive Directors. The Board is of the view that each non-executive Director commits sufficient time to discharge his or her duties effectively.

Induction

All new Directors receive an induction. This includes a visit to the principal offices of the Group to meet management from each functional discipline and business unit. The Company Secretary also provides new Directors with an overview of their duties as Directors, corporate governance policies and established Board procedures as part of the induction process.

Continuing professional development

All members of the Board have access to appropriate training in respect of their obligations and duties as Directors, and during the year, a number of the Directors attended external seminars on relevant topics. In addition, specific briefings were also given to the Board to ensure Board members remain up to date with current regulations and developments. These included recent developments in company law brought in by the Companies Act 2006 and health and safety legislation.

Committees

The Board has established the following principal Committees, each of which has written terms of reference (approved by the Board) setting out its authority and duties. Copies of the terms of reference can be viewed on the Investor Relations section of the Company's website: www.tullowoil.com or can be obtained from the Company Secretary.

Audit Committee

David Williams, Chairman
David Bamford
Steven McTiernan
Clare Spottiswoode

Main responsibilities

- Monitoring the integrity of the financial statements and formal announcements relating to the Group's financial performance;
- Reviewing significant financial reporting issues and accounting policies and disclosures in financial reports;
- Reviewing the effectiveness of the Group's internal control procedures and risk management systems;
- Considering how the Group's internal audit requirements shall be satisfied and making recommendations to the Board;
- Making recommendations to the Board on the appointment or re-appointment of the Group's external auditors;
- Overseeing the Board's relationship with the external auditors, and, where appropriate, the selection of new external auditors; and
- Ensuring that an effective whistle-blowing procedure is in place.

David Williams was appointed Chairman of the Committee on 23 October 2007 in place of Rohan Courtney. He is a Chartered Accountant and, until his retirement in 2006, was Finance Director of Bunzl plc. Currently, he is also a member of the audit committees of four other companies including Meggitt PLC and Taylor Wimpey plc. For the purposes of the Combined Code, David Williams is considered by the Board to have recent and relevant experience. In addition, the other members of the Committee have a range of financial and commercial experience and have all served on the Committee for a number of years.

The Group's external auditors are Deloitte & Touche LLP and the Committee closely monitors the level of audit and non-audit services they provide to the Group. Non-audit services are normally limited to assignments that are closely related to the annual audit or where the work is of such a nature that a detailed understanding of the Group is necessary. A breakdown of the fees paid to the external auditors in respect of audit and non-audit work is included in note 3 of the accounts on page 79. In addition to processes put in place to ensure segregation of audit and non-audit roles, as part of the assurance process in relation to the audit, Deloitte & Touche LLP are required to confirm to the Committee that they have both the appropriate independence and objectivity to allow them to continue to serve the members of the Company. No matters of concern in relation to the above were identified by the Committee.

The Chief Financial Officer, the Group Internal Audit Manager, the Group Finance Manager and representatives of the external auditors normally attend meetings of the Audit Committee, at the invitation of the Committee. The Chairman of the Board also attends meetings of the Committee by invitation. The external auditors have unrestricted access to the Committee Chairman. During the 2007 audit process, the Audit Committee Chairman met with Deloitte's Audit Engagement Partner without the presence of management.

During 2007, the Audit Committee met on a total of four occasions. The key work undertaken by the Committee was as follows:

- Consideration and review of annual and interim financial statements
  The Committee met with the external auditors as a part of the interim and final accounts approval process. During this exercise the Committee considered the most appropriate treatment and disclosure of any new or judgemental matters identified during the audit, as well as any recommendations or observations made by the external auditors.
- Audit planning and update on relevant accounting developments
  Following the Group's adoption of IFRS in 2004/5, there were limited further regulatory or financial accounting changes during 2007. These changes are described in the accounting policies note on page 73.
- Consideration and approval of the risk management framework, annual Internal Audit Plan and periodic reports from Internal Audit
  The Group Internal Audit Manager has direct access and responsibility to the Audit Committee. His main responsibilities include: evaluating and developing the Group's overall control environment, operating efficiency and risk identification and management at operating, regional and corporate levels. In fulfilling his role, the Group Internal Audit Manager has direct access to the Committee without reference to executive management. During 2007, the Audit Committee Chairman met with the Group Internal Audit Manager without the presence of management. The Committee approved the programme of internal audit work aimed at addressing both financial and overall risk management objectives identified within the Group. A number of internal audit reviews were undertaken during 2007 covering a range of financial and business processes in the Group's three main business unit centres in London, Dublin and Cape Town. Detailed results from these reviews were reported to management and in summary to the Audit Committee during the year. Recommendations made as a result of the work of Internal Audit are tracked for timely implementation and reported to the Audit Committee periodically. No significant weaknesses were identified as a result of risk management and internal controls reviews undertaken by Internal Audit. The Group also undertook regular audits of non-operated joint ventures under the supervision of business unit management and the Group Internal Audit Manager. The Committee considers the whistle-blowing procedures implemented by management are appropriate for the size and scale of the Group.
- Acquisition of Hardman Resources
  As part of the acquisition of Hardman Resources in late 2006, the overall audit approach to the Hardman acquisition and potential risks identified were approved by the Committee. The Committee gave extensive consideration to the preliminary and final fair value allocation exercise undertaken to record the assets and liabilities acquired in the Company's Balance Sheet at 31 December 2007.
- Review of the effectiveness of the Audit Committee
  During the year the Audit Committee completed a review of the effectiveness of external audit, internal audit and of the Audit Committee itself through a series of questionnaires answered by key stakeholders. Internal Audit coordinated the review with results presented to the members of the Audit Committee. The Committee was considered to be operating effectively and in accordance with the guidance recommended by the Smith Committee included in the Combined Code. A number of enhancements to current processes will be implemented during 2008 to improve the effectiveness of the Committee further. The internal audit and external audit processes were also considered to be operating effectively.

Corporate governance continued

Nominations Committee

Pat Plunkett, Chairman
David Bamford
Aidan Heavey
Steven McTiernan
Clare Spottiswoode
David Williams

Main responsibilities

- Reviewing the structure, size and composition of the Board and making recommendations to the Board with regard to any changes required;
- Succession planning for Directors and other senior executives;
- Identifying and nominating, for Board approval, candidates to fill Board vacancies as and when they arise;
- Reviewing annually the time commitment required of non-executive Directors; and
- Making recommendations to the Board with regard to membership of the Audit and Remuneration Committees in consultation with the Chairman of each Committee.

The Committee comprises all the non-executive Directors and the Chief Executive and meets as required. Rohan Courtney was a member of the Committee until 31 December 2007. The Committee met twice in 2007, primarily to review Board Committee composition and succession matters. The decision by Rohan Courtney in October 2007 to step down as a non-executive Director with effect from 31 December 2007 resulted in the Committee recommending a number of changes to Board Committee composition and governance arrangements. These changes which were approved by the Board were as follows:

- the appointment of Steven McTiernan as Senior Independent Director in place of Rohan Courtney with effect from 1 January 2008;
- the appointment of David Williams as Audit Committee Chairman in place of Rohan Courtney with effect from 23 October 2007; and
- the appointment of Clare Spottiswoode as Remuneration Committee Chairman in place of Pat Plunkett (who remains a member of the Committee) with effect from 1 January 2008.

At the same time, the Board agreed with the Committee's recommendation that a new non-executive Director be sought to replace Rohan Courtney. A role profile was produced and external recruitment advisers engaged to assist in the identification of suitable candidates. The Committee is currently in the process of interviewing short-listed candidates.

Remuneration Committee

Clare Spottiswoode, Chairman
David Bamford
Steven McTiernan
Pat Plunkett
David Williams

The Directors' Remuneration Report on pages 57 to 66 contains details of the role and activities of the Remuneration Committee.

Corporate Social Responsibility Committee

Rohan Courtney (Former non-executive Director), Chairman
Graham Brunton, Head of EHS
Tom Hickey, Chief Financial Officer
Paul McDade, Chief Operating Officer
Kevin Quinn, Business Unit Manager South Asia
Bill Torr, General Manager Cape Town Office
Caragh Whale, EHS Team Assistant
Linda Joseph, Cape Town Staff Representative
Ahlem Gamri, London Staff Representative
Oliver McCredie, Trainee CSR Advisor

In addition to the above principal committees, the Board has established a Corporate Social Responsibility Committee. This Committee (the 'CSR Committee') is responsible for managing all Tullow's community sponsorship support programmes and considers any matters relating to social, charitable, community and educational issues, CSR publications and CSR expenditure.

Tullow's CSR strategy aligns CSR investment with key areas and countries for business development. Tullow's CSR funding is a combination of sponsorships under licence commitments and discretionary spending. Criteria for funding projects concentrate on children, education and, where appropriate, fulfilling basic needs, such as clean water. Projects considered will be mainly recurring, long-term investments where there is established production, an operated activity and/or a key country for development. One-off investment will also be considered as appropriate in the context of Tullow's business. Overall, Tullow's objective is to make a tangible, positive difference and to foster and support longer-term development and self-sustaining enterprise in local communities.

Main responsibilities

- Manage the process for submission, assessment and approval of CSR expenditure undertaken by Tullow Group-wide;
- Consider and propose an annual budget for CSR activities to the Board for approval as part of the overall Group budget process;
- Evolve and further develop Tullow's social and ethical policies as part of the overall risk management framework of the business;
- Prepare the CSR Report annually;
- Review the internal CSR programme, ensuring co-ordination between internal and external activities and ensuring that the internal CSR function is adequately resourced and has appropriate standing within the Group; and
- Consider other CSR matters as specified by the Board.

Shareholder relations

Communication with shareholders is given high priority and there is regular dialogue with institutional investors, as well as general presentations to analysts at the time of the release of the annual and interim results. In addition, in October 2007, Tullow hosted a visit to its Uganda operations for a group of analysts. A similar visit to another of the Group's operations is planned for 2008. The Board receives regular investor relations reports covering key investor meetings and activities, as well as shareholder and investor feedback. The Group issues its results promptly to individual shareholders and also publishes them on the Investor Relations section of the Company's website: www.tullowoil.com. Regular updates to record news in relation to the Group and the status of exploration and development programmes are also included on the website. Shareholders and other interested parties can subscribe to receive these news updates by email by registering online on the website. The Chairman is available to meet with institutional shareholders to discuss any issues and address any concerns in relation to the Company's governance and strategy. Non-executive Directors have the opportunity to attend meetings with major shareholders and are available to attend if requested to do so.

At the AGM, a business presentation is provided for the benefit of shareholders at which individual shareholders are given the opportunity to put questions to the Chairman, the chairmen of the Audit, Nominations and Remuneration Committees and to other members of the Board. In addition, the Board is committed to maintaining strong links with its significant Irish shareholder base and holds a business presentation in Dublin following the AGM, to allow these shareholders similar access to the Company. Notice of the AGM is sent to shareholders at least 20 working days before the meeting and details of proxy votes for and against each resolution, together with votes witheld, are made available after the vote has been dealt with on a show of hands.

Corporate governance continued

Internal controls

The Directors acknowledge their responsibility for the Group's and the Company's systems of internal control, which are designed to safeguard the assets of the Group and to ensure the reliability of financial information for both internal use and external publication. The Group's internal control procedures require technical, financial and Board approval for all projects. All major expenditures require senior management approval at the appropriate stages of each transaction. Overall control is ensured by a regular detailed reporting system covering both technical progress of projects and the state of the Group's financial affairs. The Board has put in place procedures for identifying, evaluating and managing any significant risks that face the Group. Risk assessment and evaluation is an integral part of the annual planning cycle. Each business unit documents its strategic objectives and the significant risks in achieving them and regularly reports on progress against these objectives. There is a comprehensive budgeting and planning system for all items of expenditure with an annual budget approved by the Board. Actual results are reported against budget on a monthly basis. Revised financial forecasts for the year, and financial projections for future years are regularly prepared.

The Board receives reports from business unit and corporate teams throughout the year to enable them to assess, on an ongoing basis, the effectiveness of the system of internal controls and risk management.

During the year, the Group Internal Audit Manager reviewed a number of areas of risk and his findings were reported to the Audit Committee. No significant weaknesses were identified. The Board has confirmed that through its Audit Committee it has reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, and considers that the system of internal controls operated effectively throughout the financial year and up to the date on which the financial statements were signed.

Going concern

After making enquiries, the Directors have a reasonable expectation that the Company, and the Group as a whole, have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Pat Plunkett
Chairman

Dear Shareholder

I am pleased to present this year's Remuneration Committee report.

This year, we are proposing to make several changes to the remuneration policy for the Executive Directors. This follows a full policy review by the Committee, which took particular account of Tullow's outstanding performance over the last few years. This has led to Tullow's recent promotion into the FTSE 100 for the first time. The Committee believes that it is particularly important that the remuneration policy helps to recognise the achievements of management in contributing to this success, and to ensure that they continue to be incentivised to deliver Tullow's growth strategy and the generation of outstanding returns to shareholders.

The main changes which we are making are:

- We are seeking shareholder approval to increase the maximum 'normal' limit under the Performance Share Plan ('PSP') to 200% of salary (and the 'exceptional circumstances' limit to 300% of salary). The performance conditions will remain largely unchanged, with the primary conditions remaining wholly based on Tullow's relative TSR performance. The stretch performance threshold for full vesting of awards will, however, be made more challenging, reflecting the higher rewards available;
- Increasing the annual bonus potential to 150% of salary, with any bonus earned in excess of 75% of salary being paid in shares and deferred. The targets under the bonus are being simplified so that all the Executive Directors will now be subject to the same targets. This also reflects their shared responsibility for the Company's success; and
- Executive Directors will now be required to build and maintain a higher shareholding than previously – of 200% of salary worth of shares.

Within the Remuneration Committee's review, it was our intention to ensure that the remuneration packages of the Executive Directors were made sufficiently competitive for a company of Tullow's size, but without significantly increasing non-performance related pay. Therefore, the basic salary increase (excluding two role-specific increases explained below) for the Executive Directors has been set at 5% for 2008.

A resolution to approve the new maximum award limits under the PSP will be tabled at the forthcoming Annual General Meeting, as well as a resolution to approve this Directors' Remuneration Report. I hope that you will support these resolutions. However, please feel free to contact me by email at: remunerationchair@tullowoil.com should you wish to discuss any aspect of this report.

Clare Spottiswoode
Chairman of the Remuneration Committee
11 March 2008

Introduction

This report has been prepared in accordance with the requirements of the Directors' Remuneration Report Regulations 2002, which set out requirements for the disclosure of directors' remuneration and also in accordance with the requirements of the Listing Rules of the Financial Services Authority.

The Regulations require the auditors to report to the Company's members on the 'auditable part' of the Directors' Remuneration Report and to state whether, in their opinion, the part of the report that has been subject to audit has been properly prepared in accordance with the Companies Act 1985 (as amended by the Directors' Remuneration Report Regulations 2002). The report is therefore divided into separate sections to disclose the audited and unaudited information.

Unaudited information

Remuneration Committee

The members of the Remuneration Committee are Clare Spottiswoode (Chairman), David Bamford, Steven McTiernan, Pat Plunkett and David Williams. Rohan Courtney was a member of the Committee until 31 December 2007. The Committee met five times during the year.

The main responsibilities of the Committee include:

- Determining and agreeing with the Board the remuneration policy for the Chief Executive, Chairman, Executive Directors and senior executives;
- Approving the design of, and determining targets for, an annual performance-related pay scheme for the Executive Directors and senior executives;
- Reviewing the design of share incentive plans for approval by the Board and shareholders and determining the annual award policy to Executive Directors and senior executives under existing plans; and
- Within the terms of the agreed policy, determining the remainder of the remuneration packages (principally comprising salary and pension) for each Executive Director and senior executive.

The full terms of reference for the Committee are available on the Company's website.

The Chief Executive and other relevant executives are invited to attend meetings of the Committee but do not take part in any decision affecting their own remuneration. The Company Chairman, Pat Plunkett, also absents himself during discussion relating to his own fees. The Committee has previously appointed New Bridge Street Consultants LLP who remain its independent remuneration advisers. They also provide technical advice to the Company in connection with the operation of its share incentive arrangements. A statement outlining the business relationship with New Bridge Street Consultants can be viewed on the Investor Relations section of the Company's website. The Committee also consults with the Company's major investors and investor representative groups as appropriate.

Remuneration policy

The Company's policy is to maintain levels of remuneration so as to attract, motivate and retain Executive Directors and senior executives of the highest calibre who can contribute their experience to the Company's operations. The elements of the remuneration package for Executive Directors and senior management are base salary, annual bonus, taxable benefits, pension payments and participation in the Company's share incentive arrangements. A significant element of the potential remuneration package is, therefore, performance-linked.

When determining the total remuneration of the Executive Directors and senior management, the Committee predominately takes into account the remuneration practices adopted by UK listed companies of a similar market capitalisation and overseas complexity to Tullow. Practice within other oil and gas companies is also considered although the availability of relevant data is limited due to there being few other UK listed companies in the sector of a comparable size to Tullow. Finally, in setting the remuneration policy for the Executive Directors, regard is also given to pay practices elsewhere in the Group.

As explained in the introduction to this report, the Remuneration Committee has recently undertaken a comprehensive review of the senior executive remuneration policy at Tullow. In carrying out this review, the Committee considered a number of relevant issues including:

- Tullow has achieved outstanding growth in recent years by implementing the strategy formulated by its management team. This is demonstrated by its performance relative to both the Oil & Gas sector and the FTSE 250 (of which Tullow was, until recently, a member). Over the three years to 31 December 2007 the Company achieved a total shareholder return ('TSR') of over 350%, using the same basis of calculation as applies under the PSP, ranking it at the top amongst a group of comparable Oil & Gas peers and second within the FTSE 250 (excluding Investment Trusts);
- As a result of this growth, in September 2007 Tullow was promoted to the FTSE 100 index for the first time. Since then, it has continued to perform strongly, and as at 11 March 2008 it is ranked 60th within the index (by market capitalisation);
- The Committee believes that the remuneration policy followed to date has a number of key strengths which have supported the achievement of Tullow's strategic goals. These include (i) a high proportion of the package being performance-linked (ii) a significant element of incentive pay being directly related to Tullow's TSR performance, and (iii) the payment of a material proportion of incentive pay being in the form of Tullow shares. All these factors create a very strong alignment with shareholders. The Committee is keen to ensure that these key strengths of the existing remuneration policy are retained; and
- Taking into account Tullow's promotion to the FTSE 100, the Committee feels that it is critical to ensure that management is rewarded competitively against companies of a broadly similar size. It also believes that this should be achieved without significantly increasing fixed pay, but via greater levels of performance-related pay.

The key outcomes of the Committee's review, in relation to the Executive Directors, are set out below.

Executive Directors' remuneration

Base salary

Following the most recent review, the base salary of each Executive Director with effect from January 2008 is:

Director	2008 Salary	% Increase since 2007
Aidan Heavey	£640,500	5%
Tom Hickey	£409,500	5%
Graham Martin	£362,250	5%
Paul McDade	£362,250	14.6%
Angus McCoss	£362,250	14.6%
Matthew O'Donoghue	£294,000	5%

In setting the above salaries, the Committee's general policy was to keep percentage increases broadly in line with those across the rest of the Company and the market as a whole and ensure that a significant proportion of executive remuneration is linked to performance. However, in respect of Paul McDade and Angus McCoss, their increases reflect their criticality to the business, particularly given its current growth strategy, and also the fact that when they joined the Board, their salaries were set at a level to provide scope for an above average increase as they gained experience at Board level and progressively increased their contribution to Board discussion and debate.

Following the 2008 salary increases, the salaries of the Executive Directors are around or below the lower quartile of benchmarking data for UK listed companies of a similar size and international scope.

Annual bonus

Each Executive Director is entitled to participate in the Executive Annual Bonus Scheme in respect of each financial year of the Company.

2007 Executive Annual Bonus Scheme

In 2007, a bonus of up to 100% of salary could be earned. More particularly, for 2007, the bonus arrangements for the Executive Directors were structured as follows:

Aidan Heavey, Tom Hickey and Graham Martin:

- Up to 33.33% of salary could be earned subject to the achievement of relative TSR performance targets against the same Oil & Gas comparator group used for the PSP awards made in 2007 (see below), with upper quartile performance required for this part of the bonus to be earned in full. Over the relevant period, Tullow was placed in the top quartile of the comparator group;

- A further 33.33% of salary could be earned for the achievement of absolute TSR targets, with a 15% improvement in TSR required for this part of the bonus to be earned in full. Tullow's TSR growth over the year to 31 December 2007 was 66%; and
- The final 33.34% of salary could be earned based on how the Committee considered that the Company had performed over the year as against certain Company-specific key performance indicators (such as production performance, reserve replacement, exploration success, health and safety and overall financial stability).

Paul McDade and Angus McCoss:

- 50% of their potential bonus could be earned based on the achievement of individual and non-financial targets relating to their specific discipline or field of responsibility;
- 20% could be earned on the achievement of certain corporate key performance indicators; and
- 30% could be earned on relative TSR performance against the comparator group above.

Matthew O'Donoghue:

- 50% of his potential bonus could be earned based on the achievement of individual and non-financial targets relating to his specific field of responsibility; and
- 50% could be earned on the achievement of certain corporate key performance indicators.

In terms of the key performance indicators in 2007, the Committee's assessment of their achievement ranged from 60% to 70% in respect of certain operational targets to 100% in the case of key exploration targets. In certain cases, the Committee recognised that other corporate priorities had affected performance against targets.

Based upon that performance, and in particular reflecting another year of excellent TSR performance, Aidan Heavey, Tom Hickey, Graham Martin, Paul McDade and Angus McCoss received bonus amounts for 2007 equating to 90% of base salary. In the case of Matthew O'Donoghue the Committee determined his bonus award for 2007 as 70% of salary.

For 2007, to align the interests of Executive Directors and shareholders, the portion of any bonus amount above 60% of base salary was required to be deferred into shares under the terms of the related Deferred Share Bonus Plan ('DSBP') adopted by the Board in 2005. Shares awarded under this plan will normally vest following the end of the period of three financial years commencing with that in which the award is granted. Awards made under the DSBP are disclosed in the Deferred Share Bonus Plan table on page 65.

2008 Executive Annual Bonus Scheme

Following the Committee's review of the remuneration policy for the Executive Directors, several changes will be made to the Annual Bonus Scheme for 2008. A summary of the key changes is as follows:

- From 2008, the maximum annual bonus potential for the Executive Directors, for the achievement of outstanding performance, will be 150% of salary;
- For meeting target performance, a bonus of 60% of salary will be payable (i.e. 40% of the maximum);
- Any bonus earned in excess of 75% of salary will be paid in shares and deferred for three years;
- All the Executive Directors will be subject to the same performance targets which will include two thirds of the bonus being linked to Tullow's TSR performance. More specifically:
  - One third will be based on TSR relative to the same Oil & Gas group as will be used to measure performance for the PSP awards it is proposed to make in 2008 (see below) – no bonus will be paid unless median performance is delivered, with the full bonus for upper quartile performance;
  - One third will be based on growth in absolute TSR, with the full bonus payable if Tullow's TSR grows by 15% over the year; and
  - One third will be based on certain corporate key performance indicators designed to reflect major strategic and financial targets specific to the Company.
- The Committee also has broad discretion before finalising any award level on the above parameters, to take into account such other factors and circumstances reflecting the general financial condition and the performance of the Company as it considers appropriate.

The Committee believes that these changes to the Annual Bonus Scheme will help to ensure that the Executive Directors are competitively rewarded against companies of a similar size to Tullow, but only for the achievement of a common set of challenging, clear and transparent targets which are closely aligned with the interests of shareholders.

Pension and other benefits

The Executive Directors do not participate in the Company pension plan. Each Executive Director is entitled to receive a payment of 10% of his base salary into his private pension scheme which increases to 15% at age 50, as well as 30 days' annual leave, permanent health insurance, private medical insurance and life assurance benefits. The Group also reimburses the Executive Directors in respect of all expenses reasonably incurred by them in the proper performance of their duties.

Share incentive arrangements

Performance Share Plan (PSP)

Currently, under the PSP, senior executives are eligible to be granted conditional awards of rights over whole shares worth up to 150% of salary each year (200% in exceptional circumstances). Awards vest under the PSP subject to a TSR based performance condition under which the Company's TSR performance is measured over a fixed three-year period commencing on 1 January in the financial year in which the award is granted (i.e. with no opportunity to re-test). Half of the awards made to date are subject to performance against the constituents of the FTSE 250 Index excluding Investment Trusts (as at the start of the performance period) and the other half are subject to performance against the following comparator group of international Oil & Gas companies:

Addax Petroleum	Nexen Inc
ATP Oil & Gas	Noble Energy Inc
Burren Energy	Pioneer Natural Resources
Cairn Energy	Pogo Producing Company
Dana Petroleum	Premier Oil
Forest Oil Corporation	Santos
Lundin Petroleum AB	Venture Production
Newfield Exploration Company	

In line with best practice, a 'common currency' approach is adopted for calculating TSR in respect of the above international group of companies.

For each portion of the award, vesting is as follows:

Company's ranking in comparator group	Vesting percentage
Below median	0%
Median	30%
Upper quartile	100%
Intermediate performance	Pro rata between 30% and 100%

In addition, no award will vest unless the Committee considers that both the Company's underlying financial performance and its performance against other key factors (e.g. health and safety) over the relevant period is satisfactory.

Proposed changes to the PSP from 2008

As part of its review of the remuneration policy for the Executive Directors, and taking into account its overall objective that a significant proportion of the overall remuneration package should be based on the performance of the Company, the Remuneration Committee is seeking shareholder approval at the forthcoming AGM to increase the 'normal' maximum annual limit under the PSP from 150% to 200% of salary (with a revised 'exceptional circumstances' maximum limit of 300% of salary increased from 200%). Exceptional circumstances would include, for example, an award to attract a new Executive Director to the Company. In addition, the following changes are proposed to the operation of the PSP from 2008:

- While conditional awards of rights over whole shares to the Executive Directors in 2008 are expected to be worth 200% of salary, in subsequent years, the Committee may elect to vary the allocation taking into account the circumstances which prevail at the time (subject always, in normal circumstances, to the 200% of salary limit);
- The performance targets will continue to measure TSR relative to two comparator groups (with equal weightings). 30% of awards will continue to vest for median performance, an approach the Committee believes continues to be appropriate, given the below market salaries payable to the Executive Directors. However, the performance required for full vesting of awards to Executive Directors will be raised from upper quartile to upper quintile; and
- The comparator groups will be amended to reflect Tullow's current circumstances. Therefore, half of the award will be measured against the FTSE 100 (of which Tullow is now a member) excluding Investment Trusts, and the balance against the following Oil & Gas companies:

Addax Petroleum	Niko Resources
Anadarko	Noble Energy Inc.
Apache Corporation	Pioneer Natural Resources
Cairn Energy	Premier Oil
Dana Petroleum	Santos
Forest Oil Corporation	SOCO International
Lundin Petroleum AB	Talisman Energy Inc.
Nexen Inc.	Venture Production

The changes to the Oil & Gas comparator group reflect a selection of companies that the Committee believes most accurately mirrors Tullow's current complexity and operations.

All the other key features of the PSP (including the 'underpin' relating to Tullow's financial and other performance) will remain unchanged. The Committee continues to believe that a TSR performance condition is appropriate as it encourages the Executive Directors to generate returns to shareholders in excess of both the market generally and a group of sector peers, and is a robust reflection of management's success in achieving the strategic targets required to ensure the Company's continued growth.

Share Ownership Guidelines

From 2008, to further align their interests with shareholders, the Executive Directors will be required to retain at least 50% of the shares that vest under the PSP and DSBP (after selling sufficient shares to pay tax liabilities) until they have built up a shareholding worth at least 200% of base salary (with existing holdings taken into account). This has been increased from the 2007 level of 100% to reflect the increased rewards which will now be available in shares if performance targets are met.

Share Option Scheme

Before the introduction of the PSP in 2005, Executive Directors were eligible for grants of options under the 2000 Executive Share Option Scheme (the '2000 Scheme'). The Committee does not intend to grant further options to Executive Directors under the 2000 Scheme. During the year, options were granted to substantially all employees of the Group under the 2000 Scheme, other than those senior executives who were granted awards under the PSP.

All–employee Share Incentive Plans

Executive Directors may also participate, on the same terms as other employees, in the Tullow Oil UK and Irish Share Incentive Plans. These are all-employee plans that have been set up in both the UK and Ireland which enable employees to make contributions out of salary up to prescribed limits each month, which each quarter are used by the Plan trustees to acquire Tullow Oil shares (Partnership shares). The Company makes a matching contribution to the trustees to acquire a matching number of shares (Matching shares) on a one-for-one basis.

Sourcing of shares and dilution

Awards under all the Company's share schemes may be satisfied using either newly issued shares or shares purchased in the market and held in the Tullow Oil Employee Trust. Awards under the Company's discretionary schemes which may be satisfied by new issue shares must not exceed the ABI's limits of 5% of the Company's issued share capital in any rolling 10-year period, and the total of all awards satisfied via new issue shares under all plans must not exceed 10% of the Company's issued share capital in any rolling 10-year period.

The Company's current intention is to satisfy awards under the 2000 Scheme via new issue shares, and awards under the PSP, DSBP and all-employee Share Incentive Plans via market purchase shares.

As at 31 December 2007, the headroom under the Company's 5% and 10% limits was 5.5 million and 41.5 million shares respectively, out of an issued share capital of 719.6 million shares.

As at 31 December 2007, the Tullow Oil Employee Trust held 2 million shares.

Non-executive Directors' fees

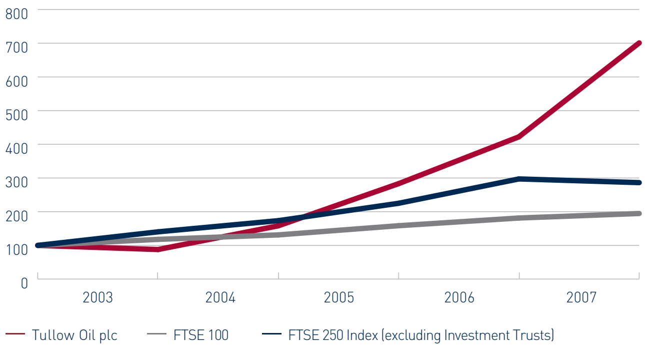
A Committee of the Board comprising the Chairman and Executive Directors sets the remuneration of non-executive Directors. The fees paid are set at a level to attract individuals with the necessary experience and ability to make a significant contribution to the Company's activities, while also reflecting the time commitment and responsibility of the role. Each non-executive Director currently receives an annual fee of £53,000. Steven McTiernan currently receives an additional annual fee of £10,000 to reflect his additional responsibilities as Senior Independent Director and Clare Spottiswoode and David Williams each receives an additional annual fee of £10,000 to reflect their additional responsibilities as Chairman of the Remuneration and Audit Committees respectively. Each non-executive Director is also entitled to reimbursement of necessary travel and other expenses.

Non-executive Directors do not participate in any share scheme or annual bonus scheme and are not eligible to join the Company's Pension Scheme.

The Remuneration Committee, with the Chairman absenting himself from discussions, sets the remuneration of the Chairman, whose annual fee is currently £170,000.

Performance graph

The graph below shows Tullow's TSR against both the FTSE 100 and FTSE 250 (excluding Investment Trusts) over the five-year period from 1 January 2003 to 31 December 2007, over which period Tullow outperformed the FTSE 100 by 506% and the FTSE 250 (excluding Investment Trusts) by 415%. The relevant indices are set to 100 at the beginning of the period. These indices have both been shown because for the majority of the financial year, Tullow was a member of the FTSE 250, but moved into the FTSE 100 from September onwards.



This graph shows the value, by the end of 2007, of £100 invested in Tullow Oil on 31 December 2002 compared with the value of £100 invested in the FTSE 100 and FTSE 250 Indices (excluding Investment Trusts). The other points plotted are the values at intervening financial year-ends.

Source: Datastream.

Service contracts and letters of appointment

Each Executive Director has entered into a service agreement with Tullow Group Services Limited (dated 2 September 2002 in the case of Aidan Heavey, Matthew O'Donoghue, Graham Martin and Tom Hickey; dated 29 March 2006 in the case of Paul McDade and dated 18 April 2006 in the case of Angus McCoss). Aidan Heavey and Matthew O'Donoghue also each entered into a service agreement with Tullow Oil International Limited on 16 September 2002 on similar terms.

The terms of each of these service contracts is not fixed, although each Executive Director is required under his service agreement to retire from service upon attaining the age of 65. Each agreement is terminable by the Director on six months' notice and by the Company on 12 months' notice. There are no specific provisions under which any Executive Director is entitled to receive compensation upon the early termination of his service agreement other than in accordance with these notice periods.

Each service agreement sets out restrictions on the ability of the Director to participate in businesses competing with those of the Group or to entice or solicit away from the Group any senior employees of the Group in the six-month period after the cessation of his employment.

The above reflects the Committee's policy that service contracts should be structured to reflect the interests of the Company and the individuals concerned, while also taking due account of market and best practice. Furthermore, it is the Committee's policy that, in the event of early termination of a Director's service contract, the Committee will take account of the departing Director's duty to mitigate his loss when determining the amount of any compensation that is paid.

Directors' remuneration report continued

Each of the non-executive Directors is engaged by the Company under the terms of a letter of appointment [dated 8 December 2005 in the case of Pat Plunkett; dated 29 June 2007 in the case of David Bamford, dated 1 March 2008 in the case of Clare Spottiswoode and Steven McTiernan and dated 31 May 2006 in the case of David Williams]. Rohan Courtney, who retired from the Board on 31 December 2007, was engaged under a letter of appointment dated 8 December 2005. Subject to retirement, for example under the Articles of Association, the appointments are for the period to 31 December 2008 in respect of Pat Plunkett, to 30 June 2010 in the case of David Bamford, to 28 February 2011 in the case of Clare Spottiswoode and Steven McTiernan and to 31 May 2009 in the case of David Williams. In each case, the appointment is renewable thereafter if agreed by the Director and the Board. The appointments for each of the non-executive Directors may be terminated by either party on three months' notice. There are no arrangements under which any non-executive Director is entitled to receive compensation upon the early termination of his or her appointment.

Material contracts

There have been no other contracts or arrangements during the financial year in which a Director of the Company was materially interested and/or which were significant in relation to the Group's business.

External appointments

The Board has not introduced a formal policy in relation to the number of external directorships that an Executive Director may hold. Currently, the only Executive Directors who hold external directorships are Tom Hickey and Aidan Heavey. Aidan is a director of Traidlinks, a charity promoting enterprise in the developed world, especially Africa. He receives no fee for this position. Tom has been nominated by Tullow as its representative on the board of Ikon Science Limited, a company in which Tullow has a small equity stake. Any fees payable for his services have been waived by Tullow. In addition, Tom is a non-executive director of PetroNeft Resources plc for which he receives an annual fee of €20,000.

Audited information

Directors' remuneration

The remuneration of the Directors for the year ended 31 December 2007 payable by Group companies was as follows:

	Salary/ fees £	Bonuses Cash £	Bonuses Shares[1] £	Pensions £	Taxable benefits[2] £	**2007 Total £**	2006 Total £
Executive Directors							
Aidan Heavey	610,000	366,000	183,000	91,500	34,621	**1,285,121**	1,097,645
Tom Hickey	390,000	234,000	117,000	39,000	1,245	**781,245**	660,330
Graham Martin	345,000	207,000	103,500	51,750	3,591	**710,841**	626,646
Angus McCoss[3]	316,250	189,750	94,875	31,625	41,525	**674,025**	47,021
Paul McDade[4]	316,250	189,750	94,875	31,625	13,326	**645,826**	436,471
Matthew O'Donoghue	280,000	168,000	28,000	42,000	–	**518,000**	445,938
Adrian Nel[5]	–	–	–	–	–	**–**	162,592
Subtotal	2,257,500	1,354,500	621,250	287,500	94,308	**4,615,058**	3,476,643
Non-Executive Directors							
Pat Plunkett	150,000	–	–	–	–	**150,000**	125,000
Rohan Courtney[6]	54,000	–	–	–	–	**54,000**	47,000
Clare Spottiswoode	46,000	–	–	–	–	**46,000**	40,000
Steven McTiernan	46,000	–	–	–	–	**46,000**	40,000
David Bamford	46,000	–	–	–	–	**46,000**	40,000
David Williams	46,000	–	–	–	–	**46,000**	23,333
Subtotal	388,000	–	–	–	–	**388,000**	315,333
Total	2,645,500	1,354,500	621,250	287,500	94,308	**5,003,058**	3,791,976

Notes:
1. These figures represent that part of the bonus required to be deferred into shares as explained on page 59.
2. The amounts disclosed under Taxable Benefits for Aidan Heavey include car benefits and for Angus McCoss and Paul McDade include re-location expenses paid in line with contractual obligations.
3. Angus McCoss was appointed as a director on 6 December 2006.
4. Paul McDade was appointed as a director on 29 March 2006.
5. Adrian Nel retired from the Board on 31 May 2006.
6. Rohan Courtney retired from the Board on 31 December 2007. By a Letter of Appointment dated 23 October 2007, the Company appointed Mr Courtney as Chairman of its CSR Committee and as a Trustee of one of the Group Pension Schemes. These appointments, under which Mr Courtney receives an aggregate annual fee of £25,000, took effect on 1 January 2008 and are terminable by Mr Courtney on three months' notice, and by the Company on three months' notice expiring on or after 31 December 2008.

Directors' interests in the share capital of the Company

The interests (all of which were beneficial) of the Directors who held office at 31 December 2007 were:

Director	Ordinary shares 31 December 2007	Ordinary shares 1 January 2007
Aidan Heavey	6,000,000	6,000,000
Tom Hickey	104,070	101,560
Graham Martin	1,102,005	1,102,005
Angus McCoss	–	–
Paul McDade	15,578	15,578
Matthew O'Donoghue	1,889,771	1,889,771
Pat Plunkett	1,229,326	1,229,326
Rohan Courtney	–	–
David Bamford	13,445	10,695
Steven McTiernan	–	–
Clare Spottiswoode	–	–
David Williams	5,000	5,000

Note: Other than as set out in the notes to the tables below, there have been no changes in the interests of any Director between 1 January 2008 and the date of this report.

Directors' remuneration report continued

Tullow Oil UK Share Incentive Plan and Tullow Oil Irish Share Incentive Plan

Details of shares purchased and awarded to Executive Directors in accordance with the terms of the Irish SIP and the UK SIP. A brief description of the SIPs is set out on page 61.

Director	Plan	Shares held 1 Jan 2007	Partnership shares acquired in year	Matching shares awarded in year	Shares released in year	Total shares held 31 Dec 2007
Tom Hickey	Irish SIP	4,550	413	413	(2,510)	2,866
Graham Martin	UK SIP	5,166	381	381	–	5,928
Angus McCoss	UK SIP	196	381	381	–	958
Paul McDade	UK SIP	5,166	381	381	–	5,928

Note: Graham Martin, Angus McCoss and Paul McDade each acquired 63 Partnership shares and were awarded 63 matching shares on 2 January 2008.

Performance Share Plan 2005 (PSP)

Details of conditional awards over ordinary shares granted to Executive Directors for nil consideration under the PSP.

Director	Award grant date	As at 01.01.07	Granted in year	Vested in year	As at 31.12.07	Vesting date
Aidan Heavey	29.06.05	347,755	–	–	347,755	29.06.08
	30.03.06	219,512	–	–	219,512	30.03.09
	22.03.07	–	230,567	–	230,567	22.03.10
		567,267	230,567	–	797,834	
Tom Hickey	29.06.05	213,877	–	–	213,877	29.06.08
	30.03.06	139,885	–	–	139,885	30.03.09
	22.03.07	–	147,412	–	147,412	22.03.10
		353,762	147,412	–	501,174	
Graham Martin	29.06.05	213,877	–	–	213,877	29.06.08
	30.03.06	129,125	–	–	129,125	30.03.09
	22.03.07	–	130,402	–	130,402	22.03.10
		343,002	130,402	–	473,404	
Angus McCoss	27.04.06	100,230	–	–	100,230	27.04.09
	22.03.07	–	90,539	–	90,539	22.03.10
		100,230	90,539	–	190,769	
Paul McDade	29.06.05	188,571	–	–	188,571	29.06.08
	30.03.06	118,364	–	–	118,364	30.03.09
	22.03.07	–	90,539	–	90,539	22.03.10
		306,935	90,539	–	397,474	
Matthew O'Donoghue	29.06.05	188,571	–	–	188,571	29.06.08
	30.03.06	107,604	–	–	107,604	30.03.09
	22.03.07	–	72,188	–	72,188	22.03.10
		296,175	72,188	–	368,363	
Total		1,967,371	761,647	–	2,729,018	

Notes:

1. The awards of conditional shares made in 2007 equated to shares worth 150% of salary for each Executive Director based on the share price for the dealing day preceding the date of grant. The Tullow share price on the date of grant of the awards made on 22 March 2007 was 371.5p.
2. Under the PSP, 50% of awards are subject to a TSR condition compared to the constituents of the FTSE 250 Index (excluding Investment Trusts) and the other 50% of the award is subject to a TSR condition compared to a specific comparator group. Full details are set out on page 60.
3. The PSP awards made in June 2005 reached the end of their performance period on 31 December 2007. The Remuneration Committee determined that both parts of the relevant performance condition were met in full, as the Company was ranked in the upper quartile compared to both the relevant comparator groups, and the underlying performance of the Company was determined to be a fair reflection of the Company's TSR. Accordingly, the Executive Directors will be eligible to receive their awards on 29 June 2008, the third anniversary of grant, subject to continued employment.
4. Adrian Nel retired from the Board on 31 May 2006. As disclosed last year, he was eligible to receive a pro-rated PSP award for his period of service relative to the total vesting period, based on performance over the whole period. As disclosed above, the performance condition for the 2005 awards was met in full, so he will be eligible to receive 151,904 shares on 29 June 2008, the third anniversary of grant in respect of that award.

Deferred Share Bonus Plan (DSBP)

Details of awards over ordinary shares granted to Executive Directors for nil consideration under the DSBP.

Director	Award grant date	As at 01.01.07	Granted in year	Vested in year	As at 31.12.07	Vesting date
Aidan Heavey	30.03.06	20,988	–	–	20,988	01.01.09
	18.01.07	–	42,714	–	42,714	01.01.10
		20,988	42,714	–	63,702	
Tom Hickey	30.03.06	12,908	–	–	12,908	01.01.09
	18.01.07	–	27,220	–	27,220	01.01.10
		12,908	27,220	–	40,128	
Graham Martin	30.03.06	12,908	–	–	12,908	01.01.09
	18.01.07	–	25,126	–	25,126	01.01.10
		12,908	25,126	–	38,034	
Paul McDade	30.03.06	19,806	–	–	19,806	01.01.09
	18.01.07	–	7,260	–	7,260	01.01.10
		19,806	7,260	–	27,066	
Matthew O'Donoghue	30.03.06	13,177	–	–	13,177	01.01.09
	18.01.07	–	2,147	–	2,147	01.01.10
		13,177	2,147	–	15,324	
Total		79,787	104,467	–	184,254	

Notes:

1. The awards of shares made in 2007 equated to shares worth the amount of bonus deferred into shares for 2006 based on the share price for the dealing day preceding the date of grant. The share price on the date of grant of the award was 396p.
2. Further details of the DSBP are set out in the Annual bonus section of this report on pages 58 and 59.

Directors' remuneration report continued

Share options

Details of share options granted to Executive Directors:

Director	Scheme	Grant date	As at 01.01.07	Granted during year	Exercised during year	As at 31.12.07	Exercise price	Date from which exercisable	Last date exercisable
Aidan Heavey	1998	30.04.99	1,230,230	–	–	1,230,230	€0.84	30.04.02	29.04.09
	2000	10.10.01	550,000	–	–	550,000	80p	10.10.04	09.10.11
	2000	06.10.03	600,000	–	–	600,000	85p	06.10.06	05.10.13
	2000	20.09.04	450,000	–	–	450,000	131p	20.09.07	19.09.14
			2,830,230	–	–	2,830,230			
Tom Hickey	1998	02.05.00	220,000	–	–	220,000	61p	02.05.03	01.05.10
	2000	10.10.01	450,000	–	–	450,000	80p	10.10.04	09.10.11
	2000	06.10.03	290,000	–	–	290,000	85p	06.10.06	05.10.13
	2000	20.09.04	350,000	–	–	350,000	131p	20.09.07	19.09.14
			1,310,000	–	–	1,310,000			
Graham Martin	1998	30.04.99	988,426	–	–	988,426	€0.84	30.04.02	29.04.09
	2000	10.10.01	380,000	–	–	380,000	80p	10.10.04	09.10.11
	2000	06.10.03	400,000	–	–	400,000	85p	06.10.06	05.10.13
	2000	20.09.04	190,000	–	–	190,000	131p	20.09.07	19.09.14
			1,958,426	–	–	1,958,426			
Paul McDade	2000	18.06.01	80,000	–	–	80,000	95p	18.06.04	17.06.11
	2000	10.10.01	50,000	–	–	50,000	80p	10.10.04	09.10.11
	2000	06.10.03	220,000	–	–	220,000	85p	06.10.06	05.10.13
			350,000	–	-	350,000			
Matthew O'Donoghue	1998	30.04.99	699,958	–	–	699,958	€0.84	30.04.02	29.04.09
	2000	10.10.01	250,000	–	–	250,000	80p	10.10.04	09.10.11
	2000	06.10.03	330,000	–	–	330,000	85p	06.10.06	05.10.13
			1,279,958	–	–	1,279,958			
Total			7,728,614	–	–	7,728,614			

Notes:

1. The Schemes under which these options were granted are: 1998 – Options granted under the Tullow Oil 1998 Executive Share Option Scheme ('1998 Scheme') and 2000 – Options granted under the Tullow Oil 2000 Executive Share Option Scheme ('2000 Scheme').
2. No performance conditions attach to 1998 Scheme Options. The performance condition that attaches to options granted under the 2000 Scheme requires Tullow's TSR to exceed that of the median company of the FTSE 250 (excluding Investment Trusts) over the three-year period from the date of grant. All these performance conditions have now been satisfied and so the options are fully exercisable.
3. Options shown with an exercise price denominated in Euro were granted on or before 30 April 1999 with an exercise price in IR£. On conversion of IR£ to Euro effective 1 January 2002, the exercise price for each such option was converted from IR£ into Euro by dividing the original IR£ exercise price per share by the fixed Irish Pound/Euro conversion rate. All options granted after 30 April 1999 were granted with an exercise price denominated in sterling. Options are granted for nil consideration. Options must be exercised in the currency in which the grants were made.
4. During 2007, the highest mid-market price of the Company's shares was 682.5p and the lowest was 349p. The year end price was 651.5p.

Clare Spottiswoode
Chairman of the Remuneration Committee
11 March 2008

Other statutory information

Results and dividends
The profit on ordinary activities after taxation of the Group for the year ended 31 December 2007 amounted to £52,594,000 (2006: £157,438,000).

An interim dividend of 2.0p (2006: 2.0p) per share was paid on 7 November 2007. The Directors recommend a final dividend of 4.0p (2006: 3.5p) per share which, if approved at the 2008 AGM, will be paid on 21 May 2008 to shareholders whose names are on the Register of Members on 18 April 2008.

Subsequent events
In January 2008, the Group announced the sale of its 11% interest in the M'Boundi field for a total cash consideration of US$435 million (£218 million). The transaction is expected to complete in 2008.

Directors
The biographical details of the Directors of the Company at the date of this report are given on pages 46 and 47. All the Directors served throughout the period. Rohan Courtney retired as a Director with effect from 31 December 2007.

In accordance with the Company's Articles of Association, David Bamford, Steven McTiernan, Graham Martin and Clare Spottiswoode retire at this year's AGM. Being eligible, they offer themselves for re-election. In addition, as Pat Plunkett has now been a Director for more than nine years he will now retire annually and a resolution for his re-election will be proposed at this year's AGM. Details of Directors' service contracts and letters of appointment are set out on pages 61 to 62.

Details of the Directors' interests in the ordinary shares of the Company and in share options are set out on pages 63 to 66 in the Directors' Remuneration Report.

Directors indemnities
As at the date of this report, indemnities are in force under which the Company has agreed to indemnify the Directors, to the extent permitted by the Companies Act 2006 against claims from third parties in respect of certain liabilities arising out of, or in connection with, the execution of their powers, duties and responsibilities as Directors of the Company or any of its subsidiaries. The Directors are also indemnified against the cost of defending a criminal prosecution or a claim by the Company, its subsidiaries or a regulator provided that where the defence is unsuccessful the Director must repay those defence costs.

Additional membership and control disclosures
The Additional Shareholder Information section of this report on pages 118 to 120 contains disclosures relating to share capital and rights and obligations attaching to the Company's ordinary shares, substantial shareholdings, powers of Directors, appointment and replacement of Directors and material agreements containing change of control provisions.

Charitable and political donations
The Group made charitable, social and community related donations during the year totalling £435,200 (2006; £338,800). In line with Group policy, no donations were made for political purposes.

Corporate social responsibility
The Group is fully committed to high standards of environmental, health and safety management. A review, together with an outline of the Group's involvement in the community, is set out in the Corporate and Social Responsibility section on pages 34 to 39. In addition, Tullow publishes annually a separate Corporate Social Responsibility Report which is available on the Group website: www.tullowoil.com

Supplier payment policy
It is Company and Group policy to settle all debts with creditors on a timely basis and in accordance with the terms of credit agreed with each supplier. The Company had no trade creditors outstanding at 31 December 2007.

Auditors and disclosure of information to auditors
Each person who is a Director at the date of approval of this report confirms that:

- so far as that Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- that Director has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of s234ZA of the Companies Act 1985.

A resolution to re-appoint Deloitte & Touche LLP as the Company's auditors will be proposed at the AGM.

Annual General Meeting
Your attention is drawn to the Notice of Meeting enclosed with this Annual Report which sets out the resolutions to be proposed at the forthcoming AGM. The meeting will be held at Stationers Hall, Ave Maria Lane, London EC4 on 14 May 2008 at 12 noon.

This Directors' Report comprising pages 8 to 67 and the information referred to therein has been approved by the Board and signed on its behalf by

A. Graham Martin

Graham Martin
Company Secretary
11 March 2008

Registered office:
3rd Floor
Building 11
Chiswick Park
566 Chiswick High Road
London W4 5YS
Company registered in England and Wales
No. 3919249

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations.

Group

Company Law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the group financial statements under International Financial Reporting Standards (IFRS) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cashflows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance.

Parent Company

The Directors have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the Parent Company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report to the members of Tullow Oil plc

We have audited the Group financial statements of Tullow Oil plc for the year ended 31 December 2007 which comprise the Group Income Statement, the Group Statement of Recognised Income and Expense, the Group Balance Sheet, the Group Cashflow Statement, the Accounting Policies and the related notes 1 to 33. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the parent company financial statements of Tullow Oil plc for the year ended 31 December 2007.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the Group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2007 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Directors' Remuneration Report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Group financial statements.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
11 March 2008

Group Income Statements

Group Income Statement
Year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Sales revenue	2	**639,203**	578,847
Cost of sales		**(353,695)**	(261,268)
Gross profit		**285,508**	317,579
Administrative expenses		**(31,628)**	(22,490)
Disposal of subsidiaries		**(597)**	–
Exploration costs written off	9	**(64,235)**	(32,494)
Operating profit	3	**189,048**	262,595
(Loss)/gain on hedging instruments	17	**(29,267)**	15,701
Finance revenue	2	**3,095**	3,030
Finance costs	5	**(48,673)**	(17,994)
Profit from continuing activities before tax		**114,203**	263,332
Income tax expense	6	**(61,609)**	(105,894)
Profit for the year from continuing activities		**52,594**	157,438
Attributable to:			
Equity holders of the parent		**50,887**	157,438
Minority interest	24	**1,707**	–
		52,594	157,438
Earnings per ordinary share	8	**Stg p**	Stg p
Basic		**7.10**	24.23
Diluted		**6.96**	23.67

Group Statement of Recognised Income and Expense
Year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Profit for the financial year		**52,594**	157,438
Currency translation adjustments	23	**(5,321)**	(55,057)
Hedge movement	23	**(79,780)**	68,236
		(85,101)	13,179
Total recognised income and expense for the year		**(32,507)**	170,617
Attributable to:			
Equity holders of the parent		**(34,214)**	170,617
Minority interest		**1,707**	–
		(32,507)	170,617

Group Balance Sheet
As at 31 December 2007

	Notes	2007 £'000	2006 £'000
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	9	**956,580**	820,437
Property, plant and equipment	10	**832,111**	934,368
Investments	11	**447**	496
		1,789,138	1,755,301
Current assets			
Inventories	12	**24,897**	13,735
Trade receivables		**87,746**	74,609
Other current assets	13	**33,351**	28,963
Cash and cash equivalents	14	**82,224**	99,478
Derivative financial instruments	17	**–**	16,065
Assets held for sale	18	**73,846**	–
		302,064	232,850
Total assets		**2,091,202**	1,988,151
LIABILITIES			
Current liabilities			
Trade and other payables	15	**(177,397)**	(161,797)
Hardman acquisition payable		**–**	(333,912)
Other financial liabilities	16	**(9,793)**	(7,516)
Current tax liabilities		**(31,457)**	(20,549)
Derivative financial instruments	17	**(89,509)**	–
Liabilities directly associated with assets classified as held for sale	18	**(4,756)**	–
		(312,912)	(523,774)
Non-current liabilities			
Trade and other payables	15	**(15,586)**	(17,137)
Other financial liabilities	16	**(540,272)**	(206,883)
Deferred tax liabilities	20	**(307,615)**	(311,925)
Provisions	20	**(133,612)**	(124,868)
Derivative financial instruments	17	**(68,535)**	(37,088)
		(1,065,620)	(697,901)
Total liabilities		**(1,378,532)**	(1,221,675)
Net assets		**712,670**	766,476
EQUITY			
Called up share capital	22	**71,961**	65,190
Share premium	22	**128,465**	126,075
Other reserves	23	**210,089**	69,791
Shares to be issued		**–**	235,621
Retained earnings	21	**286,668**	269,799
Equity attributable to equity holders of the parent		**697,183**	766,476
Minority interest	24	**15,487**	–
Total equity		**712,670**	766,476

Approved by the Board and authorised for issue on 11 March 2008

Aidan Heavey
Chief Executive Officer

Tom Hickey
Chief Financial Officer

Group Cashflow Statement
Year ended 31 December 2007

	Notes	2007 £'000	2006 £'000
Cashflows from operating activities			
Cash generated from operations	25	**446,660**	404,064
Income taxes paid		**(30,030)**	(61,868)
Net cash from operating activities		**416,630**	342,196
Cashflows from investing activities			
Acquisition of subsidiaries		**(334,954)**	21,336
Disposal of subsidiaries		**(597)**	–
Purchase of intangible exploration and evaluation assets		**(165,726)**	(67,976)
Purchase of property, plant and equipment		**(198,355)**	(243,087)
Finance revenue		**3,206**	3,030
Net cash used in investing activities		**(696,426)**	(286,697)
Cashflows from financing activities			
Net proceeds from issue of share capital		**2,661**	3,502
Proceeds from issue of subsidiary share capital to minority interest		**1,244**	–
Debt arrangement fees		**(8,431)**	(1,175)
Repayment of bank loans		**(29,474)**	(27,914)
Drawdown of bank loan		**379,979**	59,996
Finance costs		**(40,782)**	(16,997)
Dividends paid	7	**(39,406)**	(32,492)
Purchase of treasury shares		**(3,722)**	(3,977)
Net cash generated by/(used) in financing activities		**262,069**	(19,057)
Net (decrease)/increase in cash and cash equivalents		**(17,727)**	36,442
Cash and cash equivalents at beginning of year		**99,478**	65,386
Translation difference		**473**	(2,350)
Cash and cash equivalents at end of year	14	**82,224**	99,478

(a) General information
Tullow Oil Plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 122. The nature of the group's operations and its principal activities are set out in the operations and finance reviews on pages 12 to 43.

(b) Adoption of new and revised standards
In the current year, the Group has adopted IFRS 7 – Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after1 January 2007, and the related amendment to IAS 1 – Presentation of Financial Statements. The impact of the adoption of IFRS 7 and the changes to IAS 1 has been to expand the disclosures provided in these financial statements regarding the Group's financial instruments and management of capital (see note 17). Four interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 7 – Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies; IFRIC 8 Scope of IFRS 2; IFRIC 9 Reassessment of Embedded Derivatives; and IFRIC 10 Interim Financial Reporting and Impairment. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

In addition, the Group has elected to adopt the following in advance of its effective date:

IAS 23 Borrowing Costs (revised 2007) (effective for accounting periods beginning on or after 1 January 2009)

The revisions made to IAS 23 have had no impact on the Group's accounting policies. The principal change to the Standard, which was to eliminate the previously available option to expense costs as incurred, has no impact on these financial statements because it has always been the Group's accounting policy to capitalise borrowing costs incurred on qualifying assets.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 2 Share-based payments (revised 2008)

IFRS 3 Business combinations (revised 2008)

IFRS 8 Operating segments

IAS 1 Presentation of financial statements (revised 2008)

IAS 27 Consolidated and separate financial statements (revised 2008)

IAS 32 Financial instruments: Presentation (revised 2008)

IFRIC 11 IFRS 2 – Group and Treasury Share Transactions

IFRIC 12 Service Concession Arrangements

IFRIC 13 Customer Loyalty Programmes

IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009.

(c) Basis of accounting
The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for derivative financial instruments that have been measured at fair value. The principal accounting policies adopted by the Group are set out below.

(d) Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the Group Income Statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations
The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 non-current assets held for sale and discontinued operations, which are recognised and measured at fair value less costs to sell. Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest.

Accounting policies
continued

(d) Basis of consolidation (continued)
in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

Joint ventures
The Group is engaged in oil and gas exploration, development and production through unincorporated joint ventures. The Group accounts for its share of the results and net assets of these joint ventures as jointly controlled assets. In addition, where Tullow acts as operator to the joint venture, the gross liabilities and receivables (including amounts due to or from non-operating partners) of the joint venture are included in the Group Balance Sheet.

(e) Non-current assets held for sale
Non-current assets (or disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

(f) Revenue
Sales revenue represents the sales value, net of VAT and overriding royalties, of the Group's share of liftings in the year together with tariff income. Revenue is recognised when goods are delivered and title has passed.

Revenues received under take-or-pay sales contracts in respect of undelivered volumes are accounted for as deferred income.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(g) Over/underlift
Lifting or offtake arrangements for oil and gas produced in certain of the Group's jointly owned operations are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative production less stock is 'underlift' or 'overlift'. Underlift and overlift are valued at market value and included within debtors and creditors respectively. Movements during an accounting period are adjusted through Cost of Sales such that Gross Profit is recognised on an entitlements basis. The Group's share of any physical stock, warehouse stock and materials are accounted for at the lower of cost and net realisable value.

(h) Foreign currencies
The Pound Sterling is the presentation currency of the Group. For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Currency translation adjustments arising on the restatement of opening net assets of foreign subsidiaries, together with differences between the subsidiaries' results translated at average rates versus closing rates, are taken directly to reserves. All resulting exchange differences are classified as equity until disposal of the subsidiary. On disposal the cumulative amounts of the exchange differences are recognised as income or expense.

Transactions in foreign currencies are recorded at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities are translated into Sterling at the exchange rate ruling at the Balance Sheet date, with a corresponding charge or credit to the Income Statement. However, exchange gains and losses arising on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment. In addition, exchange gains and losses arising on long-term foreign currency borrowings which are a hedge against the Group's overseas investments, are dealt with in reserves.

(i) Exploration, evaluation and production assets
The Group adopts the successful efforts method of accounting for exploration and appraisal costs. All licence acquisition, exploration and evaluation costs are initially capitalised in cost centres by well, field or exploration area, as appropriate. Directly attributable administration costs and interest payable are capitalised insofar as they relate to specific development activities. Pre-licence costs are expensed in the period in which they are incurred.

These costs are then written off unless commercial reserves have been established or the determination process has not been completed and there are no indications of impairment.

All field development costs are capitalised as property, plant and equipment. Property, plant and equipment related to production activities are amortised in accordance with the Group's Depletion and Amortisation accounting policy.

(j) Commercial reserves
Commercial reserves are proven and probable oil and gas reserves, which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50 per cent statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as a proven and probable reserves and a 50 per cent statistical probability that it will be less.

(k) Depletion and amortisation – discovery fields
All expenditure carried within each field is amortised from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, generally on a field-by-field basis. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs. Changes in the

estimates of commercial reserves or future field development costs are dealt with prospectively.

Where there has been a change in economic conditions that indicates a possible impairment in a discovery field, the recoverability of the net book value relating to that field is assessed by comparison with the estimated discounted future cashflows based on management's expectations of future oil and gas prices and future costs.

Any impairment identified is charged to the Income Statement as additional depletion and amortisation. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment charge is also reversed as a credit to the Income Statement, net of any depreciation that would have been charged since the impairment.

(l) Decommissioning

Provision for decommissioning is recognised in full when the related facilities are installed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property, plant and equipment. The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the decommissioning provision is included as a finance cost.

(m) Property, plant and equipment

Property, plant and equipment is stated in the Balance Sheet at cost less accumulated depreciation and any recognised impairment loss. Depreciation on property, plant and equipment other than exploration and production assets, is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight-line basis over its expected useful economic life of between three and five years.

(n) Finance costs and debt

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Finance costs of debt are allocated to periods over the term of the related debt at a constant rate on the carrying amount. Arrangement fees and issue costs are deducted from the debt proceeds on initial recognition of the liability and are amortised and charged to the Income Statement as finance costs over the term of the debt.

(o) Share issue expenses and share premium account

Costs of share issues are written off against the premium arising on the issues of share capital.

(p) Taxation

Current and deferred tax, including UK corporation tax and overseas corporation tax, are provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the Balance Sheet date. Deferred corporation tax is recognised on all temporary differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in the future have occurred at balance sheet date. Deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying temporary differences can be deducted. Deferred tax is measured on a non-discounted basis.

Deferred tax is provided on temporary differences arising on acquisitions that are categorised as Business Combinations. Deferred tax is recognised at acquisition as part of the assessment of the fair value of assets and liabilities acquired. Any deferred tax is charged or credited in the income statement as the underlying temporary difference is reversed.

Petroleum Revenue Tax (PRT) is treated as an income tax and deferred PRT is accounted for under the temporary difference method. Current UK PRT is charged as a tax expense on chargeable field profits included in the Income Statement and is deductible for UK corporation tax.

(q) Pensions

Contributions to the Group's defined contribution pension schemes are charged to operating profit on an accruals basis.

(r) Derivative financial instruments

The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates, interest rates and movements in oil and gas prices.

Derivative financial instruments are stated at fair value.

The purpose for which a derivative is used is established at inception. To qualify for hedge accounting, the derivative must be 'highly effective' in achieving its objective and this effectiveness must be documented at inception and throughout the period of the hedge relationship. The hedge must be assessed on an ongoing basis and determined to have been 'highly effective' throughout the financial reporting periods for which the hedge was designated.

For the purpose of hedge accounting, hedges are classified as either fair value hedges, when they hedge the exposure to changes in the fair value of a recognised asset or liability, or cashflow hedges, where they hedge exposure to variability in cashflows that is either attributable to a particular risk associated with a recognised asset or liability or forecasted transaction.

In relation to fair value hedges which meet the conditions for hedge accounting, any gain or loss from re-measuring the derivative and the hedged item at fair value is recognised immediately in the Income Statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the Income Statement.

For cashflow hedges, the portion of the gains and losses on the hedging instrument that is determined to be an effective hedge is taken to equity and the ineffective portion, as well as any change in time value, is recognised in the Income Statement. The gains and losses taken to equity are subsequently transferred to the Income Statement during the period in which the hedged transaction affects the Income Statement or if the hedge is subsequently deemed to be ineffective. A similar treatment applies to foreign currency loans which are hedges of the Group's net investment in the net assets of a foreign operation.

Accounting policies
continued

(r) Derivative financial instruments (continued)
Gains or losses on derivatives that do not qualify for hedge accounting treatment (either from inception or during the life of the instrument) are taken directly to the Income Statement in the period.

(s) Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases and are charged to the Income Statement on a straight-line basis over the term of the lease.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the Balance Sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs.

(t) Share based payments
The Group has applied the requirements of IFRS 2 Share Based Payments. In accordance with the transitional provisions of that standard, only those awards that were granted after 7 November 2002, and had not vested at 1 January 2005, are included.

All share based awards of the Company are equity settled as defined by IFRS 2. The fair value of these awards has been determined at the date of grant of the award allowing for the effect of any market-based performance conditions. This fair value, adjusted by the Group's estimate of the number of awards that will eventually vest as a result of non-market conditions, is expensed uniformly over the vesting period.

The fair values were calculated using a binomial option pricing model with suitable modifications to allow for employee turnover after vesting and early exercise. Where necessary this model was supplemented with a Monte Carlo model. The inputs to the models include: the share price at date of grant; exercise price; expected volatility; expected dividends; risk free rate of interest; and patterns of exercise of the plan participants.

(u) Critical accounting judgements and key sources of estimation uncertainty
Details of the Group's significant accounting judgements and critical accounting estimates are set out in these financial statements and include:

- Carrying value of intangible exploration and evaluation fixed assets (note 9);
- Carrying value of property, plant and equipment (note 10);
- Commercial reserves estimates (note 10);
- Derivative financial instruments (note 17);
- Decommissioning costs (note 20); and
- Acquisition of subsidiaries (note 26).

Note 1. Segmental reporting

In the opinion of the Directors the operations of the Group comprise one class of business, oil and gas exploration, development and production and the sale of hydrocarbons and related activities. The Group also operates within four geographical markets, Europe, Africa, South Asia and South America.

The following tables present revenue, profit and certain asset and liability information regarding the Group's business segments for the years ended 31 December 2007 and 2006.

	Europe £'000	Africa £'000	South Asia £'000	South America £'000	Unallocated £'000	**Total £'000**
2007						
Sales revenue by origin	258,838	371,883	8,482	–	–	639,203
Segment result	78,979	144,886	1,827	(4,419)	–	221,273
Disposal of subsidiaries						(597)
Unallocated corporate expenses						(31,628)
Operating profit						189,048
Loss on hedging instruments						(29,267)
Finance revenue						3,095
Finance costs						(48,673)
Profit before tax						114,203
Income tax expense						(61,609)
Profit after tax						52,594
Total assets	553,340	1,344,226	66,465	112,008	15,163	2,091,202
Total liabilities	(242,597)	(527,843)	(13,870)	(37,731)	(556,491)	(1,378,532)
Other segment information						
Capital expenditure:						
Property, plant and equipment	86,960	115,012	6,096	–	4,145	212,213
Intangible fixed assets	32,587	152,129	4,411	4,745	–	193,872
Depletion, depreciation and amortisation	(101,359)	(98,379)	(3,286)	–	(2,781)	(205,805)
Impairment losses recognised in income	–	(13,834)	–	–	–	(13,834)

Notes to the Group financial statements
continued

Note 1. Segmental reporting (continued)

	Europe £'000	Africa £'000	South Asia £'000	South America £'000	Unallocated £'000	**Total £'000**
2006						
Sales revenue by origin	307,007	268,302	3,538	–	–	578,847
Segment result	129,735	159,304	(3,954)	–	–	285,085
Unallocated corporate expenses						(22,490)
Operating profit						262,595
Gain on hedging instruments						15,701
Finance revenue						3,030
Finance costs						(17,994)
Profit before tax						263,332
Income tax expense						(105,894)
Profit after tax						157,438
Total assets	541,684	1,281,760	62,174	79,815	22,718	1,988,151
Total liabilities	(250,234)	(356,008)	(15,507)	(20,315)	(579,611)	(1,221,675)
Other segment information						
Capital expenditure:						
Property, plant and equipment	161,675	217,693	10,567	–	3,136	393,071
Intangible fixed assets	37,197	575,808	15,897	79,815	–	708,717
Depletion, depreciation and amortisation	(79,870)	(64,068)	(992)	–	(1,651)	(146,581)

Unallocated expenditure and net liabilities include amounts of a corporate nature and not specifically attributable to a geographic area, including tax balances and the Group debt.

Note 2. Total revenue

	2007 £'000	2006 £'000
Sales revenue		
Oil and gas revenue from the sale of goods	**619,607**	599,425
Profit/(loss) on realisation of cashflow hedges	**2,058**	(37,182)
	621,665	562,243
Tariff income	**17,538**	16,604
Total operating revenue	**639,203**	578,847
Finance revenue	**3,095**	3,030
Total revenue	**642,298**	581,877

Note 3. Operating profit

	2007 £'000	2006 £'000
Profit from operations is stated after charging		
Staff costs (see note 4 below)	33,632	20,637
Depletion and amortisation	203,024	144,930
Impairment of property, plant and equipment	13,834	-
Depreciation of other fixed assets	2,781	1,651
Operating lease rentals	4,798	1,852
Auditors' remuneration (see below)	767	550

	2007 £'000	2006 £'000
Audit services:		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	168	130
Audit of the Company's subsidiaries pursuant to legislation	358	264
	526	394
Tax services:		
Compliance services	68	49
Advisory services	6	6
	74	55
Other non-audit services:		
Acquisition assistance	119	62
Other services not covered above	48	39
	167	101
Total	767	550

Other services not covered above includes £nil (2006: £5,000) payable to an associate of the Company's auditors.

Note 4. Staff costs

The average monthly number of employees (including Executive Directors) employed by the Group worldwide was:

	2007 Number	2006 Number
Administration	156	116
Technical	121	93
Total	277	209

Staff costs in respect of those employees was as follows:

	2007 £'000	2006 £'000
Salaries	30,442	18,376
Social security costs	1,750	1,150
Pension costs	1,440	1,111
	33,632	20,637

A proportion of the Group's staff costs shown above is recharged to the Group's joint venture partners and a proportion is capitalised into the cost of fixed assets under the Group's accounting policy for exploration, evaluation and production assets.

Included in salaries is a charge for share based payments of £5,388,000 (2006: £4,186,000).

Details of Directors' remuneration, Directors' transactions and Directors' interests are set out in the part of the Directors' Remuneration Report described as having been audited and form part of these financial statements.

Notes to the Group financial statements
continued

Note 5. Finance costs

	2007 £'000	2006 £'000
Interest on bank overdrafts and loans	43,561	12,658
Interest on obligations under finance leases	288	374
Total borrowing costs	43,849	13,032
Less amounts included in the cost of qualifying assets	(7,431)	(7,490)
	36,418	5,542
Finance and arrangement fees	3,646	5,681
Unwinding of discount on decommissioning provision (note 20)	8,609	6,771
	48,673	17,994

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 7.74% (2006: 6.78%) to cumulative expenditure on such assets.

Note 6. Taxation on profit on ordinary activities
(a) Analysis of charge in period

The tax charge comprises:

	2007 £'000	2006 £'000
Current tax		
UK corporation tax	2,328	14,344
Foreign taxation	27,768	17,434
Total corporate tax	30,096	31,778
UK petroleum revenue tax	11,048	21,605
Total current tax	41,144	53,383
Deferred tax		
UK corporation tax	21,631	45,585
Foreign taxation	229	6,530
Total corporate tax	21,860	52,115
UK petroleum revenue tax	(1,395)	396
Total deferred tax (note 20)	20,465	52,511
Total tax expense	61,609	105,894

(b) Factors affecting tax charge for period

As the Group earns a significant portion of its profits in the UK, the tax rates applied to profit on ordinary activities in preparing the reconciliation below is the standard rate of UK corporation tax applicable to the Group's oil and gas activities plus the rate of Supplementary corporation tax (SCT).

The difference between the total current tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax (30%) plus the rate of SCT in respect of UK upstream profits (20%) to the profit before tax is as follows:

	2007 £'000	2006 £'000
Group profit on ordinary activities before tax	**114,203**	263,332
Tax on group profit on ordinary activities at a combined standard UK corporation tax and SCT rate of 50% (2006: 50%)	**57,102**	131,666
Effects of:		
Expenses not deductible for tax purposes	**12,056**	7,264
Net losses not recognised	**50,706**	19,635
Petroleum revenue tax (PRT)	**9,654**	22,001
UK corporation tax deductions for current PRT	**(4,827)**	(11,001)
Adjustments relating to prior years	**(5,613)**	290
Income taxed at a different rate	**(57,469)**	(63,961)
Group total tax expense for the year	**61,609**	105,894

The Group's profit before taxation will continue to be subject to jurisdictions where the effective rate of taxation differs from that in the UK. Furthermore, unsuccessful exploration expenditure is often incurred in jurisdictions where the Group has no taxable profits, such that no related tax benefit arises. Accordingly the Group's tax charge will continue to depend on the jurisdictions in which pre-tax profits and exploration costs written off arise.

The Group has tax losses of £131 million (2006: £124 million) that are available indefinitely for offset against future taxable profits in the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group.

Note 7. Dividends

	2007 £'000	2006 £'000
Declared and paid during year		
Final dividend for 2006: Stg3.5p (2005: Stg3p) per ordinary share	**25,051**	19,505
Interim dividend for 2007: Stg2p (2006: Stg2p) per ordinary share	**14,355**	12,987
Dividends paid	**39,406**	32,492
Proposed for approval by shareholders at the AGM		
Final dividend for 2007: Stg4p (2006: Stg3.5p) per ordinary share	**28,784**	25,051

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Notes to the Group financial statements
continued

Note 8. Earnings per ordinary share
Basic earnings per ordinary share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per ordinary share amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued if employee and other share options were converted into ordinary shares.

	2007 £'000	2006 £'000
Earnings		
Net profit attributable to equity shareholders	50,887	157,438
Effect of dilutive potential ordinary shares	–	–
Diluted net profit attributable to equity shareholders	50,887	157,438

	2007	2006
Number of shares		
Basic weighted average number of shares	717,025,714	649,665,389
Dilutive potential ordinary shares	14,348,042	15,593,396
Diluted weighted average number of shares	731,373,756	665,258,785

Note 9. Intangible exploration and evaluation fixed assets

	2007 £'000	2006 £'000
At 1 January	820,437	160,543
Acquisition of subsidiaries (note 26)	48,959	623,542
Additions	193,872	85,175
Assets held for sale (note 18)	(11,398)	–
Amounts written off	(64,235)	(32,494)
Transfer (to)/from property, plant and equipment (note 10)	(15,442)	937
Currency translation adjustments	(15,613)	(17,266)
At 31 December	956,580	820,437

The amounts for Intangible Exploration and Evaluation assets represent active exploration projects. These amounts will be written off to the Income Statement as exploration costs unless commercial reserves are established or the determination process is not completed and there are no indications of impairment. The outcome of ongoing exploration, and therefore whether the carrying value of Exploration and Evaluation assets will ultimately be recovered, is inherently uncertain.

Note 10. Property, plant and equipment

	Oil and gas assets £'000	Other fixed assets £'000	Total £'000
Cost			
At 1 January 2006	1,035,035	7,274	1,042,309
Acquisition of subsidiaries (note 26)	86,931	–	86,931
Additions	303,004	3,136	306,140
Transfer to intangible exploration and evaluation fixed assets (note 9)	(937)	–	(937)
Currency translation adjustments	(66,741)	(414)	(67,155)
At 1 January 2007	**1,357,292**	**9,996**	**1,367,288**
Acquisition of subsidiaries (note 26)	**(39,489)**	**–**	**(39,489)**
Additions	**208,068**	**4,145**	**212,213**
Assets held for sale (note 18)	**(88,676)**	**–**	**(88,676)**
Transfer from intangible exploration and evaluation fixed assets (note 9)	**15,442**	**–**	**15,442**
Currency translation adjustments	**(19,291)**	**273**	**(19,018)**
At 31 December 2007	**1,433,346**	**14,414**	**1,447,760**
Depletion and amortisation			
At 1 January 2006	302,745	3,001	305,746
Charge for the year	144,930	1,651	146,581
Currency translation adjustments	(19,154)	(253)	(19,407)
At 1 January 2007	**428,521**	**4,399**	**432,920**
Charge for the year	**203,024**	**2,781**	**205,805**
Impairment loss	**13,834**	**–**	**13,834**
Assets held for sale	**(30,371)**	**–**	**(30,371)**
Currency translation adjustments	**(6,769)**	**230**	**(6,539)**
At 31 December 2007	**608,239**	**7,410**	**615,649**
Net book value			
At 31 December 2007	**825,107**	**7,004**	**832,111**
At 31 December 2006	928,771	5,597	934,368

Additions include capitalised interest of £7,431,000 (2006: £7,490,000).

The carrying amount of the Group's oil and gas assets includes an amount of £8,147,000 (2006: £10,381,000) in respect of assets held under finance leases.

Other fixed assets include leasehold improvements, motor vehicles and office equipment.

The impairment loss relates to the Chinguetti field in Mauritania.

Depletion and amortisation for oil and gas properties is calculated on a unit-of-production basis, using the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus production in the period, generally on a field-by-field basis. Commercial reserves estimates are based on a number of underlying assumptions including oil and gas prices, future costs, oil and gas in place and reservoir performance, which are inherently uncertain. Commercial reserves estimates are based on a Group reserves report produced by an independent engineer. However, the amount of reserves that will ultimately be recovered from any field cannot be known with certainty until the end of the field's life.

Notes to the Group financial statements
continued

Note 11. Investments

	2007 £'000	2006 £'000
Unlisted investments	447	447
Government gilts	–	49
	447	496

The fair value of these investments is not materially different from their carrying value.

Principal subsidiary undertakings

At 31 December 2007 the Company's principal subsidiary undertakings, all of which are included in the consolidated Group financial statements, were:

Name	%	Country of operation	Country of registration
Directly held			
Tullow Oil UK Limited	100	United Kingdom	Scotland
Tullow Oil SK Limited	100	United Kingdom	England & Wales
Tullow Oil SPE Limited	100	United Kingdom	England & Wales
Tullow Group Services Limited	100	United Kingdom	England & Wales
Tullow Oil Limited	100	Ireland	Ireland
Tullow Overseas Holdings B.V.	100	Netherlands	Netherlands
Tullow Gabon Holdings Limited	50	Gabon	Isle of Man
Indirectly held			
Tullow (EA) Holdings Limited	100	Isle of Man	British Virgin Islands
Tullow Oil International Limited	100	Channel Islands	Jersey
Tullow Pakistan (Developments) Limited	100	Pakistan	Jersey
Tullow Bangladesh Limited	95	Bangladesh	Jersey
Tullow Côte d'Ivoire Limited	100	Côte d'Ivoire	Jersey
Tullow Côte d'Ivoire Exploration Limited	100	Côte d'Ivoire	Jersey
Tullow India Operations Limited	100	India	Jersey
Tullow Cameroon Limited	100	Cameroon	Jersey
Tullow Madagascar Limited	100	Madagascar	Jersey
Tullow Ghana Limited	100	Ghana	Jersey
Tullow Angola B.V.	100	Angola	Netherlands
Tullow Congo Limited	100	Congo	Isle of Man
Tullow Equatorial Guinea Limited	100	Equatorial Guinea	Isle of Man
Tullow Kudu Limited	100	Namibia	Isle of Man
Tullow Uganda Limited	100	Uganda	Isle of Man
Tullow Gabon Holdings Limited	50	Gabon	Isle of Man
Tullow Oil Gabon SA	100	Gabon	Gabon
Tulipe Oil SA	50	Gabon	Gabon
Hardman Chinguetti Production (Pty) Limited	100	Mauritania	Australia
Hardman Petroleum (Mauritania) (Pty) Limited	100	Mauritania	Australia
Planet Oil (Mauritania) Limited	100	Mauritania	Guernsey
Tullow Uganda Operations Limited	100	Uganda	Australia
Tullow Hardman Holdings B.V.	100	Netherlands	Netherlands
Tullow South Africa (Pty) Limited	100	South Africa	South Africa

The principal activity of all companies relates to oil and gas exploration, development and production.

Note 12. Inventories

	2007 £'000	2006 £'000
Warehouse stocks and materials	**16,927**	8,790
Oil stocks	**7,970**	4,945
	24,897	13,735

Note 13. Other current assets

	2007 £'000	2006 £'000
Other debtors	**27,214**	25,587
Prepayments	**2,458**	1,872
VAT recoverable	**3,679**	1,504
	33,351	28,963

Note 14. Cash and cash equivalents

	2007 £'000	2006 £'000
Cash at bank and in hand	**69,357**	42,628
Short-term deposits	**12,867**	56,850
	82,224	99,478

Cash and cash equivalents includes an amount of £8,254,000 (2006: £7,995,000) which is a reserve held on fixed term deposit in support of a Letter of Credit facility which relates to the Group's share of certain decommissioning and FPSO costs.

Note 15. Trade and other payables

Current liabilities

	2007 £'000	2006 £'000
Trade payables	**62,693**	20,162
Other payables	**9,174**	37,462
Deferred income (take or pay)	**722**	1,372
Accruals	**86,032**	88,566
PAYE and social security	**6,649**	124
VAT and other similar taxes	**10,064**	12,067
Current portion of finance lease (note 19)	**2,063**	2,044
	177,397	161,797

Non-current liabilities

	2007 £'000	2006 £'000
Other payables	**9,051**	8,372
Non-current portion of finance lease (note 19)	**6,535**	8,765
	15,586	17,137
– After one year but within five years	**14,872**	16,570
– After five years	**714**	567
	15,586	17,137

Note 16. Financial liabilities

	2007 £'000	2006 £'000
Current		
Short-term borrowings	**9,793**	7,516
Non-current		
Term loans repayable		
– After one year but within two years	**282,275**	1,135
– After two years but within five years	**257,997**	175,496
– After five years	**–**	30,252
	540,272	206,883

Group bank loans are stated net of unamortised arrangement fees of £11,635,000 (2006: £7,174,000).

Short-term borrowings, term loans and guarantees are secured by fixed and floating charges over the oil and gas assets (note 10) of the Group.

Interest rate risk

The interest rate profile of the Group's financial assets and liabilities at 31 December 2007 was as follows:

	Stg £'000	Euro £'000	US$ £'000	Other £'000	Total £'000
Cash at bank at floating interest rate	**37,004**	**390**	**39,328**	**472**	**77,194**
Cash at bank on which no interest is received	**713**	**–**	**2,529**	**1,788**	**5,030**
Fixed rate debt	**(25,000)**	**–**	**(75,101)**	**–**	**(100,101)**
Floating rate debt	**(40,000)**	**–**	**(421,599)**	**–**	**(461,599)**
Net (debt)/cash	**(27,283)**	**390**	**(454,843)**	**2,260**	**(479,476)**

The profile at 31 December 2006 for comparison purposes was as follows:

	Stg £'000	Euro £'000	US$ £'000	Other £'000	Total £'000
Cash at bank at floating interest rate	38,256	130	53,763	6,619	98,768
Cash at bank on which no interest is received	133	–	577	–	710
Fixed rate debt	(30,000)	–	(63,805)	–	(93,805)
Floating rate debt	(40,000)	–	(87,768)	–	(127,768)
Net (debt)/cash	(31,611)	130	(97,233)	6,619	(122,095)

Cash at bank at floating interest rate consisted of deposits which earn interest at rates set in advance for periods ranging from overnight to one month by reference to Sterling or US Dollar LIBOR.

Floating rate debt comprises bank borrowings at interest rates fixed in advance from overnight to three months at rates determined by US Dollar LIBOR and Sterling LIBOR. Fixed rate debt comprises bank borrowings at interest rates fixed in advance for periods greater than three months or bank borrowings where the interest rate has been fixed through interest rate hedging.

The Borrowing Base Facility incurs interest on outstanding debt at Sterling or US Dollar LIBOR plus a margin ranging from 100 basis points to 240 basis points depending on utilisation and concentration of non-OECD assets. The outstanding debt is repayable in variable amounts (determined semi-annually) over the period to 31 August 2012, or such time as is determined by reference to the remaining reserves of the assets, whichever is earlier. There is no requirement under the Borrowing Base Facility to hedge interest rate exposure to Sterling LIBOR and US Dollar LIBOR. The Borrowing Base Facility states that consideration should be given to hedging at least 30% of the interest rate exposure to fluctuations in LIBOR for Sterling and US Dollars in respect of loans under the facility, net of relevant cash balances.

The Hardman Bridge Facility is a US$550 million (£275.4 million) facility which is currently repayable in full on 31 January 2009. Tranche A of the facility is a US$150 million (£75.1 million) revolving tranche which incurs interest on outstanding debt at US Dollar LIBOR plus a margin ranging from 250 basis points to 350 basis points. The margin on Tranche A increases in quarterly 25 basis point increments and is also dependent on whether certain assets are included in the security package. Tranche B of the facility is a US$400 million (£200.3 million) non-revolving tranche which incurs interest on outstanding debt at US Dollar LIBOR plus a margin of 300 basis points to 325 basis points, depending on whether certain assets are included in the security package. There is no requirement under the Hardman Bridge Facility to hedge interest rate exposure to US Dollar LIBOR. The Hardman Bridge Facility states that consideration should be given to hedging at least 30% of the interest rate exposure to fluctuations in LIBOR for US Dollars in respect of loans under the facility, net of relevant cash balances.

At the end of December 2007, the headroom under the facilities amounted to US$457 million (£228.8 million); US$307 million (£153.7 million) under the Borrowing Base and US$150 million (£75.1 million) under the Hardman Bridge Facility. At the end of December 2006, the headroom under the two facilities was US$1.4 billion (£714.6 million); US$416 million (£212.3 million) under the Borrowing Base and US$1 billion (£502.3 million) under the Hardman Bridge Facility which was not drawn down until January 2007.

In the table for 2007, £100.1 million of the gross debt has been shown as fixed rate debt as the particular bank borrowings were fixed in November 2007 for a six-month duration.

The Group is exposed to floating rate interest rate risk as entities in the Group borrow funds at floating interest rates. The Group hedges its floating rate interest rate exposure on an ongoing basis through the use of interest rate derivatives, namely interest rate swaps, interest rate caps and interest rate zero cost collars. All interest rate derivatives currently in place were put in place for a three-year period in late 2005 and expire in November 2008. The effect of the interest rate cap currently in place limits the exposure to US Dollar LIBOR at 5.8% for a current notional principal of US$35 million (£17.5 million). The interest rate swap currently in place has a swap rate of 4.75% for a current notional principal of US$35 million (£17.5 million). The zero cost collar currently in place has a floor of 3.475% and a cap of 5.8% for a notional principal of US$35 million (£17.5 million). The combined mark to market position as at the 2007 year end was £104,000 (2006: £156,000). As the interest rate swaps do not give rise to material differences between book and fair values, the hedged amounts are included in floating rate debt in the 2007 and 2006 table.

Foreign currency risk

Wherever possible, the Group conducts and manages its business in Sterling (UK) and US Dollars (all other countries), the functional currencies of the industry in the areas in which it operates. A natural hedge exists in the majority of the Group's oil and gas income and expenditure, which are denominated in US Dollars and Sterling respectively. The Group's borrowing facilities are also denominated in Sterling and US Dollars, which further assists in foreign currency risk management. From time to time the Group undertakes certain transactions denominated in foreign currencies. These exposures are managed by executing foreign currency financial derivatives, typically to manage exposures arising on corporate transactions such as acquisitions and disposals. There were no foreign currency financial derivatives in place at the 2007 year end. Cash balances are held in other currencies to meet immediate operating and administrative expenses or to comply with local currency regulations.

As at 31 December 2007 the only material monetary assets or liabilities of the Group that were not denominated in the functional currency of the respective subsidiaries involved were US$570 million (£285.4 million) cash drawings under the US$1,350 million (£675.9 million) Borrowing Base Facility and US$400 million (£200.3 million) cash drawings under the US$550 million (£275.4 million) Hardman Bridge Facility. As at 31 December 2006 the only material assets or liabilities that were not denominated in the functional currency of the respective subsidiaries involved were US$280 million (£142.9 million) cash drawings under the US$850 million (£425.6 million) Borrowing Base facility. These US Dollar cash drawings at 31 December 2007 continue to be held as a hedge against US Dollar denominated net assets in subsidiaries.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are £452.2 million (2006: £90.5 million).

Foreign currency sensitivity analysis

The Group is mainly exposed to fluctuation in the US dollar. The Group measures its market risk exposure by running various sensitivity analyses including 10% favourable and adverse changes in the key variables. The sensitivity analyses include only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

Note 16. Financial liabilities (continued)

As at 31 December 2007 a 10% increase in Sterling against the US Dollar would have resulted in a decrease in foreign currency denominated liabilities and equity of £49.4 million (2006: £13.8 million) and a 10% decrease in Sterling against US Dollar would have resulted in an increase in foreign currency denominated liabilities and equity of £60.3 million (2006: £16.8 million).

Liquidity risk

The Group manages the liquidity requirements by the use of both short and long-term cashflow projections, supplemented by maintaining debt financing plans and active portfolio management. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

Note 17. Financial instruments

Financial risk management objectives

The Group holds a portfolio of commodity derivative contracts, with various counterparties, covering both its underlying oil and gas businesses. In addition the Group holds a small portfolio of interest rate and foreign exchange derivatives. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors. Compliance with policies and exposure limits is reviewed by the internal auditors on a regular basis. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Fair values of financial assets and liabilities

The Group considers the carrying value of all the financial assets and liabilities to be materially the same as the fair value.

Fair values of derivative instruments

Under IAS 39 all derivatives must be recognised at fair value on the Balance Sheet with changes in such fair value between accounting periods being recognised immediately in the Income Statement, unless the derivatives have been designated as cashflow or fair value hedges. The fair value is the amount for which the asset or liability could be exchanged in an arm's length transaction at the relevant date. Fair values are determined using quoted market prices (marked-to-market values) where available. To the extent that market prices are not available, fair values are estimated by reference to market-based transactions, or using standard valuation techniques for the applicable instruments and commodities involved.

The Group's derivative instrument book and fair values were as follows:

Assets/(liabilities):	Less than one year £'000	One to three years £'000	Total 2007 £'000	Less than one year £'000	One to three years £'000	Total 2006 £'000
Cashflow hedges						
Gas derivatives	(7,573)	(13,489)	(21,062)	33,397	12,217	45,614
Oil derivatives	(81,832)	(55,046)	(136,878)	(23,309)	(49,373)	(72,682)
Interest rate derivatives	(104)	–	(104)	88	68	156
	(89,509)	(68,535)	(158,044)	10,176	(37,088)	(26,912)
Fair value through profit and loss						
Exchange rate derivatives	–	–	–	5,889	–	5,889
	(89,509)	(68,535)	(158,044)	16,065	(37,088)	(21,023)

Market risk

The Group's activities expose it primarily to the financial risks of changes in commodity prices, foreign currency exchange rates and interest rates.

Oil and gas prices

The Group uses a number of derivative instruments to mitigate the commodity price risk associated with its underlying oil and gas revenues. Such commodity derivatives will tend to be priced using pricing benchmarks, such as Brent Dated and D-1 Heren, which correlate as far as possible to the underlying oil and gas revenues respectively. The Group hedges its estimated oil and gas revenues on a portfolio basis, aggregating its oil revenues from substantially all of its African oil interests and its gas revenues from substantially all of its UK gas interests.

At 31 December 2007 the Group's oil hedge position was summarised as follows:

Oil hedges	H1 2008	H2 2008	2009	2010	2011
Volume – bopd	20,600	18,000	11,000	2,000	–
Average Price* – $/bbl	70.60	70.30	62.43	83.40	–

* Average hedge prices are based on market prices as at 31 December 2007 and represent the current value of hedged volumes at that date.

At 31 December 2007 the Group's gas hedge position was summarised as follows:

Gas hedges	H1 2008	H2 2008	2009	2010	2011
Volume – mmscfd	95.4	54.1	74.6	33.8	11.0
Average Price* – p/therm	52.14	47.83	50.56	48.53	52.08

* Average hedge prices are based on market prices as at 31 December 2007 and represent the current value of hedged volumes at that date.

As at 31 December 2007 all of the Group's oil and gas derivatives have been designated as cash flow hedges. The Group's oil and gas hedges have been assessed to be 'highly effective' within the range prescribed under IAS 39 using regression analysis on oil and ratio analysis on gas. There is, however, a degree of ineffectiveness inherent in the Group's oil hedges arising from, among other factors, the discount on the Group's underlying African crude relative to Brent and the timing of oil liftings relative to the hedges. There is also a degree of ineffectiveness inherent in the Group's gas hedges which arise from, among other factors, field production performance on any day.

Income statement hedge summary

The changes in the fair value of hedges which are required to be recognised immediately in the Income Statement for the year, were as follows:

(Loss)/gain on hedging instruments:	2007 £'000	2006 £'000
Cash flow hedges		
Gas derivatives		
Ineffectiveness	(533)	422
Time Value	(9,989)	(809)
	(10,522)	(387)
Oil derivatives		
Ineffectiveness	(2,380)	8,308
Time Value	(10,476)	1,891
	(12,856)	10,199
Fair value through profit and loss		
Foreign exchange derivatives	(5,889)	5,889
Total net (loss)/gain for the year in Income Statement	(29,267)	15,701

The following table summarises the deferred gains/(losses) on derivative instruments, net of tax effects, recorded in hedge reserve (note 23) for the year:

Deferred amounts in hedge reserve	2007 £'000	2006 £'000
At 1 January	(52,213)	(120,449)
Amounts recognised in profit for the year	23,917	(13,255)
Deferred (losses)/gains before tax arising during the year	(133,615)	122,625
Deferred tax movement taken directly to equity	29,918	(41,134)
	(79,780)	68,236
At 31 December	(131,993)	(52,213)

Note 17. Financial instruments (continued)

Deferred amounts in hedge reserve net of tax effects	2007 £'000	2006 £'000
Cash flow hedges		
Gas derivatives	**(7,191)**	21,556
Oil derivatives	**(124,706)**	(73,878)
Interest rate derivatives	**(96)**	109
	(131,993)	(52,213)

Financial derivatives

The Group internally measures its market risk exposure by running various sensitivity analyses, including utilizing 10% favourable and adverse changes in the key variables.

Oil and gas sensitivity analysis

The following analysis, required by IFRS 7, is intended to illustrate the sensitivity to changes in market variables, being Dated Brent oil prices and UK D-1 Heren natural gas prices. The sensitivity analysis, which is used internally by management to monitor financial derivatives, has been prepared using the following assumptions:

- the pricing adjustments relate only to the point forward mark to market (MTM) evaluations;
- the price sensitivities assume there is no ineffectiveness related to the oil and gas hedges; and
- the sensitivities have been run only on the intrinsic element of the hedge as management consider this to be the material component of the MTM oil and gas hedges.

As at 31 December 2007 a 10% increase in the dated Brent oil price curve would have decreased equity by approximately £49 million (2006: £15 million), a 10% decrease would have increased equity by approximately £43 million (2006: £17 million).

As at 31 December 2007 a 10% increase in the UK, D-1 Heren natural gas price curve would have decreased equity by approximately £14 million (2006: £9 million), a 10% decrease would have increased equity by approximately £12 million (2006: £11 million).

Interest rate sensitivity analysis

As at 31 December 2007, the interest rate derivative position was out-of-the-money to an amount of £104,000 (2006: £156,000) and due to immateriality no sensitivity analysis has been performed on the position.

FX sensitivity analysis

As at 31 December 2007, there were no foreign exchange derivatives outstanding. As at 31 December 2006, a 10% weakening of the AUD to the USD would have reduced equity and profit for the year by approximately £15 million and 10% strengthening of the AUD to the USD would have increased equity and profit for the year by approximately £17 million.

Interest rate sensitivity

A 10% relative change in LIBOR would have impacted equity and profit for the year by +/-£3.0 million (2006: +/-£1.2 million).

Credit risk

Credit risk refers to the risk that the counterparty will fail to perform or fail to pay amounts due, resulting in financial loss to the Group. The primary activities of the Group are oil and gas exploration and production. The Group has a credit policy that governs the management of credit risk, including the establishment of counterparty credit limits and specific transaction approvals. The Group limits credit risk by assessing creditworthiness of potential counterparties before entering into transactions with them and continuing to evaluate their credit worthiness after transactions have been initiated. The Group attempts to mitigate credit risk by entering into contracts that permit netting and allow for termination of the contract upon the occurrence of certain events of default. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics, as at present the majority of the oil and gas derivative positions of the group are out-of-the-money. The credit risk on derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Note 18. Assets held for sale

On 31 January 2008 and 5 November 2007, the Group entered into sale agreements to dispose of Tullow Congo Ltd and its 40% interest in the Ngosso Permit in Cameroon respectively. The disposals were part of the Group's active asset management programme, and provide financial flexibility for its development programmes.

These transactions are subject to final completion and both are expected to be completed within 12 months. The related net assets have been classified as assets held for sale and presented separately in the balance sheet.

During the year, these assets contributed £37 million (2006: £30 million) to the group's net operating cash flows and paid £17 million (2006: £14 million) in respect of investing activities.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2007 £'000	2006 £'000
Property, plant and equipment	58,305	–
Intangible exploration and evaluation assets	11,398	–
Trade and other receivables	4,143	–
Total assets classified as held for sale	**73,846**	–
Trade and other payables	(3,229)	–
Decommissioning provisions	(1,527)	–
Total liabilities directly associated with assets classified as held for sale	**(4,756)**	–
Net assets of disposal group	**69,090**	–

Note 19. Obligations under finance leases

	2007 £'000	2006 £'000
Amounts payable under finance leases:		
– Within one year	2,294	2,339
– Within two to five years	6,882	9,354
	9,176	11,693
Less future finance charges	(578)	(884)
Present value of lease obligations	**8,598**	10,809
Amount due for settlement within 12 months (note 15)	**2,063**	2,044
Amount due for settlement after 12 months (note 15)	**6,535**	8,765

The fair value of the Group's lease obligations approximates the carrying amount. The remaining lease term is four years (2006: five years). For the year ended 31 December 2007 the effective borrowing rate was 2.8 % (2006: 2.8%).

Note 20. Provisions

(i) Decommissioning costs

	2007 £'000	2006 £'000
At 1 January	**124,868**	91,139
Acquisition of subsidiary (note 26)	**–**	5,463
New provisions and changes in estimates	**7,252**	24,199
Assets held for sale (note 18)	**(1,527)**	–
Decommissioning payments	**(5,065)**	(257)
Unwinding of discount (note 5)	**8,609**	6,771
Currency translation adjustment	**(525)**	(2,447)
At 31 December	**133,612**	124,868

The decommissioning provision represents the present value of decommissioning costs relating to the UK, African and Asian oil and gas interests, which are expected to be incurred up to 2025. These provisions have been created based on Tullow's internal estimates and, where available, operator's estimates. Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

(ii) Deferred taxation

	PRT £'000	UK and overseas corporate taxation £'000	Total £'000
At 1 January 2006	2,355	49,118	51,473
Charged to income statement	396	52,115	52,511
Acquisition of subsidiary (note 26)	–	158,842	158,842
Hedge movement directly to equity (note 17)	–	41,134	41,134
Currency translation adjustment	–	7,965	7,965
At 1 January 2007	**2,751**	**309,174**	**311,925**
Charged to income statement	**(1,395)**	**21,860**	**20,465**
Acquisition of subsidiary (note 26)	**–**	**9,020**	**9,020**
Hedge movement directly to equity (note 17)	**–**	**(29,918)**	**(29,918)**
Currency translation adjustment	**–**	**(3,877)**	**(3,877)**
At 31 December 2007	**1,356**	**306,259**	**307,615**

Deferred UK and overseas corporation tax is provided as follows:

	2007 £'000	2006 £'000
Accelerated capital allowances	**175,549**	155,863
Decommissioning charges	**(40,223)**	(31,356)
Other temporary differences	**174,810**	176,702
Currency translation adjustment	**(3,877)**	7,965
Provision	**306,259**	309,174

No deferred tax has been provided on unremitted earnings of overseas subsidiaries, as the Group has no plans to remit these to the UK in the foreseeable future.

Note 21. Reconciliation of changes in equity

	Share capital £'000	Share premium £'000	Other reserves (note 23) £'000	Shares to be issued (note 26) £'000	Retained earnings £'000	Total £'000	Minority interest £'000	Total equity £'000
At 1 January 2006	64,744	123,019	60,589	–	140,667	389,019	–	389,019
Total recognised income and expense for the year	–	–	13,179	–	157,438	170,617	–	170,617
Purchase of treasury shares	–	–	(3,977)	–	–	(3,977)	–	(3,977)
Shares to be issued in respect of Hardman acquisition	–	–	–	235,621	–	235,621	–	235,621
New shares issued in respect of employee share options	446	3,056	–	–	–	3,502	–	3,502
Share based payments charges	–	–	–	–	4,186	4,186	–	4,186
Dividends paid (note 7)	–	–	–	–	(32,492)	(32,492)	–	(32,492)
At 1 January 2007	**65,190**	**126,075**	**69,791**	**235,621**	**269,799**	**766,476**	**–**	**766,476**
Total recognised income and expense for the year	**–**	**–**	**(85,101)**	**–**	**50,887**	**(34,214)**	**1,707**	**(32,507)**
Acquisition	**–**	**–**	**–**	**–**	**–**	**–**	**13,780**	**13,780**
Purchase of treasury shares	**–**	**–**	**(3,722)**	**–**	**–**	**(3,722)**	**–**	**(3,722)**
Shares to be issued in respect of Hardman acquisition (note 26)	**6,500**	**–**	**229,121**	**(235,621)**	**–**	**–**	**–**	**–**
New shares issued in respect of employee share options	**271**	**2,390**	**–**	**–**	**–**	**2,661**	**–**	**2,661**
Share based payments charges	**–**	**–**	**–**	**–**	**5,388**	**5,388**	**–**	**5,388**
Dividends paid (note 7)	**–**	**–**	**–**	**–**	**(39,406)**	**(39,406)**	**–**	**(39,406)**
At 31 December 2007	**71,961**	**128,465**	**210,089**	**–**	**286,668**	**697,183**	**15,487**	**712,670**

Note 22. Called up equity share capital and share premium account

	2007 £'000	2006 £'000
(a) Authorised		
1,000,000,000 Ordinary shares of Stg10p each	**100,000**	100,000

(b) Allotted equity share capital and share premium

	Equity share capital allotted and fully paid Number	£'000	Share premium £'000
Ordinary shares of Stg10p each			
At 1 January 2006	647,437,723	64,744	123,019
Issues during the year			
– Exercise of share options	4,462,575	446	3,056
At 1 January 2007	**651,900,298**	**65,190**	**126,075**
Issues during the year			
– Exercise of share options	**2,711,407**	**271**	**2,390**
– Hardman acquisition	**64,998,817**	**6,500**	**–**
At 31 December 2007	**719,610,522**	**71,961**	**128,465**

Notes to the Group financial statements
continued

Note 23. Other reserves

	Merger reserve £'000	Foreign currency translation reserve £'000	Hedge reserve £'000	Treasury shares £'000	Total £'000
At 1 January 2006	178,953	2,085	(120,449)	–	60,589
Hedge movement	–	–	68,236	–	68,236
Currency translation adjustment	–	(55,057)	–	–	(55,057)
Purchase of treasury shares	–	–	–	(3,977)	(3,977)
At 1 January 2007	**178,953**	**(52,972)**	**(52,213)**	**(3,977)**	**69,791**
Hedge movement (note 17)	**–**	**–**	**(79,780)**	**–**	**(79,780)**
Currency translation adjustment	**–**	**(5,321)**	**–**	**–**	**(5,321)**
Purchase of treasury shares	**–**	**–**	**–**	**(3,722)**	**(3,722)**
Merger reserve movement	**229,121**	**–**	**–**	**–**	**229,121**
At 31 December 2007	**408,074**	**(58,293)**	**(131,993)**	**(7,699)**	**210,089**

During the year the Group issued 64,998,817 ordinary shares relating to the acquisition of Hardman Resources. In accordance with the merger provisions of Section 131 of the Companies Act 1985, the Group has transferred the premium on the shares issued of £229.1 million, using the market value at the date of acquisition, to the Merger reserve.

The treasury shares reserve represents the cost of shares in Tullow Oil plc purchased in the market and held by the Tullow Oil Employee Trust to satisfy options held under the Group's share incentive plans (see note 27).

Note 24. Minority interest

	2007 £'000	2006 £'000
At 1 January	**–**	–
Additions	**13,780**	–
Share of profit for the year	**1,707**	–
At 31 December	**15,487**	–

The minority interest relates to Tulipe Oil SA, where the Group has acquired a 50% controlling shareholding during the year.

Note 25. Cashflows from operating activities

	2007 £'000	2006 £'000
Profit before taxation	**114,203**	263,332
Adjustments for:		
Depletion, depreciation and amortisation	**205,805**	146,581
Impairment loss	**13,834**	–
Net foreign exchange losses	**–**	840
Exploration costs written off	**64,235**	32,494
Disposal of subsidiaries	**597**	–
Decommissioning expenditure	**(5,065)**	–
Share based payment charge	**5,388**	4,186
Loss/(gain) on hedging instruments	**29,267**	(15,701)
Finance revenue	**(3,095)**	(2,451)
Finance costs	**48,673**	17,415
Operating cashflow before working capital movements	**473,842**	446,696
(Increase)/decrease in trade and other receivables	**(20,472)**	509
Increase in inventories	**(11,162)**	(4,729)
Increase/(decrease) in trade payables	**4,452**	(38,412)
Cash generated from operations	**446,660**	404,064

Note 26. Acquisition of subsidiaries

The Group acquired Hardman Resources Limited with effect from 20 December 2006, and completed the acquisition on 10 January 2007. The fair values of the identifiable assets and liabilities have been reassessed during the current year, to reflect additional information which has become available concerning conditions that existed at the date of acquisition, in accordance with the provisions of IFRS 3 – Business Combinations. The resulting changes are set out in the following table:

	Fair value as previously reported £'000	2007 fair value adjustment £'000	**Fair value as restated £'000**
Intangible exploration and evaluation assets	623,542	48,959	**672,501**
Property, plant and equipment	86,931	(39,489)	**47,442**
Inventories	3,866	–	**3,866**
Other current assets	10,790	–	**10,790**
Cash and cash equivalents	46,540	–	**46,540**
Trade and other payables	(11,480)	–	**(11,480)**
Derivative financial instruments	(1,147)	–	**(1,147)**
Deferred tax liabilities	(158,842)	(9,020)	**(167,862)**
Provisions	(5,463)	–	**(5,463)**
Total cost of acquisition	594,737	450	**595,187**
Satisfied by:			
Cash			**359,566**
Shares issued			**235,621**
			595,187

The principal fair value adjustments are in respect of property, plant and equipment, where Chinguetti commercial reserves have been downgraded by 50%, intangible exploration and evaluation assets where additional fair value has been ascribed to the African and South American assets, and the deferred tax effect of these adjustments.

Due to the inherently uncertain nature of the oil and gas industry and intangible exploration evaluation assets in particular, the assumptions underlying the final assigned values are highly judgemental in nature. The purchase consideration equals the aggregate of the fair value of the identifiable assets and liabilities of Hardman, and therefore no goodwill has been recorded on the acquisition. Deferred tax has been recognised in respect of the fair value adjustments as applicable.

Note 27. Share based payments

2005 Performance Share Plan (PSP)

Under the PSP, senior executives can receive conditional awards of rights over whole shares worth up to 150% of salary p.a. (200% in exceptional circumstances). Awards vest under the PSP subject to a Total Shareholder Return (TSR) based performance condition under which the Company's TSR performance is measured over a fixed three-year period against both the constituents of the FTSE 250 index (excluding investment trusts) (the 'Index') and a comparator group of oil and gas companies. Half of an award is tested against the Index and the other half against the comparator group. The test is over a three year period starting on 1 January prior to grant, and an individual must normally remain in employment for three-years from the date of grant for the shares to vest. No dividends are paid to participants over the vesting period. Further details in relation to the PSP award measurements are provided in the Directors' Remuneration Report.

The shares outstanding under the PSP are as follows:

	2007 PSP shares	2007 Average weighted share price at grant p	2006 PSP shares	2006 Average weighted share price at grant p
Outstanding at 1 January	2,903,082	251.66	1,784,417	187.50
Granted	1,548,392	371.24	1,118,665	354.01
Outstanding at 31 December	4,451,474	293.25	2,903,082	251.66
The inputs of the option valuation model were:				
Risk free interest rate		5.3% pa		4.5%-4.7% pa
Expected volatility		33%		32%
Dividend yield		1.5% pa		1.0-1.1% pa

The expected life is the period from the date of grant to the vesting date. Expected volatility was determined by calculating the historical volatility of the Company's share price over a period commensurate with the expected lifetime of the awards. The weighted average fair value of the awards granted in 2007 was 181.57p per award (2006: 264.96p).

The Group recognised a total expense of £2,233,000 (2006: £1,392,000) in respect of the PSP.

2005 Deferred Share Bonus Plan (DSBP)

Under the DSBP, the portion of any annual bonus entitlement above 60% of the base salary of a senior executive nominated by the Remuneration Committee is required to be deferred into shares. Shares awarded under the DSBP will normally vest following the end of the period of three financial years commencing with that in which the award is granted.

The shares outstanding under the DSBP are as follows:

	2007 DSBP shares	2007 Share price at grant	2006 DSBP shares	2006 Share price at grant
Outstanding at 1 January	79,787	348.5p	–	–
Granted	104,467	396.0p	79,787	384.5p
Outstanding at 31 December	184,254	375.4p	79,787	348.5p
The inputs of the option valuation model were:				
Dividend Yield		1.3% pa		1.1% pa

The expected life is the period from the date of grant to the vesting date. The fair value of the awards granted in 2007 was 381.23p per award (2006: 337.2p).

The Group recognised a total expense of £226,000 (2006: £74,000) in respect of the DSBP.

2000 Executive Share Option Scheme (ESOS)

The only share option scheme operated by the Company during the year was the 2000 ESOS. Options granted under the 2000 ESOS normally only become exercisable following the third anniversary of the date of the grant if the performance condition has been met. The awards are tested against the Index and 100% of awards will vest if the Company's TSR is above the median of the Index over the three-year period following grant. Options awarded under the 2000 ESOS before 24 May 2005 are subject to monthly re-testing on a rolling three-year basis if the TSR performance criterion is not met. Options granted on or after 24 May 2005 are not subject to monthly re-testing.

Options have previously been granted under the 1988 ESOS and the 1998 ESOS. Options granted under the 1988 ESOS and the 1998 ESOS are not subject to performance conditions. All awards under the 1988 ESOS and the 1998 ESOS were made prior to 7 November 2002 and therefore, under the IFRS transitional provisions, they have not been accounted for in accordance with IFRS 2 – Share Based Payments.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options under the 1988 ESOS, the 1998 ESOS and the 2000 ESOS during the year.

	2007 Number	2007 WAEP p	2006 Number	2006 WAEP p
Outstanding as at 1 January	19,637,480	129.39	21,989,560	96.65
Granted during the year	2,358,408	396.46	2,311,045	346.02
Exercised during the year	(2,711,407)	98.31	(4,462,575)	78.54
Expired during the year	(67,797)	317.85	(200,550)	164.35
Outstanding at 31 December	19,216,684	166.04	19,637,480	129.39
Exercisable at 31 December	11,410,205	83.83	10,694,335	73.86

The weighted average share price at exercise for options exercised in 2007 was 439.32p (2006: 78.54p).

Options outstanding at 31 December 2007 had exercise prices of 57.3p to 539.5p and remaining contractual lives of 1 to 10 years.

The principal inputs to the options valuation model were:

Risk free interest rate	5.2-5.3% pa
Expected volatility	33-35%
Dividend yield	1.0-1.5% pa
Employee turnover	From 0% – 10% pa depending on seniority
Early exercise	At rates dependent upon seniority and potential gain from exercise

Expected volatility was determined by calculating the historical volatility of the Company's share price over a period commensurate with the expected lifetime of the awards.

The fair values and expected lives of the options valued in accordance with IFRS 2 were:

Award date	Weighted average exercise price p	Weighted average fair value p	Weighted average expected life from grant date years
Jan – Dec 2005	169.3	53.0	4.8
Jan – Dec 2006	347.7	109.7	4.4
Jan – Dec 2007	396.9	123.4	4.8

The Group recognised a total expense of £2,794,000 (2006: £2,658,000) in respect of the ESOS.

UK & Irish Share Incentive Plans (SIPs)

The SIPs were launched at the beginning of 2004. These are all employee plans, which have been set up in both the UK and Ireland, that enable employees to make contributions out of salary up to prescribed limits each month, which are used by the Plan trustees to acquire Tullow shares ('Partnership Shares'). The Company makes a matching contribution to the trustees to acquire a matching number of Tullow shares ('Matching Shares') on a one-for-one basis. The SIPs have a three month accumulation period.

The fair value of a Matching Share is the market value at grant adjusted for any options included. For this purpose, the grant date is the start of the accumulation period.

For the UK plan, Partnership Shares are purchased at the lower of the market values at the start of the Accumulation Period and the purchase date. For the Irish plan, shares are bought at the market price at the purchase date.

Matching shares vest three years after grant and dividends are paid to the employee during this period.

The Group recognised a total expense of £126,000 (2006: £55,000) for the matching shares and £9,000 (2006: £7,000) for the partnership shares.

Note 28. Operating lease arrangements

	2007 £'000	2006 £'000
Minimum lease payments under operating leases recognised in income for the year	4,798	1,852

At the Balance Sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2007 £'000	2006 £'000
Minimum lease payments under operating leases		
Due within one year	5,098	7,087
After one year but within two years	5,229	7,011
After two years but within five years	15,522	20,503
Due after five years	3,236	12,362
	29,085	46,963

Operating lease payments represent rentals payable by the Group for certain of its office properties and a lease for an FPSO vessel for use on the Chinguetti field in Mauritania. Leases on office properties are negotiated for an average of six years and rentals are fixed for an average of six years. The FPSO lease runs for a minimum period of seven years from February 2006 and the contract provides for an option to extend the lease for a further three years at a slightly reduced rate.

Note 29. Capital commitments

The Directors have committed to a budget for capital expenditure for exploration and development of £445.6 million (2006: £362.7 million).

Note 30. Contingent liabilities

At 31 December 2007 there existed contingent liabilities amounting to £14.1 million (2006: £4.7 million) in respect of performance guarantees for committed work programmes.

Note 31. Related party transactions

Transactions with the Directors of Tullow Oil plc are disclosed in the Remuneration Report on pages 57 to 66. Directors are considered to be the only key management personnel as defined by IAS 24 – Related Party Disclosures.

There are no other related party transactions.

Note 32. Subsequent events

Since the Balance Sheet date Tullow has continued to progress its exploration, development and business growth strategies.

In January 2008 the Group announced the sale of its 11% interest in the M'Boundi field for a total cash consideration of US$435 million (£218 million). The transaction is expected to complete in 2008.

Note 33. Pension schemes

The Group operates defined contribution pension schemes for staff and Executive Directors. The contributions are payable to external funds which are administered by independent trustees. Contributions during the year amounted to £1,440,000 (2006: £1,111,000). At 31 December 2007, there was a liability of £51,000 (2006: £67,000) for contributions payable included in creditors.

We have audited the Parent Company financial statements of Tullow Oil plc for the year ended 31 December 2007 which comprise the Balance Sheet and the related notes 1 to 12. These Parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Tullow Oil plc for the year ended 31 December 2007 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and whether the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the Parent Company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Parent Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Parent Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Parent Company financial statements.

Opinion

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007;
- the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Parent Company financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
11 March 2008

Company Balance Sheet
As at 31 December 2007

	Notes	2007 £'000	2006 £'000
Fixed assets			
Investments	1	**951,414**	958,897
Current assets			
Debtors	3	**400,856**	343,052
Cash at bank and in hand		**3,956**	9,711
		404,812	352,763
Creditors – amounts falling due within one year			
Trade and other creditors	4	**(10,242)**	(3,873)
Hardman acquisition payable		**–**	(333,912)
		(10,242)	(337,785)
Net current assets		**394,570**	14,978
Total assets less current liabilities		**1,345,984**	973,875
Creditors – amounts falling due after more than one year			
Bank loans	5	**(539,288)**	(206,073)
Loans from subsidiary undertakings	6	**(227,488)**	(183,558)
Net assets		**579,208**	584,244
Capital and reserves			
Called up equity share capital	7	**71,961**	65,190
Share premium account	7	**128,465**	126,075
Other reserves	8	**343,758**	118,359
Shares to be issued		**–**	235,621
Profit and loss account	9	**35,024**	38,999
Equity shareholders' funds		**579,208**	584,244

Approved by the Board and authorised for issue on 11 March 2008

Aidan Heavey
Chief Executive Officer

Tom Hickey
Chief Financial Officer

(a) Basis of accounting
The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 1985 and UK Generally Accepted Accounting Principles (UK GAAP). The following paragraphs describe the main accounting policies under UK GAAP which have been applied consistently.

In accordance with the provisions of Section 230 of the Companies Act, the Profit and Loss Account of the Company is not presented separately. In accordance with the exemptions available under FRS 1 'Cash Flow Statements', the Company has not presented a cash flow statement as the cash flow of the Company has been included in the Cash Flow Statement of Tullow Oil plc Group set out on page 72.

(b) Investments
Fixed asset investments, including investments in subsidiaries, are stated at cost and reviewed for impairment if there are indications that the carrying value may not be recoverable.

(c) Finance costs and debt
Finance costs of debt are allocated to periods over the term of the related debt at a constant rate on the carrying amount.

Interest-bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in the profit or loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(d) Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(e) Foreign currencies
Sterling is the reporting currency of the Company. Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date, with a corresponding charge or credit to the profit and loss account. However, exchange gains and losses arising on long-term foreign currency borrowings, which are a hedge against the Company's overseas investments, are dealt with in reserves.

(f) Share issue expenses and share premium account
Costs of share issues are written off against the premium arising on the issues of share capital.

(g) Taxation
Current and deferred tax, including UK corporation tax, is provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

(h) Share-based payments
The Company has applied the requirements of FRS 20 Share-based Payments. In accordance with the transitional provisions of that standard, only those awards that were granted after 7 November 2002, and had not vested at 1 January 2005, are included.

All share-based awards of the Company are equity settled as defined by FRS 20. The fair value of these awards has been determined at the date of grant of the award allowing for the effect of any market-based performance conditions. This fair value, adjusted by the Company's estimate of the number of awards that will eventually vest as a result of non-market conditions, is expensed uniformly over the vesting period.

The fair values were calculated using a binomial option pricing model with suitable modifications to allow for employee turnover after vesting and early exercise. Where necessary this model was supplemented with a Monte Carlo model. The inputs to the models include: the share price at date of grant; exercise price; expected volatility; expected dividends; risk free rate of interest; and patterns of exercise of the plan participants.

(i) Adoption of new and revised standards
In the current year, the Company has adopted FRS 29 – Financial Instruments: Disclosures which is effective for annual reporting periods beginning on or after 1 January 2007. The impact of adoption of FRS 29 has been to expand the disclosures provided in these financial statements regarding the Company's financial instruments and management of capital (note 5).

Accounting policies
Year ended 31 December 2007

Note 1. Investments

	2007 £'000	2006 £'000
Shares at cost in subsidiary undertakings	**950,967**	958,401
Unlisted investments	**447**	447
Government gilts	**–**	49
	951,414	958,897

Principal subsidiary undertakings

At 31 December 2007 the Company's principal subsidiary undertakings were:

Name	%	Country of operation	Country of registration
Directly held			
Tullow Oil UK Limited	100	United Kingdom	Scotland
Tullow Oil SK Limited	100	United Kingdom	England & Wales
Tullow Oil SPE Limited	100	United Kingdom	England & Wales
Tullow Group Services Limited	100	United Kingdom	England & Wales
Tullow Oil Limited	100	Ireland	Ireland
Tullow Overseas Holdings B.V.	100	Netherlands	Netherlands
Tullow Gabon Holdings Limited	50	Gabon	Isle of Man
Indirectly held			
Tullow (EA) Holdings Limited	100	Isle of Man	British Virgin Islands
Tullow Oil International Limited	100	Channel Islands	Jersey
Tullow Pakistan (Developments) Limited	100	Pakistan	Jersey
Tullow Bangladesh Limited	95	Bangladesh	Jersey
Tullow Côte d'Ivoire Limited	100	Côte d'Ivoire	Jersey
Tullow Côte d'Ivoire Exploration Limited	100	Côte d'Ivoire	Jersey
Tullow India Operations Limited	100	India	Jersey
Tullow Cameroon Limited	100	Cameroon	Jersey
Tullow Madagascar Limited	100	Madagascar	Jersey
Tullow Ghana Limited	100	Ghana	Jersey
Tullow Angola B.V.	100	Angola	Netherlands
Tullow Congo Limited	100	Congo	Isle of Man
Tullow Equatorial Guinea Limited	100	Equatorial Guinea	Isle of Man
Tullow Kudu Limited	100	Namibia	Isle of Man
Tullow Uganda Limited	100	Uganda	Isle of Man
Tullow Gabon Holdings Limited	50	Gabon	Isle of Man
Tullow Oil Gabon SA	100	Gabon	Gabon
Tulipe Oil SA	50	Gabon	Gabon
Hardman Chinguetti Production (Pty) Limited	100	Mauritania	Australia
Hardman Petroleum (Mauritania) (Pty) Limited	100	Mauritania	Australia
Planet Oil (Mauritania) Limited	100	Mauritania	Guernsey
Tullow Uganda Operations Limited	100	Uganda	Australia
Tullow Hardman Holdings B.V.	100	Netherlands	Netherlands
Tullow South Africa (Pty) Limited	100	South Africa	South Africa

The principal activity of all companies relates to oil and gas exploration, development and production.

Note 2. Dividends

	2007 £'000	2006 £'000
Declared and paid during year		
Final dividend for 2006: Stg3.5p (2005: Stg3p) per ordinary share	**25,051**	19,505
Interim dividend for 2007: Stg2.0p (2006: Stg2p) per ordinary share	**14,355**	12,987
Dividends paid	**39,406**	32,492
Proposed for approval by shareholders at the AGM		
Final dividend for 2007: Stg4p (2006: Stg3.5p)	**28,784**	25,051

The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Note 3. Debtors

Amounts falling due within one year

	2007 £'000	2006 £'000
Other debtors	**19**	374
Prepayments	**12**	22
Due from subsidiary undertakings	**400,825**	342,656
	400,856	343,052

The amounts due from subsidiary undertakings include £388.9 million (2006: £337.2 million) that incurs interest at LIBOR plus 1.7%. The remaining amounts due from subsidiaries accrue no interest. All amounts are repayable on demand.

Note 4. Trade and other creditors

Amounts falling due within one year

	2007 £'000	2006 £'000
Other creditors	**17**	478
Accruals	**6,534**	3,274
VAT	**3,691**	121
	10,242	3,873

Note 5. Bank loans

Amounts falling due after one year

	2007 £'000	2006 £'000
Term loans repayable		
– After one year but within two years	**281,291**	–
– After two years but within five years	**257,997**	175,821
– After five years	**–**	30,252
	539,288	206,073

Company bank loans are stated net of unamortised arrangement fees of £11,367,000 (2006: £6,850,000).

Term loans and guarantees are secured by fixed and floating charges over all the assets of the Group.

Note 5. Bank loans (continued)

Interest rate risk

The interest rate profile of the Company's financial assets and liabilities at 31 December 2007 was as follows:

	Stg £'000	US$ £'000	Total £'000
Cash at bank at floating interest rate	3,764	192	3,956
Fixed rate debt	(25,000)	(75,101)	(100,101)
Floating rate debt	(40,000)	(410,554)	(450,554)
Net debt	**(61,236)**	**(485,463)**	**(546,699)**

The profile at 31 December 2006 for comparison purposes was as follows:

	Stg £'000	US$ £'000	Total £'000
Cash at bank at floating interest rate	9,001	–	9,001
Cash at bank on which no interest is received	133	577	710
Fixed rate debt	(30,000)	(63,806)	(93,806)
Floating rate debt	(40,000)	(79,118)	(119,118)
Net debt	(60,866)	(142,347)	(203,213)

Cash at bank at floating interest rate consisted of deposits which earn interest at rates set in advance for periods ranging from overnight to one month by reference to Sterling or US Dollar LIBOR.

Floating rate debt comprises bank borrowings at interest rates fixed in advance from overnight to three months at rates determined by US Dollar LIBOR and Sterling LIBOR. Fixed rate debt comprises bank borrowings at interest rates fixed in advance for periods greater than three months or bank borrowings where the interest rate has been fixed through interest rate hedging.

The Borrowing Base incurs interest on outstanding debt at Sterling or US Dollar LIBOR plus a margin ranging from 100 basis points to 240 basis points depending on utilisation and concentration of non-OECD assets. The outstanding debt is repayable in variable amounts (determined semi-annually) over the period to 31 August 2012, or such time as is determined by reference to the remaining reserves of the assets, whichever is earlier. There is no requirement under the Borrowing Base Facility to hedge interest rate exposure to Sterling LIBOR and US Dollar LIBOR. The Borrowing Base Facility states that consideration should be given to hedging at least 30% of the interest rate exposure to fluctuations in LIBOR for Sterling and US Dollars in respect of loans under the facility, net of relevant cash balances.

The Hardman Bridge Facility is a US$550 million (£275.4 million) facility which is repayable in full on 31 January 2009. Tranche A of the facility is a US$150 million (£75.1 million) revolving tranche which incurs interest on outstanding debt at US Dollar LIBOR plus a margin ranging from 250 basis points to 350 basis points. The margin on Tranche A increases in quarterly 25 basis point increments and is also dependent on whether certain assets are included in the security package. Tranche B of the facility is a US$400 million (£200.3 million) non-revolving tranche which incurs interest on outstanding debt at US Dollar LIBOR plus a margin of 300 basis points to 325 basis points, depending on whether certain assets are included in the security package. There is no requirement under the Hardman Bridge Facility to hedge interest rate exposure to US Dollar LIBOR. The Hardman Bridge Facility states that consideration should be given to hedging at least 30% of the interest rate exposure to fluctuations in LIBOR for US Dollars in respect of loans under the facility, net of relevant cash balances.

At the end of December 2007, the headroom under the facilities amounted to US$457 million (£228.8 million); US$307 million (£153.7 million) under the Borrowing Base and US$150 million (£75.1 million) under the Hardman Bridge facility. At the end of December 2006, the headroom under the two facilities was US$1.4 billion (£714.6 million); US$416 million (£212.3 million) under the Borrowing Base and US$1 billion (£502.3 million) under the Hardman Bridge Facility which was not drawn down until January 2007.

In the table for 2007, £100.1 million of the gross debt has been shown as fixed rate debt as the particular bank borrowings were fixed in November 2007 for a six-month duration.

Foreign Currency Risk

As at 31 December 2007 the only material monetary assets or liabilities of the Company that were not denominated in the functional currency of the Company were US$570 million (£285.4 million) cash drawings under the US$1,350 million (£675.9 million) Borrowing Base Facility and US$400 million (£200.3 million) cash drawings under the US$550 million (£275.4 million) Hardman Bridge Facility. As at 31 December 2006 the only material assets or liabilities that were not denominated in the functional currency of the Company were US$280 million (£142.9 million) cash drawings under the US$850 million (£425.6 million) Borrowing Base facility. These US Dollar cash drawings at 31 December 2007 continue to be held as a hedge against US Dollar denominated net assets in subsidiaries.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are £485.5 million (2006: £142.3 million).

Foreign currency sensitivity analysis
The Company is mainly exposed to fluctuation in the US dollar. The Company measures its market risk exposure by running various sensitivity analyses including 10% favourable and adverse changes in the key variables. The sensitivity analyses include only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in foreign currency rates.

As at 31 December 2007 a 10% increase in Sterling against the US Dollar would have resulted in a decrease in foreign currency denominated liabilities and equity of £44.1 million (2006: £13.0 million) and a 10% decrease in Sterling against US Dollar would have resulted in an increase in foreign currency denominated liabilities and equity of £54.0 million (2006: £15.9 million).

Interest rate sensitivity
A 10% relative movement in LIBOR during the year would have impacted equity and profit for the year by +/-£3.0 million (2006: +/-£1.2 million).

Liquidity risk
The Company manages the liquidity requirements by the use of both short and long-term cash flow projections, supplemented by maintaining debt financing plans and active portfolio management. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Company's short, medium and long-term funding and liquidity management requirements.

Fair value of financial assets and liabilities
The Company considers the carrying value of all the financial assets and liabilities to be materially the same as the fair value.

Note 6. Loans from subsidiary undertakings

Amounts falling due after more than one year

	2007 £'000	2006 £'000
Loans from subsidiary companies	**227,488**	183,558

The amounts due from subsidiaries do not accrue interest. All loans from subsidiary companies are not due to be repaid within five years.

Note 7. Called up equity share capital and share premium account

	2007 £'000	2006 £'000
(a) Authorised		
1,000,000,000 Ordinary shares of Stg10p each	**100,000**	100,000

(b) Allotted equity share capital and share premium

	Equity share capital allotted and fully paid Number	£'000	Share premium £'000
Ordinary shares of Stg10p each			
At 1 January 2006	647,437,723	64,744	123,019
Issues during the year			
– Exercise of share options	4,462,575	446	3,056
At 1 January 2007	**651,900,298**	**65,190**	**126,075**
Issues during the year			
– Exercise of share options	**2,711,405**	**271**	**2,390**
– Hardman acquisition	**64,998,817**	**6,500**	**–**
At 31 December 2007	**719,610,520**	**71,961**	**128,465**

Note 8. Other reserves

	Merger reserve £'000	Treasury shares £'000	Total £'000
At 1 January 2006	122,336	–	122,336
Purchase of treasury shares	–	(3,977)	(3,977)
At 1 January 2007	**122,336**	**(3,977)**	**118,359**
Purchase of treasury shares	**–**	**(3,722)**	**(3,722)**
Merger reserve movement	**229,121**	**–**	**229,121**
At 31 December 2007	**351,457**	**(7,699)**	**343,758**

During the year the Company issued 64,998,817 ordinary shares relating to the acquisition of Hardman Resources. In accordance with the merger provisions of Section 131 of the Companies Act 1985, the Company has transferred the premium on the shares issued of £229.1 million, using the market value at the date of acquisition, to the Merger reserve.

The treasury shares reserve represents the cost of shares in Tullow Oil plc purchased in the market and held by the Tullow Oil Employee Trust to satisfy options held under the Group's share incentive plans (see note 10).

Note 9. Profit and loss account

	2007 £'000	2006 £'000
At 1 January	**38,999**	7,808
Retained (loss)/profit for financial year	**(21,188)**	15,294
Share based payments	**5,388**	1,474
Currency translation adjustments	**11,825**	14,423
At 31 December	**35,024**	38,999

The Company has tax losses of £42 million (2006: £25 million) that are available indefinitely for offset against future non ring fence taxable profits in the Company. A deferred tax asset has not been recognised in respect of these losses as the Company does not anticipate making non ring fence profits in the foreseeable future.

Note 10. Share based payments

2005 Performance Share Plan (PSP)

Under the PSP, senior executives can receive conditional awards of rights over whole shares worth up to 150% of salary p.a. (200% in exceptional circumstances). Awards vest under the PSP subject to a Total Shareholder Return (TSR) based performance condition under which the Company's TSR performance is measured over a fixed three-year period against both the constituents of the FTSE 250 index (excluding investment trusts) (the 'Index') and a comparator group of oil and gas companies. Half of an award is tested against the Index and the other half against the comparator group. The test is over a three-year period starting on 1 January prior to grant, and an individual must normally remain in employment for three years from the date of grant for the shares to vest. No dividends are paid to participants over the vesting period. Further details in relation to the PSP award measurements are provided in the Directors' Remuneration Report.

The shares outstanding under the PSP are as follows:

	2007 PSP shares	**2007 Average weighted share price at grant p**	2006 PSP shares	2006 Average weighted share price at grant p
Outstanding at 1 January	**2,903,082**	**251.66**	1,784,417	187.50
Granted	**1,548,392**	**371.24**	1,118,665	354.01
Outstanding at 31 December	**4,451,474**	**293.25**	2,903,082	251.66

The inputs of the option valuation model were:

Risk free interest rate	**5.3% pa**	4.5%-4.7% pa
Expected volatility	**33%**	32%
Dividend yield	**1.5% pa**	1.0-1.1% pa

The expected life is the period from the date of grant to the vesting date. Expected volatility was determined by calculating the historical volatility of the Company's share price over a period commensurate with the expected lifetime of the awards. The weighted average fair value of the awards granted in 2007 was 181.57p per award (2006: 264.96p).

The Company recognised a total gross expense of £2,233,000 (2006: £1,392,000) in respect of the PSP.

2005 Deferred Share Bonus Plan (DSBP)

Under the DSBP, the portion of any annual bonus entitlement above 60% of the base salary of a senior executive nominated by the Remuneration Committee is required to be deferred into shares. Shares awarded under the DSBP will normally vest following the end of the period of three financial years commencing with that in which the award is granted.

The shares outstanding under the DSBP are as follows:

	2007 DSBP shares	**2007 Share price at grant**	2006 DSBP shares	2006 Share price at grant
Outstanding at 1 January	**79,787**	**348.5p**	–	–
Granted	**104,467**	**396.0p**	79,787	384.5p
Outstanding at 31 December	**184,254**	**375.4p**	79,787	348.5p

The inputs of the option valuation model were:

Dividend yield	**1.3% pa**	1.1% pa

The expected life is the period from the date of grant to the vesting date. The fair value of the awards granted in 2007 was 381.23p per award (2006: 337.2p).

The Company recognised a total gross expense of £226,000 (2006: £74,000) in respect of the DSBP.

2000 Executive Share Option Scheme (ESOS)

The only share option scheme operated by the Company during the year was the 2000 ESOS. Options granted under the 2000 ESOS normally only become exercisable following the third anniversary of the date of the grant if the performance condition has been met. The awards are tested against the Index and 100% of awards will vest if the Company's TSR is above the median of the Index over the three-year period following grant. Options awarded under the 2000 ESOS before 24 May 2005 are subject to monthly re-testing on a rolling three-year basis if the TSR performance criterion is not met. Options granted on or after 24 May 2005 are not subject to monthly re-testing.

Options have previously been granted under the 1988 ESOS and the 1998 ESOS. Options granted under the 1988 ESOS and the 1998 ESOS are not subject to performance conditions. All awards under the 1988 ESOS and the 1998 ESOS were made prior to 7 November 2002 and therefore, under the FRS transitional provisions, they have not been accounted for in accordance with FRS 20 – Share Based Payments.

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options under the 1988 ESOS, the 1998 ESOS and the 2000 ESOS during the year.

	2007 Number	**2007 WAEP p**	2006 Number	2006 WAEP p
Outstanding as at 1 January	**19,637,480**	**129.39**	21,989,560	96.65
Granted during the year	**2,358,408**	**396.46**	2,311,045	346.02
Exercised during the year	**(2,711,407)**	**98.31**	(4,462,575)	78.54
Expired during the year	**(67,797)**	**317.85**	(200,550)	164.35
Outstanding at 31 December	**19,216,684**	**166.04**	19,637,480	129.39
Exercisable at 31 December	**11,410,205**	**83.83**	10,694,335	73.86p

The weighted average share price at exercise for options exercised in 2007 was 439.32p (2006: 78.54p).

Note 10. Share based payments (continued)

Options outstanding at 31 December 2007 had exercise prices of 57.3p to 539.5p and remaining contractual lives of 1 to 10 years.

The principal inputs to the options valuation model were:

Risk free interest rate	5.2-5.3% pa
Expected volatility	33-35%
Dividend yield	1.0-1.5% pa
Employee turnover	From 0% – 10% pa depending on seniority
Early exercise:	At rates dependent upon seniority and potential gain from exercise

Expected volatility was determined by calculating the historical volatility of the Company's share price over a period commensurate with the expected lifetime of the awards.

The fair values and expected lives of the options valued in accordance with FRS 20 were:

Award date	Weighted average exercise price p	Weighted average fair value p	Weighted average expected life from grant date years
Jan – Dec 2005	169.3	53.0	4.8
Jan – Dec 2006	347.7	109.7	4.4
Jan – Dec 2007	396.9	123.4	4.8

The Company recognised a total gross expense of £2,794,000 (2006: £2,658,000) in respect of the ESOS.

UK & Irish Share Incentive Plans (SIPs)

The SIPs were launched at the beginning of 2004. These are all employee plans, which have been set up in both the UK and Ireland, that enable employees to make contributions out of salary up to prescribed limits each month, which are used by the Plan trustees to acquire Tullow shares ('Partnership Shares'). The Company makes a matching contribution to the trustees to acquire a matching number of Tullow shares ('Matching Shares') on a one-for-one basis. The SIPs have a three month accumulation period.

The fair value of a Matching Share is the market value at grant adjusted for any options included. For this purpose, the grant date is the start of the accumulation period.

For the UK plan, Partnership Shares are purchased at the lower of the market values at the start of the Accumulation Period and the purchase date. For the Irish plan, shares are bought at the market price at the purchase date.

Matching shares vest three years after grant and dividends are paid to the employee during this period.

The Company recognised a total gross expense of £126,000 (2006: £55,000) for the matching shares and £9,000 (2006: £7,000) for the partnership shares.

Note 11. Related party transactions

Transactions with the Directors of Tullow Oil plc are disclosed in the Remuneration Report on pages 57 to 66. The Company has taken advantage of the exemptions available under FRS 8 'Related Party Transactions' with regard to the non-disclosure of transactions with Group companies.

Note 12. Subsequent events

In January 2008 the Company announced the sale of its 11% interest in the M'Boundi field for a total cash consideration of US$435 million (£218 million). The transaction is expected to complete in 2008.

		IFRS			UK GAAP*	
	2007 £'000	2006 £'000	2005 £'000	2004 £'000	2004 £'000	2003 £'000
Group Income Statement						
Sales revenue	**639,203**	578,847	445,232	225,256	225,256	129,625
Cost of sales	**(353,695)**	(261,268)	(243,149)	(141,228)	(131,071)	(82,249)
Gross profit	**285,508**	317,579	202,083	84,028	94,185	47,376
Administrative expenses	**(31,628)**	(22,490)	(13,793)	(10,926)	(10,370)	(2,727)
(Loss)/profit on disposal/farm out of oil and gas assets	**(597)**	–	36,061	2,292	2,292	(952)
Exploration costs written off	**(64,235)**	(32,494)	(25,783)	(17,961)	(17,961)	(12,772)
Other expenses	**–**	–	–	(647)	(647)	(332)
Operating profit	**189,048**	262,595	198,568	56,786	67,499	30,593
(Loss)/profit on hedging instruments	**(29,267)**	15,701	(159)	–	–	–
Finance revenue	**3,095**	3,030	4,367	3,458	3,458	2,016
Finance costs	**(48,673)**	(17,994)	(24,197)	(13,449)	(12,960)	(8,730)
Profit from continuing activities before taxation	**114,203**	263,332	178,579	46,795	57,997	23,879
Taxation	**(61,609)**	(105,894)	(65,443)	(15,460)	(25,048)	(12,958)
Profit for the year from continuing activities	**52,594**	157,438	113,136	31,335	32,949	10,921
Earnings per share						
Basic – Stg p	**7.10**	24.23	17.50	5.88	6.18	2.92
Diluted – Stg p	**6.96**	23.67	17.20	5.81	6.11	2.90
Dividends paid	**39,406**	32,492	14,555	6,995	6,995	3,782
Group Balance Sheet						
Fixed assets	**1,789,138**	1,755,301	897,602	649,967	599,728	193,263
Net current (liabilities)/assets	**(10,848)**	(290,924)	(71,273)	21,394	23,353	32,521
Total assets less current liabilities	**1,778,290**	1,464,377	826,329	671,361	623,081	225,784
Long term liabilities	**(1,065,620)**	(697,901)	(437,310)	(295,894)	(243,997)	(109,863)
Net assets	**712,670**	766,476	389,019	375,467	379,084	115,921
Called up equity share capital	**71,961**	65,190	64,744	64,537	64,537	37,784
Share premium account	**128,465**	126,075	123,019	121,656	121,656	14,198
Other reserves	**210,089**	305,412	60,589	148,591	148,591	45,593
Profit and loss account	**286,668**	269,799	140,667	40,683	44,300	18,346
Equity attributable to equity holders of the parent	**697,183**	766,476	389,019	375,467	379,084	115,921
Minority Interest	**15,487**	–	–	–	–	–
Total Equity	**712,670**	766,476	389,019	375,467	379,084	115,921

* The UK GAAP columns represents the numbers previously reported; however, the presentation has been amended to comply with IAS 1.

Licence interests

Current exploration, development and production interests

Licence/unit area	Blocks	Fields/*discoveries*	Tullow interest	Operator	Other partners
EUROPE					
United Kingdom					
CMS Area					
P449	43/25a	*Opal discovery*	30.00%[1]	GDF	RWE
P450	44/21a	Boulton B & F	9.50%	ConocoPhillips	GDF
P451	44/22a 44/22b	Murdoch Boulton H[2], Watt[2]	34.00%	ConocoPhillips	GDF
P452	44/23a (part)	Murdoch K[2]	6.91%	ConocoPhillips	GDF
P453	44/28b	Ketch	100.00%	Tullow	
P516	44/26a	Schooner[3]	97.05%	Tullow	GDF
P517	44/27a		31.67%	GDF	
P847	49/02b		15.00%	GDF	RWE
P1006	44/17b	Munro[4]	20.00%	ConocoPhillips	GDF
P1013	49/02a	*Topaz Discovery*	25.00%	GDF	RWE
P1055	44/11a 44/12a	 *Cygnus Discovery*	35.00%	GDF	E.ON, Endeavour
P1057	44/16a, 44/16b, 44/16c	*Humphrey Discovery*	35.00%[5]	GDF	E.ON, ConocoPhillips
P1058	44/18b 44/23b	Kelvin, *K4 Discovery*	22.50%	ConocoPhillips	GDF
P1139	44/19b		22.50%	ConocoPhillips	GDF
P1245	48/03a, 48/04		25.00%	Tullow	Ithaca, Venture, Dana
P1437	44/13a		25.00%	GDF	E.ON, Endeavour
P1439	44/21e		100.00%	Tullow	
CMS III Unit[6]	44/17a (part) 44/17c (part) 44/21a (part) 44/22a (part) 44/22b (part) 44/22c (part) 44/23a (part)	Boulton H, Hawksley, McAdam, Murdoch K, Watt	14.10%	ConocoPhillips	GDF
Munro Unit[6]	44/17b, 44/17a		15.00%	ConocoPhillips	GDF
Schooner Unit[6]	44/26a 43/30a	Schooner	90.35%	Tullow	E.ON, Faroe Petr., GDF

Licence/unit area	Blocks	Fields/*discoveries*	Tullow interest	operator	Other partners
Thames-Hewett Area					
P007	49/24aF1(Excl Gawain)		100.00%	Tullow	
	49/24aF1 (Gawain)	Gawain[7]	50.00%	Perenco	
P028	48/30a, 52/05a	Hewett[8]	53.24%	Tullow	Eni
P037	49/28a, 49/28b	Thames, Yare, Bure, Deben, Wensum, Thurne[9]	66.67%	Perenco	Centrica
	49/28d part		66.67%	Perenco	Centrica
	48/28a, 48/29a	Hewett[8]	49.84%	Perenco	Eni
P039	53/04a	Welland[10]	75.00%	Tullow	First Oil
	53/04d	Wissey	62.50%	Tullow	First Oil, Faroe Petr.
P060	50/26a	Orwell	100.00%	Tullow	
P105	49/29a (part)	Gawain[7]	50.00%	Perenco	
P112	52/04a	Hewett[8]	52.39%	Tullow	Eni, Perenco
P133	53/03a rest		45.00%	BG	Dyon
	53/03a P4		35.00%	BG	Dyon
P786	53/03c	Horne	50.00%	Tullow	Centrica
P852	53/04b	Horne & Wren	50.00%	Tullow	Centrica
P1445	48/28c, 52/03a 52/04b, 52/05b		100.00%	Tullow	
Gawain Unit[6]	49/24F1(part) 49/29a (part)	Gawain	50.00%	Perenco	
Hewett Unit[6]	48/28a (part) 48/29a (part) 48/30a (part) 52/04a, 52/05a	Hewett, Deborah, Delilah, Della,	51.69%	Tullow	Eni, Perenco
Welland Unit[6]	49/29b (part), 53/04a	Welland[11]	33.73%	ExxonMobil	First Oil
Central North Sea					
P477	16/13c		6.25%	ConocoPhillips	Maersk, BG, Endeavour, Global Santa Fe
P1045	16/18b		6.25%	ConocoPhillips	Maersk, BG, Endeavour, Global Santa Fe

Licence interests continued

Current exploration, development and production interests (continued)

Licence/blocks	Fields	Area Sq Km	Tullow interest	Operator	Other partners
Netherlands					
E10		401	32.00%	Tullow	Hunt[12], GTO[12], EBN
E13a[13]		232	50.00%[14]	Tullow	EBN, Gas Plus[14]
E13b[13]		168	10.00%	GDF	Wintershall, EBN
E14		403	32.00%	Tullow	Hunt[12], GTO[12], EBN
E18b		192	32.00%	Tullow	Hunt[12], GTO[12], EBN
L12a[15]		344	30.00%	Tullow	Wintershall, ConocoPhillips, EBN
L12b & L15b[15]		184	30.00%	Tullow	Wintershall, ConocoPhillips, EBN
Portugal					
Lavagante		3,089	80.00%	Tullow	Partex, Galp Energia
Santola		3,065	80.00%	Tullow	Partex, Galp Energia
Gamba		2,945	80.00%	Tullow	Partex, Galp Energia

Notes:
1. Tullow has a 46% interest in the Opal discovery.
2. Refer to CMS III Unit for field interest.
3. Refer to Schooner Unit for field interest.
4. Refer to Munro Unit for field interest.
5. Tullow has a 17.5% interest in the Humphrey discovery.
6. For the UK offshore area, fields that extend across more than one licence area, with differing partner interests, become part of a unitised area. The interest held in the Unitised Field Area is split amongst the holders of the relevant licences according to their proportional ownership of the field. The unitised areas in which Tullow is involved are listed in addition to the nominal licence holdings.
7. Refer to Gawain Unit for field interest.
8. Refer to Hewett Unit for field interest.
9. Tullow has an 86.96% interest in the Thurne field.
10. Refer to Welland Unit for field interest.
11. Production from the Welland Field ceased in 2002.
12. Assignment to Hunt and GTO in progress - awaiting completion.
13. Both blocks E13a and E13b are held under the same licence.
14. 10% being assigned to Gas Plus; Tullow 50% on completion of assignment.
15. Tullow has no interest in the producing fields that lie within these blocks.

Licence	Fields	Area Sq Km	Tullow interest	Operator	Other partners
AFRICA					
Angola					
Block 1/06		3,839	50.00%	Tullow	Sonangol P&P, ProdOil, Force Petroleum
Cameroon					
Ngosso		474	40.00%[16]	Addax	
Congo (Brazzaville)					
M'Boundi	M'Boundi	146	11.00%[17]	ENI	SNPC, Jabbour
Congo (DRC)					
Block I[18]		3,700	48.50%	Tullow	Heritage, COHYDRO
Block II[18]		2,870	48.05%	Tullow	Heritage, COHYDRO
Côte d'Ivoire					
CI-26 Special Area 'E'	Espoir	139	21.33%	CNR	PETROCI
CI-102		861	31.50%	Edison	Kufpec, PETROCI
CI-103		2,603	85.00%	Tullow	PETROCI
CI-105		2,070	22.37%	Al Thani	PETROCI
CI-107		1,639	90.00%	Tullow	PETROCI
CI-108		1,854	90.00%	Tullow	PETROCI
Equatorial Guinea					
Ceiba	Ceiba	70	14.25%	Hess	GEPetrol
Okume Complex	Okume, Oveng, Ebano & Elon	192	14.25%	Hess	GEPetrol
Gabon					
Akoum Marin		2,948	100.00%	Tullow	
Avouma	Avouma	52	7.50%	Vaalco	Addax, Sasol, Sojitz, PetroEnergy
Azobe Marin		1,737	60.00%[19]	Tullow	MPDC Gabon
Echira	Echira	76	40.00%	Perenco	
Etame	Etame	49	7.50%	Vaalco	Addax, Sasol, Sojitz, PetroEnergy
Gryphon Marin		9,764	18.75%[19]	Forest	PetroSA.
Kiarsseny Marin		5,442	47.50%	Tullow	Addax, Sonangol P&P
Limande	Limande	10	40.00%	Perenco	
Niungo	Niungo	96	40.00%	Perenco	
Nziembou		1,027	40.00%	Perenco	
Oba	Oba	44	5.00%	Perenco	AIC Petrofi
Obangue	Obangue	40	3.75%	Addax	AIC Petrofi
Tchatamba Marin	Tchatamba Marin	30	25.00%	Marathon	Oranje Nassau
Tchatamba South	Tchatamba South	40	25.00%	Marathon	Oranje Nassau
Tchatamba West	Tchatamba West	25	25.00%	Marathon	Oranje Nassau
Tsiengui	Tsiengui	26	3.75%	Addax	AIC Petrofi
Turnix	Turnix	18	27.50%	Perenco	

Licence interests continued

Current exploration, development and production interests (continued)

Licence	Fields	Area Sq Km	Tullow interest	Operator	Other partners
Gabon continued					
Back-In Rights [20]					
Arouwe		4,414	7.50%	Perenco	AIC Petrofi[21]
Azobe Marin[19]		1,737	5.00%	Tullow	MPDC Gabon, AIC Petrofi[21]
Dussafu Marin		2,780	5.00%	Harvest Natural Res	AIC Petrofi[21], Perenco, Premier
Ebouri	Ebouri	15	7.50%	Vaalco	Addax, Sasol, Sojitz, PetroEnergy
Etame Marin		2,972	7.50%	Vaalco	Addax, Sasol, Sojitz, PetroEnergy
Etekamba		773	5.00%	Maurel & Prom	Transworld, AIC Petrofi[21]
Gryphon Marin[19]		9,764	10.00%	Forest	PetroSA
Maghena		631	3.75%	Addax	AIC Petrofi[21]
Nyanga Mayumbe		2,831	3.75%	Maurel & Prom	AIC Petrofi[21]
Ombena		5,981	5.00%	Perenco	AIC Petrofi[21]
Omoueyi		4,133	7.50%	Maurel & Prom	AIC Petrofi[21]
Onal	Onal	46	7.50%	Maurel & Prom	AIC Petrofi[21]
Ghana					
Shallow Water Tano		983	31.50%	Tullow	Interoil, Al Thani, GNPC, Sabre
Deepwater Tano	Jubilee	1,108	49.95%	Tullow	Kosmos, Anadarko, GNPC, Sabre
West Cape Three Points	Jubilee	1,957	22.90%	Kosmos	Anadarko, GNPC, E.O. Group, Sabre
Madagascar					
Block 3109		11,050	50.00%	Tullow	Madagascar Oil
Block 3111		9,050	100.00%	Tullow	
Mauritania					
Block 1		3,936	38.00%	Dana	GDF, Roc Oil
Block 2		4,898	83.78%[22]	Tullow	Dana, Roc Oil
PSC – Area A Block 3 Block 4 & 5 shallow		6,969	24.30%	Petronas	Premier, Kufpec, Roc Oil
PSC – Area B Blocks 4 & 5 deep		8,028	21.60%	Petronas	Premier, Kufpec, Roc Oil
PSC Area B – Chinguetti	Chinguetti	929	19.01%	Petronas	SMH, Premier, Kufpec, Roc Oil
Block 6		4,023	22.42%	Petronas	Roc Oil
Block 7		6,676	16.20%	Dana	Petronas, GDF, Roc Oil
Block 8		7,875	18.00%	Dana	GDF, Wintersahll , Roc Oil
Namibia					
Production Licence 001	Kudu	4,567	70.00%	Tullow	NAMCOR, Itochu

Licence	Fields	Area Sq Km	Tullow interest	Operator	Other partners
Senegal					
St Louis		4,195	60.00%	Tullow	Dana, Petrosen
Tanzania					
Lindi		7,315	50.00%	Tullow	Aminex
Mtwara		5,045	50.00%	Tullow	Aminex
Uganda					
Block 1		4,285	50.00%	Heritage	
Block 2	Mputa, Nzizi, Waraga	3,900	100.00%	Tullow	
Block 3A	Kingfisher	1,991	50.00%	Heritage	
SOUTH ASIA					
Bangladesh					
Block 9	Bangora – Lalmai	6,880	30.00%	Tullow	Niko, Bapex
Blocks 17&18		13,724	32.00%	Total	PTTEP[23], Okland, Rexwood
India					
AA-ONJ/2		1,595	60.00%[24]	Tullow	ONGC
CB-ON/1		4,600	50.00%	Reliance	Okland
Pakistan					
Bannu West		1,230	40.00%	Tullow	OGDCL, MGCL, SEL
Block 28		6,200	95.00%	Tullow	OGDCL
Chachar D&PL	Chachar	34	75.00%	Tullow	Govt. Holdings
Kalchas		2,068	30.00%	OGDCL	MGCL
Kohat		1,107	40.00%	Tullow	OGDCL, MGCL, SEL
Kohlu		2,459	30.00%	OGDCL	MGCL
Sara D&PL	Sara	83	38.18%	Tullow	OGDCL, POL, Attock
Suri D&PL	Suri	24	38.18%	Tullow	OGDCL, POL, Attock
SOUTH AMERICA					
French Guiana					
Guyane Maritime		35,221	77.50%	Tullow	GDF, Northern Petroleum
Suriname					
Coronie		2,592	40.00%[25]	Paradise Oil	
Uitkijk		757	40.00%[25]	Paradise Oil	
Trinidad and Tobago					
Block 2 (ab)[26]		1,605	32.50%	Tullow	Centrica, Petrotrin
Guayaguayare Shallow and Deep[26]		1,192	65.00%[27]	Tullow	Petrotrin

Notes
16. Tullow has agreed the sale of this asset to MOL. The deal is awaiting government approval.
17. Tullow has agreed the sale of this asset to the Korean National Oil Company. The deal is subject to partner and government approval.
18. These licences area awaiting Presidential ratification. However, the validity of the original award is being challenged by the Congolese Oil Ministry. This challenge is being vigorously protested by Tullow and its partners.
19. Tullow has Back-In Rights on this licence as well as a working interest.
20. Back-In Rights : Tullow has the option, in the event of a discovery, to acquire varying interests in these licences.
21 AIC Petrofi holds no direct interests but in the event of a discovery, has the option to acquire varying interests in these licences.
22. Tullow will become operator of this licence with an 83.78% interest following formal government approval of transfer of equity and operatorship.
23. PTTEP farm-in to Total interest is awaiting completion.
24. 50% will be assigned to ONGC on award of PEL.
25. Tullow will acquire its interests on completion of work programme.
26. Tullow is currently in negotiations with the Ministry of Energy to finalise Production Sharing Contracts.
27. Tullow has an 80% interest in Guayaguayare Deep,

Commercial reserves and contingent resources (unaudited) working interest basis Year ended 31 December 2007

Commercial reserves[1,3]	Europe		Africa		South Asia		Total		
	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Petroleum mmboe
At 1 January 2007	–	302.4	147.8	21.2	–	103.7	147.8	427.3	219.1
Revisions	2.0	16.4	(2.2)	–	–	11.5	(0.2)	27.9	4.4
Production	–	(60.1)	(14.5)	(1.1)	–	(9.3)	(14.5)	(70.5)	(26.3)
At 31 December 2007	2.0	258.7	131.1	20.1	–	105.9	133.1	384.7	197.2

Contingent resources[2,4]	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Petroleum mmboe
At 1 January 2007	–	174.7	55.9	1,191.2	–	22.5	55.9	1,388.4	287.3
Revisions	–	38.1	105.0	(3.1)	–	(6.3)	105.0	28.7	109.8
Disposals	–	(83.5)	–	(173.6)	–	–	–	(257.1)	(42.9)
At 31 December 2007	–	129.3	160.9	1,014.5	–	16.2	160.9	1,160.0	354.2

Total	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Petroleum mmboe
At 31 December 2007	**2.0**	**388.0**	**292.0**	**1,034.6**	**–**	**122.1**	**294.0**	**1,544.7**	**551.4**

Notes:

1. Proven and probable Commercial reserves are based on a Group reserves report produced by an independent engineer. Reserves estimates for each field are reviewed by the independent engineer based on significant new data or a material change with a review of each field undertaken at least every two years.
2. Proven and probable Contingent resources are based on both Tullow's estimates and the Group reserves report produced by an independent engineer.
3. Tullow has classified the Ugandan discoveries Mputa and Nzizi as Commercial reserves.
4. The revision to Africa Contingent Resources relates to:
   - the hydrocarbons associated with the Jubilee field discovery wells Hyedua-1 and Mahogany-1 in Ghana; and
   - a limited area around the Kingfisher-1 well in Uganda.

The Group provides for depletion and amortisation of tangible fixed assets on a net entitlements basis using proven and probable commercial reserves, which reflects the terms of the Production Sharing Contracts related to each field. Total net entitlement reserves were 128.1 mmboe at 31 December 2007 (2006: 145.8 mmboe).

Contingent Resources relate to reserves in respect of which development plans are in the course of preparation or further evaluation is under way with a view to development within the foreseeable future.

Shareholder information

Shareholder enquiries
All enquiries concerning shareholdings including notification of change of address, loss of a share certificate or dividend payments should be made to the Company's registrars, Computershare Investor Services PLC, whose contact details are as follows:

Computershare Investor Services PLC
P.O Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 6ZY

email: web.queries@computershare.co.uk

Telephone number – UK shareholders:	0870 703 6242
Telephone number – Irish shareholders:	01 2163744
Telephone number – other shareholders:	0044 870 703 6242

A range of shareholder frequently asked questions and practical help on transferring shares and updating details is available online in the Shareholder Services section located in the Investors area of the Tullow website: www.tullowoil.com

Computershare online enquiry service
Computershare provides a range of services through Investor Centre free of charge at www.computershare.com/investor/UK This service, accessible from anywhere in the world, enables shareholders to check details of their shareholdings or dividends, download forms to notify changes in personal details, and, access other relevant information.

Payment of dividends
Shareholders can have their dividends paid directly into a UK sterling or Irish euro bank account and have the tax voucher sent directly to their registered address. You can register your account details in Investor Centre or, alternatively, download a dividend mandate form or contact Computershare direct.

Overseas shareholders who wish to have their dividends paid in a local currency can use the Global Payments Service that Computershare has established in conjunction with Citibank. Details of the service can be accessed in the Shareholder Services section of the Investors area of the Tullow website: www.tullowoil.com.

Share dealing service
A telephone share dealing service has been established for shareholders with Computershare for the sale and purchase of Tullow Oil shares. Shareholders who are interested in using this service can obtain further details by calling the appropriate telephone number below:

UK shareholders:	0870 703 0084
Irish shareholders:	1890 924 995
Other shareholders*:	0044 141 270 3203

Further details of the terms applying to the service can also be obtained from the Shareholder Services section of the Investors area of the Tullow website: www.tullowoil.com

* Kindly note, this service cannot be offered to residents of any territories where such offers are not permitted by local securities regulations or other regulatory requirements. It is the responsibility of shareholders outside the European Union who wish to use this service to ensure compliance with local law and regulatory requirements. If you are in any doubt you should consult an appropriate professional advisor.

Electronic communication
Shareholders have the option to receive shareholder communications including annual reports, interim reports and notices of meetings electronically. Tullow actively supports Woodland Trust, the UK's leading woodland conservation charity. eTree is an environmental programme designed to promote electronic shareholder communications by rewarding every shareholder who registers for electronic communication with a sapling donated to the Woodland Trust's Tree for All campaign. To register for this service, simply visit www.etreeuk.com/tullowoilplc with your shareholder number and email address to hand. Once registered, shareholders will be emailed when an Annual Report, Interim Report or Notice of Meeting is available for viewing on the Tullow website.

Shareholder security
Shareholders are advised to be cautious about any unsolicited financial advice; offers to buy shares at a discount or offers of free company reports. More detailed information can be found at www.moneymadeclear.fsa.gov.uk and in the Shareholder Services section of the Investors area of the Tullow website: www.tullowoil.com

ShareGift
If you have a small number of shares whose value makes it uneconomical to sell you may wish to consider donating them to ShareGift. Any shares donated to ShareGift will be aggregated and sold when possible with the proceeds donated to a wide range of UK charities. The relevant share transfer form may be obtained from Computershare. Further information about the scheme is available at www.ShareGift.org.

Financial calendar

Financial year end	31 December 2007
Results announced	12 March 2008
Annual General Meeting	14 May 2008
2007 Final dividend payable	21 May 2008
2008 Interim results announced	August 2008
2008 Interim dividend payable	November 2008

Additional shareholder information

Share capital

The Company has an authorised share capital of 1,000,000,000 ordinary shares of ten pence each with an aggregate nominal value of £100,000,000. As at 11 March 2008, the Company has an allotted and fully paid up share capital of 719,622,473 ordinary shares of ten pence each with an aggregate nominal value of £71,962,247 (including shares owned by the Tullow Oil Employee Trust).

The rights and obligations attaching to the shares are as follows:

- **Dividend rights –** holders of the Company's ordinary shares may, by ordinary resolution, declare dividends but may not declare dividends in excess of the amount recommended by the Directors. The Directors may also pay interim dividends. No dividend may be paid other than out of profits available for distribution. Dividends may be paid in any currency and the Board may agree with a member to pay that member in a different currency calculated on an appropriate basis agreed by the member and the Board. Payment or satisfaction of a dividend may be made wholly or partly by distribution of specific assets, including paid up shares or debentures of any other company. Such action must be directed by ordinary resolution of the general meeting which declared the dividend and upon the recommendation of the Directors.
- **Voting rights –** voting at any general meeting is by a show of hands unless a poll is duly demanded. On a show of hands every shareholder who is present in person at a general meeting (and every proxy appointed by a shareholder and present at a general meeting) has one vote regardless of the number of shares held by the shareholder (or represented by the proxy). On a poll, every shareholder who is present in person or by proxy has one vote for every share held by that shareholder (the deadline for exercising voting rights by proxy is set out in the form of proxy). A poll may be demanded by any of the following: (a) the Chairman of the meeting; (b) at least five shareholders entitled to vote and present in person or by proxy at the meeting; (c) any shareholder or shareholders present in person or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all shareholders entitled to attend and vote at the meeting; or (d) any shareholder or shareholders present in person or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right. In the case of an equality of votes, whether on a show of hands or on a poll, the Chairman of the meeting is entitled to cast the deciding vote in addition to any other votes he may have.
- **Return of capital –** in the event of the liquidation of the Company, after payment of all liabilities and deductions taking priority in accordance with English law, the balance of assets available for distribution will be distributed among the holders of ordinary shares according to the amounts paid up on the shares held by them. A liquidator may with the sanction of a special resolution of the shareholders and any other sanction required by the Companies Acts, divide among the shareholders the whole or any part of the Company's assets. Alternatively, a liquidator may, upon the adoption of a special resolution of the shareholders, vest the assets in whole or in part in trustees upon such trusts for the benefit of shareholders, but no shareholder is compelled to accept any assets upon which there is a liability.

Restrictions on holding securities

There are no restrictions under the Company's Memorandum and Articles of Association or under UK law that either restrict the rights of UK resident shareholders to hold shares or limit the right of non-resident or foreign shareholders to hold or vote the Company's ordinary shares.

There are no UK foreign exchange control restrictions on the payment of dividends to US persons on the Company's ordinary shares.

Substantial shareholdings

The table at the foot of this page details significant holdings (3% or more) in the Company's ordinary share capital that had been disclosed to the Company as at 11 March 2008 in accordance with the requirements of section 5.1.2 of the UK Listing Authority's Disclosure and Transparency Rules.

Control rights under employee share schemes

The Company operates a number of employee share schemes. Under some of these arrangements, employees are not entitled to exercise directly any voting or other control rights as the holders of shares. Under the Company's UK and Irish Share Incentive Plans those rights are exercised by the plan trustees. For shares held on behalf of participants, they are exercisable in accordance with participants' instructions. In the absence of such instructions, shares cannot be voted under the Irish SIP, whereas under the UK SIP the trustees can exercise their discretion whether to vote shares. Under the Irish SIP, voting instructions must be received at least 3 working days before the last date on which voting rights are exercisable by shareholders. In practice, a similar requirement would apply to the UK SIP.

Voting rights on any unallocated shares held in the UK SIP and on shares held in the Tullow Oil Employee Trust (which holds shares to satisfy awards under some of its share schemes where employees have no direct interests in shares until after awards vest) are exercisable at the discretion of the relevant trustees. Those on unallocated shares held in the Irish SIP are not exercisable.

Shareholder	Number of shares	% of issued capital	Date of notification of interest	Nature of rights
BlackRock Group	100,302,314	13.94%	29 Nov 2007	Indirect
Prudential plc	67,116,866	9.33%	23 Nov 2007	Direct
Standard Life Investments	43,024,176	5.98%	5 Dec 2007	*See note below
IFG International Trust Company Limited	38,960,366	5.41%	14 Nov 2006	Not disclosed
Legal & General Group	29,642,611	4.12%	17 Oct 2007	Direct

* Direct – 27,153,697; Indirect 15,870,479.

Material agreements containing 'change of control' provisions

The following significant agreements will, in the event of a change of control following a takeover bid, be affected as follows:

Description of agreement	Parties to agreement	Effect of change of control
US$1.3 billion senior secured revolving credit facility agreement.	The Company; certain of the Company's subsidiaries, ABN AMRO Bank N.V; Bank of Scotland plc; BNP Paribas S.A.; HBOS Treasury Services plc and the lenders specified in the Agreement.	If any person, or group of persons acting in concert, gains control* of the Company, at the discretion of the majority lenders (as specified in the Agreement) all outstanding amounts under the Agreement and any connected document will become immediately due and payable and full cash cover will be required in respect of all letters of credit issued under the Agreement.
US$550,000,000 multicurrency term loan bridge facility agreement.	The Company; certain of the Company's subsidiaries as borrowers and guarantors; Bank of Scotland plc; HBOS Treasury Services plc and the lenders specified in the Agreement.	If any person, or group of persons acting in concert, gains control* of the Company, at the discretion of the majority lenders (as specified in the Agreement) all outstanding amounts under the Agreement and any connected document will become immediately due and payable.

* For the purposes of this provision 'control' has the meaning given to it under section 416 of the Income and Corporation Taxes Act 1988.

Powers of Directors

The powers of the Company's Directors are set out in Article 100 of the Articles of Association of the Company. It provides that the business of the Company shall be managed by the Board which may exercise all the powers of the Company whether relating to the management of the business of the Company or not. This power is subject to any limitations imposed on the Company by legislation. It is also limited by the provisions of the Memorandum and Articles of Association of the Company and any directions given by special resolution of the members of the Company which are applicable on the date that any power is exercised.

Please note the following specific provisions relevant to the exercise of power by the Directors:

- **Pre-emptive rights and new issues of shares –** the holders of ordinary shares have no pre-emptive rights under the Articles of Association of the Company. However, the ability of the Directors to cause the Company to issue shares, securities convertible into shares or rights to shares, otherwise than pursuant to an employee share scheme, is restricted under the Companies Acts which provide that the directors of a company are, with certain exceptions, unable to allot any equity securities without express authorisation, which may be contained in a company's articles of association or given by its shareholders in general meeting, but which in either event cannot last for more than five years. Under the Companies Acts, the Company may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer to existing shareholders to allot such shares to them on the same or more favourable terms in proportion to their respective shareholdings, unless this requirement is waived by a special resolution of the shareholders. The Company received authority at the last Annual General Meeting to allot shares for cash on a non pre-emptive basis up to a maximum nominal amount of £3,587,852. The authority lasts until the earlier of the Annual General Meeting of the Company in 2008 or 29 August 2008.
- **Repurchase of shares –** subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Companies Acts. Any shares which have been bought back may be held as treasury shares or, if not so held, must be cancelled immediately upon completion of the purchase, thereby reducing the amount of the Company's issued share capital. The Company does not currently have shareholder authority to buy back shares.
- **Borrowing powers –** the directors are empowered to exercise all the powers of the Company to borrow money, subject to the limitation that the aggregate amount of all net external borrowings of the Group outstanding at any time shall not exceed an amount equal to four times the aggregate of the Group's adjusted capital and reserves calculated in the manner prescribed in Article 101 of the Articles of Association, unless sanctioned by an ordinary resolution of the Company's shareholders.

Appointment and replacement of Directors

The Company shall appoint (disregarding Alternate Directors) not less than two nor more than fifteen Directors. Such Directors are not required to hold shares in the Company. The existing Articles of Association require a Director to leave office at the age of 70. At the forthcoming AGM a resolution is to be put to shareholders to adopt new Articles of Association to reflect, among other things, changes brought in by the Companies Act 2006. One of the additional changes will be the deletion of this requirement.

Subject to compliance with those limits, appointment and replacement of Directors may be made as follows:

- the members may by ordinary resolution appoint any person who is willing to act to be a Director, either to fill a vacancy or as an addition to the existing Board;
- the Board may appoint any person who is willing to act to be a Director, either to fill a vacancy or as an addition to the existing Board. Any Director so appointed shall hold office only until the next General Meeting and shall then be eligible for election;
- each Director shall retire (if he has not retired or been removed sooner) from office at the third Annual General Meeting after the Annual General Meeting at which he was last elected but he may be reappointed by ordinary resolution if eligible and willing;
- the Company may by special resolution remove any Director before the expiration of his period of office or may, by ordinary resolution, remove a Director where special notice has been given and the necessary statutory procedures are complied with;
- there are a number of other grounds on which a Director's office may cease, namely voluntary resignation, where all the other Directors (being at least three in number) request his resignation, where he suffers mental incapacity, compounds with his creditors, is declared bankrupt or is prohibited by law from being a Director.

Amendment to Company's articles

The Company may alter its Articles of Association by special resolution passed at a General Meeting. In the event that a proposed amendment would result in a variation of the rights of a particular class of shareholders, a class consent will be required from the holders of that class of shares in accordance with the rules on seeking class consent set out in Article 8 of the Company's Articles of Association and the Companies Acts. There are no other special provisions governing the amendment of the Articles of Association.

Senior management

Business support

Georgina Baines, Group HR Manager
Graham Brunton, Head of EHS
Sam Carroll, Group Contracts and Procurement Manager
Pete Dickerson, Head of Corporate Planning
Tim O'Hanlon, Vice President African Business
Peter Sloan, Senior Legal Advisor
Andrew Windham, Managing Director Africa

Exploration

Doug Cherry, Chief Explorationist
John Faulks, Finance Manager Exploration
Chris Flavell, Exploration Manager Europe and North Africa
Jerry Jarvis, Exploration Manager Global New Ventures
Jerome Kelly, Global Geological Adviser
John McKenna, Exploration Manager South Asia and South America
Jan Maier, Exploration Manager South and East Africa
Joe Mongan, Geophysical Operations Manager
Robin Sutherland, Exploration Manager Gulf of Guinea
Bob Winter, Portfolio Manager
Manu Wope, Exploration Manager Central and West Africa

Finance and IT Business Systems

Nicky Breslin, Finance Manager Europe and North Africa
John Burton, Finance Manager South and East Africa
Bob Cramp, Finance Manager South Asia and South America
Xavier Desautel, Finance Manager Central and West Africa
Richard Inch, Group Tax Manager
Andrew Marks, Chief Information Officer
Chris Perry, Head of Investor Relations
Julia Ross, Risk and Marketing Manager
Julian Tedder, Group Finance Manager
Bill Torr, Chief Financial Officer Africa
Rob White, Finance Manager Gulf of Guinea
Brian Williams, Head of Risk and Marketing
Colin Wright, Head of Internal Audit

Production and Development

Doug Field, Business Unit Manager North Africa
Andrew Fisher, Business Unit Manager Gulf of Guinea
Martyn Morris, Group Production and Development Manager
Kevin Quinn, Business Unit Manager South Asia and South America
David Roux, Business Unit Manager Central and West Africa
Mike Simpson, Business Unit Manager Europe
Gert-Jan Smulders, Group Engineering Manager
Kevin Stallbom, Business Unit Manager South and East Africa
Mike Williams, Group Well Engineering Manager

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Chartered Accountants
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London EC4A 3TR

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Royal London House
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London EC2A 1DX

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11 Earl Grey Street
Edinburgh EH3 9BN

BNP Paribas
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75031 Paris Cedex 01
France

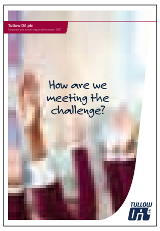
Index

Glossary

AGM	Annual General Meeting
bbl	Barrel
bcf	Billion cubic feet
boe	Barrels of oil equivalent
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
bwpd	Barrels of water per day
CMS	Caister Murdoch System
CMS III	A group development of five satellite fields linked to CMS
Company	Tullow Oil plc
CSEM	Controlled Source Electromagnetic survey
CSR	Corporate and Social Responsibility
D&PL	Development and Production Lease
DRC	Democratic Republic of Congo
DSBP	Deferred Share Bonus Plan
EHS	Environment, Health and Safety
EPS	Early Production System
ESIA	Environmental and Social Impact Assessment
ESOS	Executive Share Option Scheme
EUETS	European Emissions Trading Scheme
FPSO	Floating production, storage & offtake vessel
FRS	Financial Reporting Standard
FTSE100	Equity index whose constituents are the 100 largest UK listed companies by market capitalisation
FTSE250	Equity index whose constituents are the next 250 largest UK listed companies after the top 100
Group	Company and its subsidiary undertakings
HIPO	High Potential Incident
IAS	International Accounting Standard
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standard
km	Kilometres
KNOC	Korea National Oil Company
KPI	Key Performance Indicator
LIBOR	London Interbank Offered Rate
LTI	Lost time Incident
LTIFR	LTI Frequency Rate measured in LTIs per million hours worked
mmbbl	Million barrels
mmboe	Millions of barrels of oil equivalent
mmscfd	Millions of standard cubic feet per day
NGO	Non-Govermental Organisation
PAYE	Pay As You Earn
PRT	Petroleum Revenue Tax
PSC	Production Sharing Contract
PSP	Performance Share Plan
SCT	Supplementary Corporation Tax
SIP	Share Incentive Plan
SNS	Southern North Sea
Spud	To commence drilling a well
sq km	Square kilometres
tcf	Trillion cubic feet
TRI	Total Recordable Incidents
TRIFR	Total Recordable Incident Frequency Rate
TSR	Total Shareholder Return
UK GAAP	UK Generally Accepted Accounting Principles
VAT	Value Added Tax
WAEP	Weighted Average Exercise Price

Publications and other corporate information

2007 CSR Report



Published in May, our Corporate Social Responsibility Report contains our commitment to effective governance, a performance summary for the year and our accountability across the business. It also details our activities and progress in health and safety and the communities and environments in which we operate.

2008 Fact Book

Our Fact Book is published in March and August and includes an asset overview, results summary, reserves and resources summary and capex programme details. It also includes costs and depreciation, development opportunities, current exploration programmes, current production summary and net daily entitlement.

Get more online at: www.tullowoil.com

Get more up to date information on our website, including the following:

- Online Annual Report
- Financial calendar
- Live share price
- Presentations
- News and much more

This report is produced on material which contains 50% recycled and de-inked pulp from post consumer waste. The remaining pulp contains FSC credited material from well-managed forests.

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