Tullow Oil plc 2008 Annual Report and Accounts

The next phase of growth

TULLOW Oil plc

Tullow Oil plc is one of the largest independent oil and gas exploration and production companies in Europe.

The Group is entering its next phase of growth with a major focus on Africa, where Tullow is already a dominant player.

Key to achieving the Group's growth ambitions is the effective execution and delivery of first oil in Ghana by 2010, and developing the significant resource base established in Uganda.

Group overview

Tullow has maintained its outstanding exploration record and made excellent progress in developing its world-class basins in Ghana and Uganda in 2008. The Group is focused on future growth and in this section you will learn about our operations, performance and outlook.

We believe we have developed a unique set of characteristics and competencies that will help us deliver the next phase of growth for Tullow.

Directors' report: **Business review**

Tullow has a clear vision to be the leading independent global exploration and production company. Here you can read about how well positioned we are for the next phase of growth, how we are realising our vision, executing our strategy and measuring our progress.

Read about our operational performance for the year.

Review our record results, enhanced financial flexibility and comprehensive risk management systems.

Read about our commitment to our people and our embedded approach to our Corporate Social Responsibilities (CSR) in the following sections.

Summary glossary

bbl	Barrel
boe	Barrels of oil equivalent
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
CSR	Corporate Social Responsibility
E&A	Exploration and Appraisal
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	Million barrels of oil equivalent
mmscfd	Million standard cubic feet per day
P&D	Production and Development
PSC	Production Sharing Contract
sq km	Square kilometres
tcf	Trillion cubic feet
toes	Tullow Oil Environmental Standards
TSR	Total Shareholder Return

Cover image: The Nabors 221 rig drilling in the Lake Albert Rift Basin in Uganda. **This page:** The OGEC land rig drilling in the Butiaba region of Block 1 Uganda.

Directors' report: **Corporate governance**

Read how Tullow operates within a clear framework for the management of the Group, the safety of its operations, the successful execution of its strategy and delivery of shareholder value.

Financial statements

This section contains statutory information on Group and company accounts, a summary of the Group's performance over five years, a current licence list and information on Tullow's commercial reserves and contingent resources.

Supplementary information

In this section you will find information for shareholders about dividends, dealing services and e-communication together with Group contacts and senior management. An index and glossary are also included to help users understand our business.

For more information on Tullow Oil plc and CSR activities visit: www.tullowoil.com

Operational highlights

Drilling riser on Eirik Raude rig, offshore Ghana.

Jubilee on target for first oil in 2010

Phase 1 of the Jubilee field development in Ghana remains on track for first oil in 2010, just three years after the first discovery well.

100% exploration success record

The Group achieved a 100% exploration success rate in Ghana and Uganda, which significantly de-risks these major development projects.

James Byrne, EHS Advisor, on the Blackford Dolphin rig.

Block 1, Uganda.

The central processing complex on the Hewett field, in the UK's Southern North Sea.

£210 million sale of UK assets

During the year, Tullow sold its 51.69% interest in the offshore Hewett Unit fields and related infrastructure, including the onshore Bacton terminal.

Successful equity placing and financing

In early 2009, Tullow raised gross proceeds of £402 million through an equity share placing and secured US$2 billion of bank facilities.

Excellent health and safety results

A strong focus throughout the year on health and safety delivered the Group's best ever performance, placing Tullow in the top quartile in the industry.

Tullow employees working at the Takoradi pipe-yard in Ghana.

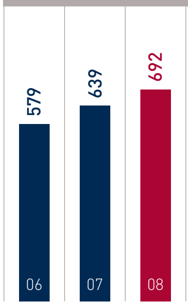
Financial highlights

Record results and delivery

Tullow has delivered record results for 2008, driven by a strong operational performance, higher oil and gas pricing compared with 2007 and profitable portfolio management.

Read more starting on page 8

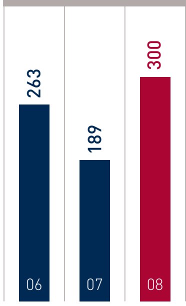
Sales revenue (£ million)



£692 million

Higher commodity prices during the year, partly offset by marginally lower sales volumes, resulted in an 8% increase in sales revenue in 2008.

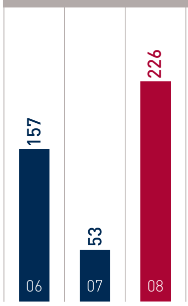
Operating profit (£ million)



£300 million

Operating profit increased 59%, principally due to higher commodity prices and profits of £244 million in relation to asset disposals, offset by £227 million exploration costs written-off.

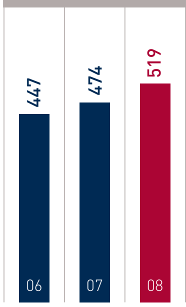
Profit after tax (£ million)



£226 million

A gain on hedging instruments of £43 million compared with a loss of £29 million in 2007 and a lower effective 2008 tax rate are the principal reasons for a 330% increase in profit after tax.

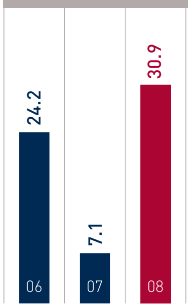
Operating cash flow (£ million)



£519 million

Tullow generated record cash flows in 2008, 9% ahead of 2007. This facilitated £460 million investment in exploration and development activities, dividend payments, servicing of debt facilities and a £60 million reduction in net debt.

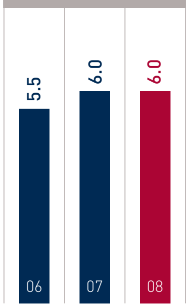
Basic earnings per share (pence)



30.9 pence

Basic earnings per share increased 335% in 2008. This represents a strong recovery in earnings after a sharp decline in 2007 and reflects the Group's strong results for the year.

Dividend per share (pence)



6.0 pence

Due to the Group's requirement for major capital investment in 2009 and given the current economic uncertainty, the Board feels that it is prudent to maintain the dividend at the 2007 level.

A leading independent oil and gas company

Tullow has a large portfolio of exploration and production assets with a focus on balanced long-term growth. In the near term, Tullow is concentrating on executing major projects in Ghana and Uganda and continuing to build a powerful presence in Africa.

Exploration and Appraisal

2008 was another outstanding year for exploration success at Tullow. The Group's overall success rate was 77% with 17 discoveries from 22 wells, and a 100% success rate in Ghana and Uganda.

In Ghana, major resource potential was confirmed at the Jubilee field, with most likely reserves of 1.2 billion barrels of oil.

In Uganda, a series of significant discoveries means the Lake Albert Rift Basin has passed the commercial volume threshold required for development and is now being fast-tracked.

2009 Challenges

Tullow's focus in 2009 is on selective high-impact Exploration and Appraisal (E&A) campaigns. These include:

- Appraising the extent of the Jubilee field to prove reserves and mature resources, which will support long-term funding and infrastructure development for this new industry offshore Ghana;
- Increasing the resource inventory of the Lake Albert Rift Basin, with a focus on delivering further material discoveries;
- Following up on the successful Tweneboa-1 well with a campaign of E&A wells; and
- Planning core play campaigns for 2010 onwards, in particular, material stratigraphic traps in the Equatorial Atlantic margins of West Africa and South America.

Key risks

Geological chances of success generally range from 15% for a wildcat exploration well to 80% for a calibrated appraisal well. Exploration risk is mitigated through the use of appropriate technologies and technical excellence in exploration methodologies, enabling Tullow to identify the best opportunities for drilling and portfolio high-grading.

Outlook

There is a very positive outlook for continued organic growth through a strong exploration programme that identifies and offers exposure to material upside.

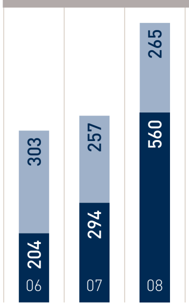
Tullow's business model is based on highly integrated decision-making between E&A, P&D, Finance and Legal. Read more about how we run our business on pages 15 to 17.

Operations on Ngassa-1 well, Uganda.

77%

Exploration success rate in 2008, with 17 discoveries from a 22-well exploration programme during the year.

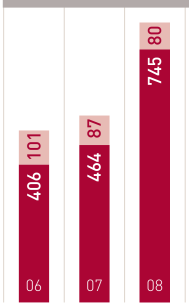
Total reserves and resources by oil and gas (mmboe)



Total reserves and resources of 825 mmboe, up 50% in 2008.

- Gas
- Oil

Total reserves and resources by region (mmboe)



Strong growth during 2008 in African reserves and resources, up 60%.

- Rest of the World
- Africa

Production and Development

2008 saw a very strong performance from Tullow's Production and Development (P&D) assets and team, including the best Environment, Health and Safety (EHS) performance in the Group's history. Average working interest production was 66,600 boepd, with good output from key producing assets in Africa.

Operating capability continued to be enhanced, specifically in Ghana where deepwater operating skills and an in-country organisation were put in place to initiate Phase 1 development of the Jubilee field.

2009 Challenges

The two main P&D priorities are:

- To remain on track for Jubilee first oil in the second half of 2010 and to evaluate further phases of development. Deepwater development drilling is already under way and achieving excellent results; and
- To deliver a phased basin development and export plan to fast-track the commercialisation of the significant discovered, and yet to be discovered, resources in the Lake Albert Rift Basin.

Beyond these two key developments, P&D will be ensuring that existing oil and gas production is delivered safely and efficiently with forecast average working interest production of 60,000 boepd for 2009. This is a planned reduction from 2008 as a result of the focused allocation of capital and resources to Ghana and Uganda in 2009, leading to the deferral of investment until 2010 in other areas of the Group's portfolio.

Key risks

The key operational risks Tullow is managing are: execution risk on the Jubilee development; adequate resourcing for the increased scale of the business; effective management of mature assets; and maintaining EHS performance.

Outlook

This is a very exciting time for the P&D team with responsibility for fast-tracking two world-class basins. In 2009, P&D will also position the Group to benefit from the easing of supply constraints and costs expected during the year.

Read more in the operations reviews starting on page 20

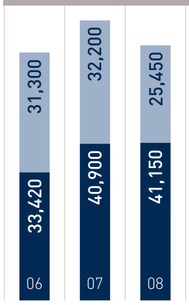
Go online at: www.tullowoil.com/our business, live summer 2009

Okume Complex production platform, offshore Equatorial Guinea.

66,600 boepd

2008 average working interest production.

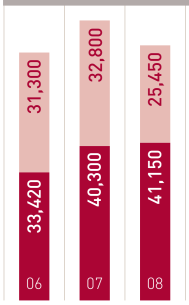
Working interest production by oil and gas (boepd)



Working interest production declined as anticipated by 9% during 2008.

Gas
Oil

Working interest production by region (boepd)



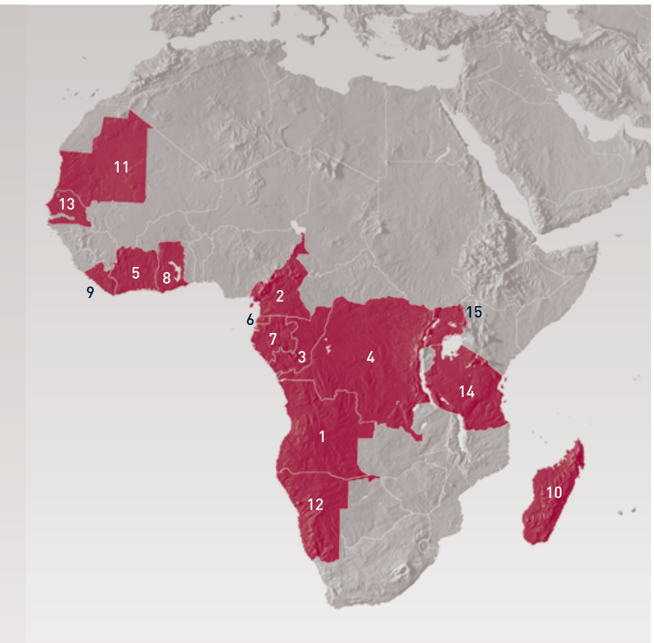
In 2008, oil production is in Africa, with gas production in the UK and South Asia.

Rest of the World
Africa

Global opportunities

Tullow has interests in 86 licences across 22 countries which include production from eight countries, world-class development projects in Ghana and Uganda and an extensive portfolio of exploration assets which offer long-term growth opportunities.

Africa



Key: **E** Exploration **D** Development **P** Production

In 2008, Africa represented 62% of Group working interest production, 90% of reserves and resources and 69% of revenue. Tullow is highly focused on Africa and is a dominant player in the region.

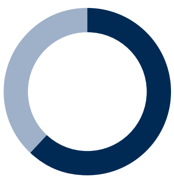
1 Angola **E**
2 Cameroon* **E**
3 Congo (Brazzaville) **DP**
4 Congo (DRC) **E**
5 Côte d'Ivoire **EDP**
6 Equatorial Guinea **DP**
7 Gabon **EDP**
8 Ghana **ED**
9 Liberia** **E**
10 Madagascar **E**
11 Mauritania **EDP**
12 Namibia **D**
13 Senegal **E**
14 Tanzania **E**
15 Uganda **ED**

* Tullow sold its interest in Cameroon in mid-2008.
** Tullow acquired interests in Liberia in early 2009.

Group highlights

Group working interest production (boepd)

66,600 boepd

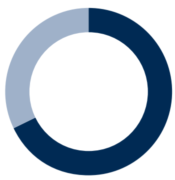


Oil **62%**
Gas **38%**

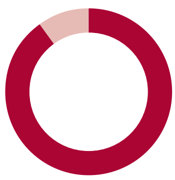
Africa **62%**
Rest of the World **38%**

Group reserves and resources (mmboe)

825 mmboe



Oil **68%**
Gas **32%**



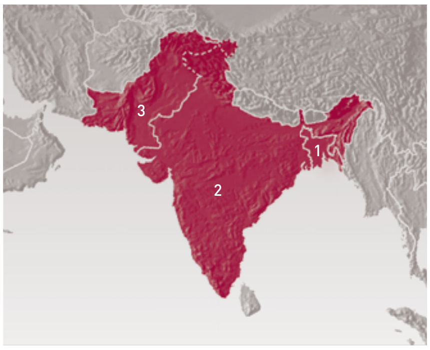
Africa **90%**
Rest of the World **10%**

Rest of the World

Europe

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

1 Netherlands **E**
2 Portugal **E**
3 United Kingdom **EDP**

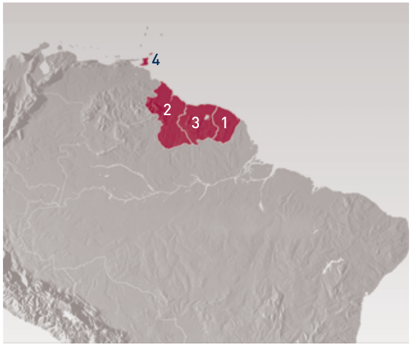


South Asia

The Group has gas production in Bangladesh together with gas production and high-impact exploration acreage in Pakistan.

1 Bangladesh **EDP**
2 India* **E**
3 Pakistan **EDP**

*Tullow withdrew from India in early 2009.



South America

Tullow is focused on applying its West African geological expertise to similar plays in South America. The Group's portfolio has recently been extended to include acreage in Guyana.

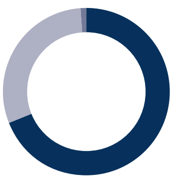
1 French Guiana **E**
2 Guyana **E**
3 Suriname **E**
4 Trinidad and Tobago* **E**

*Tullow withdrew from Trinidad and Tobago in early 2009.

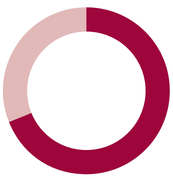
To read the operations reviews see pages 20 to 39

Group revenue (£ million)

£692 million



Oil **69%**
Gas **30%**
Tariff **1%**



Africa **69%**
Rest of the World **31%**

Group acreage and drilling

Acreage overview

Region	Licences	Acreage (sq km)
Africa	47	124,790
Rest of the World	39	77,332
Total	86	202,122

Drilling activities

Region	E&A wells	Discoveries	Development wells
Africa	18	17	59
Rest of the World	4	0	1
Total	22	17	60

An outstanding year

2008 was another year of record achievement for Tullow. Exceptional exploration and appraisal results, strong production, profitable portfolio management and the recent successful fund-raising underpin our ability to continue to grow.

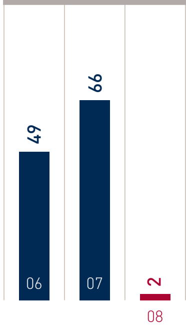
An outstanding year
The scale of Tullow's business is being transformed again. There has been a material increase in the Group's booked reserves and resources and two major world-class basins are being successfully fast-tracked towards development. Highlights for 2008 include:

- 100% exploration and appraisal success in Ghana and Uganda, which significantly de-risks these projects and supports material follow-on campaigns;
- Strong progress towards being a leading deepwater operator with the preparation of the Jubilee Plan of Development and initiation of Phase 1;
- Major oil discoveries in Uganda, moving past the commercial volume threshold for the Lake Albert Rift Basin and into basin-wide phased development;
- 66,600 boepd average working interest production, with strong results from key producing assets in Africa;
- £285 million proceeds realised from asset sales including the sale of the Hewett-Bacton fields and terminal;
- Exploration and impairment write-offs of £253 million comprising impairment charges of £26 million, exploration write-off of £63 million and asset write-downs of £164 million;
- Best ever safety performance and US$1.8 million invested in 'Working with Communities' initiatives, up 100%;
- 46% increase in employees, as we continued to attract key people and skills to build depth and strength in technical, operational and financial capabilities throughout Tullow; and
- Good discipline in capital allocation, supported by a successful debt financing and equity placing in early 2009.

Record health and safety performance
A Lost Time Incident Frequency Rate (LTIFR) of 0.49 per million hours worked was achieved against the current Oil & Gas Producers (OGP) most recent average of 0.66. This is the Group's best Health and Safety (H&S) performance to date and these results reflect Tullow's unwavering commitment to ensure the safety of our staff, contractors,

Pat Plunkett, Chairman

Total Shareholder Return (TSR) (%)



2%

Tullow was the 9th best performer in the FTSE 100, in a difficult year for global stock markets.

Read more on page 69

Go online at: www.tullowoil.com

partners and local communities and our determination to continuously improve our performance in the area.

Board and management changes

In March 2008, Matt O'Donoghue retired as General Manager Projects and from the Board. Since joining Tullow in 1987, Matt had given great service in a 21-year career spanning Tullow's first project in Senegal to commencing the Jubilee field development in Ghana. His dedication and commitment played a major role in the success of Tullow.

In April 2008, Tom Hickey announced his resignation, for personal reasons, from his position as Chief Financial Officer and from the Board. Since joining Tullow in 2000, Tom has made an outstanding contribution to the Group during a unique period in the growth and development of the business. To effect an orderly transition, Tom remained in his role until the end of September.

Ian Springett was appointed to the Board as Chief Financial Officer, from 1 September 2008. Ian has a wealth of international oil and gas experience having worked for much of his career with BP and brings excellent financial, commercial and planning skills to the Group.

In May 2008, Tullow announced the appointment of Ann Grant as a non-executive Director. Ann has had an extensive diplomatic career with invaluable experience in Africa, which is of particular relevance to Tullow as we seek to expand our business there.

Major investment in people

We have continued to invest in the Tullow team and increase the capability of the organisation. As the scale and complexity of our portfolio increases we are ensuring that we are fully prepared for the next phase of growth. One of the big issues for most Exploration and Production (E&P) companies today is recruitment and retention. However, because of the success we have enjoyed in recent years and the career opportunities and rewards this offers, we have been able to build and continue to build a very strong team. At the start of 2008, we employed 370 people and now have a team of 540, up 46%. On pages 48 and 49 of this report, we have a new 'Our people' section which sets out in more detail our people strategy.

Comprehensive risk management

Tullow faces a wide range of risks in its day-to-day operations and, in addition, the Group has identified and is addressing material risks to strategic delivery. Risk is of particular importance in today's environment and detailed information on risk and how this is managed by the Group is outlined in the risk management and risk factors section, on pages 44 to 47 of this report.

Delivering shareholder value

In 2008, share prices across all sectors were affected by the unprecedented turmoil in global financial markets and economies. As a consequence, Tullow delivered TSR of 2% for 2008. However, the Group significantly outperformed the FTSE 100 where TSR was minus 28%. The Group achieved the 9th best share performance in the Index for the year. Over a five-year period since 2004, Tullow has consistently outperformed the market and has delivered TSR of more than 700%.

Dividend

In light of the current economic uncertainty and the requirement for major capital investment in Ghana and Uganda, the Board feels that it is prudent to maintain the 2008 final dividend at the 2007 level. Consequently, the Board has proposed a final dividend of 4.0 pence per share (2007: 4.0 pence per share). This brings the total payout in respect of 2008 to 6.0 pence per share (2007: 6.0 pence per share). The dividend will be paid on 21 May 2009 to shareholders on the register on 17 April 2009.

Looking ahead

Given the current economic climate, these will be challenging times for the oil and gas sector but Tullow is well positioned following an outstanding year in 2008. We are clear on our key priorities – Ghana and Uganda – and have focused our resources, both human and capital, on these significant challenges. We are financially strong, entrepreneurial in spirit and well resourced with excellent technical and operational capability. The future for Tullow is very bright.

Pat Plunkett, Chairman

The next phase of growth

With world-class development assets, an extensive exploration portfolio and a strong balance sheet, the Group is exceptionally well positioned for major production growth from 2010 onwards.

Aidan Heavey, Chief Executive Officer

Record results and solid production

Tullow has delivered record results for 2008 driven by a strong operational performance, higher oil and gas pricing, and profitable portfolio management offset by exploration write-offs and impairments. Whilst production decreased as anticipated by 9% to 66,600 boepd, average price realisations increased by 17% for oil and by 40% for gas. Basic earnings increased by 335% to 30.9 pence per share.

Our best exploration year ever

In Ghana, exceptional drilling results led to a large extension of the Jubilee field and the opening of new deepwater plays. In Uganda, we have exceeded the commercial threshold for development through a series of world-class discoveries, with more to come in this region from a strong portfolio of high quality drilling prospects.

Major resource potential

Exceptional exploration and appraisal success with 17 discoveries from 22 wells led to a 274 million barrel increase in our reserves and resources. This resulted in a revised total of 825 million barrels of reserves and resources at year end. Our reserves replacement ratio was 582%, averaging over 200% per annum for the last three years. Through our exploration and appraisal strategy we are realising the true potential of our portfolio and as we continue to execute successful drilling campaigns, we expect to further enhance and replenish our reserves and resources base. The Jubilee field has resource potential of up to 1.8 billion barrels of oil. This, together with the rest of the Group's Ghanaian acreage offers substantial upside, including the recently announced Tweneboa discovery, which adds further resource potential of up to 1.4 billion barrels of oil equivalent.

On track for Jubilee first oil in 2010

Phase 1 of the Jubilee field development in Ghana is on track for first oil in 2010, just three years after the initial discovery well in 2007. Tullow, as unit operator, has selected all major contractors and development drilling and facilities construction are under way. The Jubilee partners have all sanctioned Phase 1 development and final government approval is pending resolution of the gas development plan. We have built a strong operating team in-country and will continue to strengthen this in 2009 to support the installation and production phases of the development. Establishing a deepwater operating capability is critical to the success of this project and is also a key competency required to pursue similar opportunities essential to deliver continued long-term growth for Tullow.

We are very clear about the large responsibility we have to ensure that the new offshore industry in Ghana is managed in a sustainable and safe manner, minimising its environmental impact and ensuring that we are good neighbours to the local community.

Commercial threshold exceeded in Uganda
Investment in two substantial drilling campaigns in Uganda has resulted in material discoveries including the world-class Buffalo-Giraffe and Kingfisher fields, which have discovered gross resources of approximately 600 million barrels of oil. A dedicated team will now define the optimal method to commercialise these resources.

High-grading our exploration portfolio
Elsewhere in Côte d'Ivoire, Mauritania, the Netherlands, Portugal and South America, we continue to high-grade our exploration portfolio by pursuing the most prospective plays as we prepare for high-impact drilling in 2010.

Difficult economic climate
The current economic climate is presenting many challenges across all sectors and within our industry. We are working in an unprecedented credit environment and with volatile and unpredictable commodity prices. Therefore, we have to maintain a fine balance between our short-term priorities and continuing to invest for long-term future growth, whilst remaining in a position to take advantage of the inevitable opportunities the current market will present.

Stringent capital allocation
During the year, we undertook a strict capital allocation process and identified activities that we could delay in order to focus resources on our key projects in Ghana and Uganda. Therefore, we have been particularly stringent in the allocation of capital, to ensure that we remain financially strong through these turbulent times for the global economy and financial markets.

As a consequence, we made a positive decision to delay some activities into later years. This means that we will not fully offset the natural decline in some of our UK and African fields and the expected production outcome for 2009 is 60,000 boepd. It is however important to recognise that a key criterion in deciding which activities could be deferred is to make sure we do not destroy any asset value by delaying infill or development activities.

Planned asset management
Planned and opportunistic asset management is a subset of effective capital management and we continue to fundamentally review our assets and actively manage our portfolio. In 2008, we made a profit after tax of £244 million, primarily from the sale of Tullow's

Tullow's key success factors
We believe we have developed a unique set of characteristics and competencies that will help us deliver the next phase of growth for Tullow.

Entrepreneurial spirit page 12

Excellent execution page 24

Right skills page 28

Proven expertise page 36

interest in the mature offshore Hewett fields and related infrastructure, including the onshore Bacton terminal.

Financial strength
The Tullow Management and Board are fully committed to our vision of being the leading independent exploration and production company and building our portfolio of assets for the longer term. Our balance sheet is strong and well funded. We secured a US$2 billion (£1.4 billion) bank facility in March 2009 following a successful share placing in January 2009 which raised gross proceeds of £402 million and increased Tullow's existing share capital by 9.1%. The ability to achieve our funding requirements reflects strong banking and investor confidence in our business, particularly in the context of the current economic climate.

Key focus for 2009
For 2009, the Group is focused on progressing Phase 1 of the Jubilee project in Ghana, fast-tracking the commercialisation of Ugandan reserves and executing selective high-impact exploration and appraisal campaigns. The Group is in a very strong position, from an operational and financial perspective, to deliver these exciting and transformational projects as we move into our next phase of growth.

Aidan Heavey, Chief Executive Officer

Driller working on the Kingfisher-3A well, Uganda.

Entrepreneurial spirit

Unique characteristics that deliver superior performance

Tullow has an entrepreneurial leadership team who have demonstrated a flexible and creative approach to building a strong business and portfolio of assets.

A flat organisation and integrated decision-making allows the Group to anticipate and respond quickly to business issues or opportunities as they arise.

A balanced mix of professional management and industry experts, with a diverse blend of skills and disciplines, gives Tullow the depth and strength to deliver an excellent operational performance and strong execution on major projects.

An appetite for managed risk, active portfolio management and a strong balance sheet ensures that the Group can execute its ambitious growth plans. These plans are built on solid foundations and strong relationships with partners, governments, employees, contractors, operators and local communities, developed over many years.

Record growth

It has been a successful five years: the Energy Africa acquisition in 2004; followed by the discovery of a major oil province in Uganda; quickly consolidated through the acquisition of Hardman Resources; world-class discoveries in Ghana; and exceptional exploration success in 2008.

Building our team

We continually invest in our team and increase the capability of the business so that we are always prepared to move to the next level. In 2008,170 people joined Tullow in readiness to take on further operational challenges that will continue to deliver significant shareholder value.

2010 and beyond

While first oil is targeted from Jubilee in 2010 and development plans for Uganda are well under way, the Group is also continuing to high-grade its exploration portfolio focusing on the most prospective plays for high-impact drilling campaigns in 2010 and beyond.

Realising our vision

Tullow has a clear vision, a consistent strategy and a flexible but highly-integrated business model that continuously adapts to the prevailing external environment.

Global markets

2008 was a year of extreme volatility in both the equity and commodity markets. During the latter half of the year, the problems with the banking sector led to a reduction in available capital which had dramatic knock-on consequences for all major economies.

The impact of this deterioration in economic prospects was evidenced by the rapid reduction in commodity prices, including Brent Crude, which fell from a high of over US$140/bbl in July 2008 to US$36/bbl in December 2008. Furthermore, there have been significant movements in the major foreign exchange rates, with the Sterling/US Dollar rate moving from £/US$2.03 in February 2008 to its current rate of approximately £/US$1.40. In addition, interest rates have reduced significantly in an attempt to stimulate demand.

For Tullow, oil and gas revenues are being impacted and the current downturn in the global economy presents new challenges as we manage the business for the longer term.

While in the short term we are carefully managing investment and capital allocation, we recognise that significant value-enhancing opportunities are likely to arise as companies struggle in the current environment.

Looking ahead, Tullow will take a prudent but entrepreneurial approach to its growth strategy. Our portfolio of existing assets and new production coming on stream positions the Group strongly to benefit from a recovery in oil prices.

Industry challenges

2009 is likely to be a difficult year for the sector:

- The management of oil price volatility will be of particular significance, given its impact on revenues, funding, investment levels and supply-side costs;
- The impact that short-term views on oil price have on funding places an emphasis on exploration and appraisal programmes that target near-term production and commercial reserves;
- A time lag remains between historic supply-side inflation and lower oil prices; and
- Significant industry consolidation is likely, creating both acquisition and disposal opportunities.

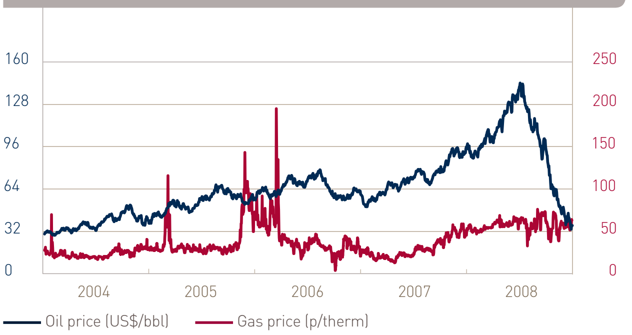
In response, Tullow has already undertaken a strict capital allocation programme for 2009. Capital expenditure for the year is currently budgeted at approximately £600 million, split 70% on production and development and the remainder on exploration and appraisal. Africa will account for circa 85% of the total. In the current environment, it makes good business sense for the Group to focus its major spend on first production in Ghana in 2010 and to commercialise its investment in Uganda.

In parallel, Tullow will safeguard mature production as well as retain key future exploration prospects.

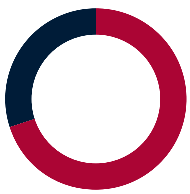
Early in 2009, Tullow strengthened its balance sheet with a successful equity placing and major debt financing enhancing the Group's financial capacity and flexibility.

Combined, these factors will help ensure Tullow remains flexible during the year, particularly if low oil prices persist. This will allow the Group to take advantage of opportunities that may present themselves.

Oil and gas prices



Capital expenditure



£600 million

This is the budgeted capital expenditure for 2009, up 25% on 2008.

P&D **70%**
E&A **30%**

Vision and strategy

Our vision

Our vision is to be the leading global independent exploration and production company by:

- Building on our excellent track record through being the best in all that we do;
- Continuing to grow value over the long-term as partner, operator and employer of choice; and
- Conducting our operations with respect for the people and environments in which we work.

Our strategy

Tullow pursues a consistent and repeatable strategy which seeks to deliver sustainable long-term growth with a balance between funding, exploration and production spend and major activities in core areas.

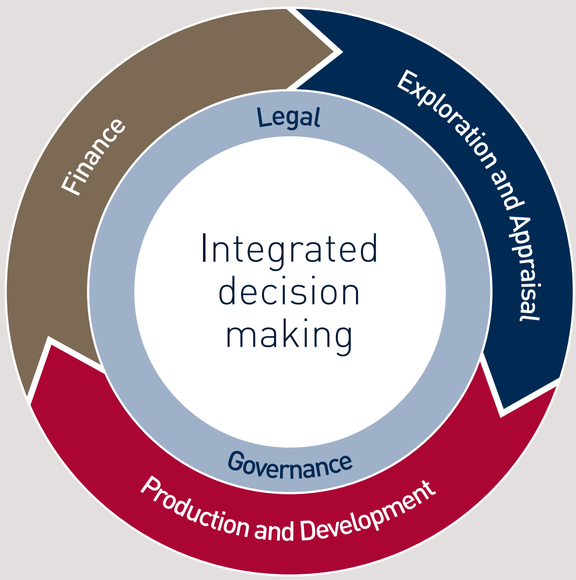
We will achieve this by:

- Delivering major projects, with a significant focus on increasing bankable reserves;
- Executing selective, high-impact exploration programmes funded by surplus cash flow or equity;
- Managing our assets to high-grade the portfolio, replenish upside and assist funding needs;
- Ensuring safe people, procedures and operations, and minimising environmental impacts;
- Building long-term relationships with local governments, communities and key stakeholders; and
- Continuing to develop a strong team with excellent commercial, technical and financial skills.

Our strategic objective

To deliver top quintile total shareholder returns versus our industry peer group.

Tullow's business model



E&A has responsibility for identifying core plays, prioritising prospective exploration options and executing exploration and appraisal programmes within material follow-on campaigns.

P&D has responsibility for field appraisal, development of commercial discoveries and the management of the Group's production and reserves, which are fundamental to revenue generation.

Finance has responsibility for the management of equity, debt and cash to maintain a strong balance sheet and the ability to fund E&A and P&D activities with prudent, focused capital investment.

Legal has responsibility for all governance and legal issues including regulatory compliance and delivering commercial legal solutions for Tullow's business needs.

Collective responsibility is held for portfolio management including disposals, investments and mergers and acquisitions. At the core of Tullow's business model is the Group's vision and strategy and strong discipline in planning and execution.

Executing our strategy

Tullow's Executive Directors, led by Aidan Heavey, Chief Executive Officer, are tasked with executing the Group's strategy and have responsibility for delivering shareholder value.

Exploration and Appraisal

Angus McCoss, Exploration Director

Differentiated long-term exploration strategy secures the future

Tullow's exploration strategy is based on identifying transformational, high-value growth opportunities and appropriately mitigating risks by concentrating exploration in core plays and in areas of focus for the Group. This is delivered by successful execution of material commercial exploration campaigns with high success rates achieved through developing technical excellence.

The Group's exploration strategy has been recalibrated to adjust to the global economic downturn so that investment is focused on operational and financial delivery in Ghana and Uganda, targeting short-term production and commercial reserves, whilst nurturing long-term growth options and replenishing portfolio upside.

Read more starting on page 20

E&A Group strategic responsibility

- Executing selective, high-impact exploration programmes funded by surplus cash flow or equity; and
- Managing our assets to high-grade the portfolio, replenish upside and assist funding needs.

Production and Development

Paul McDade, Chief Operating Officer

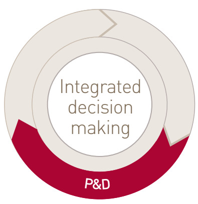
Consistent delivery of operational excellence adds value

Tullow's P&D strategy is focused on creating value from the Group's portfolio of assets. This is achieved through new or incremental developments, improving operating efficiency and strategic divestments or acquisitions. Fundamental to this is conducting all business in a manner that enhances the Group's reputation and reinforces Tullow's long-standing commitment to operate in a safe and environmentally sensitive way.

In 2009, the Group has been particularly disciplined in allocating capital and human resources to fast-track and monetise the Jubilee field in Ghana and major discoveries in Uganda. Tullow continues to invest strongly in people including building a world-class deepwater operating capability in Accra, Ghana and enhancing the Kampala organisation in preparation for development activity in Uganda.

Read more starting on page 20

P&D Group strategic responsibility



- Delivering major projects, with a significant focus on increasing bankable reserves; and
- Ensuring safe people, procedures and operations, and minimising environmental impacts.

For more information on Tullow's business model, see page 15

Finance

Ian Springett, Chief Financial Officer

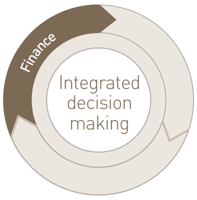
Financial strength and flexibility in a challenging environment

Tullow's financial strategy is centred on ensuring the Group has a strong and well-funded balance sheet and is managed in a way that is consistent with the current external reality and the Group's longer-term strategic goals for growth.

For Tullow, this means having the capacity to fund its activity set, particularly the significant investment in Ghana and Uganda developments; the ability to manage market volatility and uncertainty; the flexibility to selectively acquire or divest; and an overall balance between focused short-term activity and longer-term investment required for continued growth.

Read more on page 40 to 43

Finance Group strategic responsibility



- Deliver sustainable long-term growth with a balance between funding, exploration and production spend and major activities in core areas of the business.

Legal

Graham Martin, General Counsel and Company Secretary

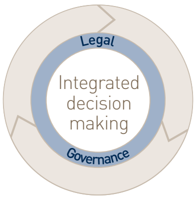
Effective governance and risk management, within a clear framework

The Board and senior management are committed to all aspects of good corporate and ethical behaviour. Corporate responsibility and accountability is reflected in how the Group is organised and the policies and processes in place to ensure Tullow complies fully with all its legislative and regulatory requirements. Where legislation is inadequate or non-existent the Group applies responsible standards.

Tullow's Board operates within a clear governance and risk framework for the management of the Group, the safety of its operations and employees and the successful execution of the Group's strategy. The Group also embraces a wide range of CSR and EHS responsibilities, particularly in the context of the oil and gas industry and the location of some of Tullow's operations.

Read more starting on page 54

Legal Group strategic responsibility



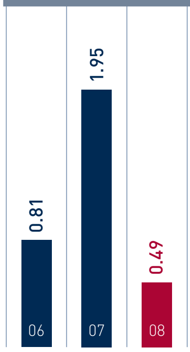
- Maintaining a strong global team with excellent legal and commercial skills; and
- Building long-term relationships with governments, partners and key stakeholders focusing on the highest corporate and ethical standards.

Measuring our progress

Tullow has seven KPIs which are closely aligned with the Group's growth strategy. Delivering against these KPIs will ensure strong progress with our strategic objectives and creation of shareholder value.

The bonus element of the Executive Directors' remuneration is directly linked to LTIFR, working interest production, reserves and resources replacement, cash operating costs per barrel of oil equivalent and TSR performance.

Lost Time Incident Frequency Rate (LTIFR)



0.49 LTIFR

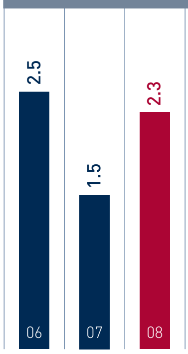
Three Lost Time Incidents in 6.15 million hours worked across the Group in 2008 resulted in a LTIFR of 0.49 – Tullow's best ever performance.

Aim: Tullow's top operational priority is to keep people safe – employees, contractors and local communities. The Group's aim is to deliver a performance that is in the top quartile for the industry.

Measurement: Detailed, disciplined and consistent incident reporting procedures are in place throughout the Group, incorporating follow-up and remedial measures as appropriate. H&S performance measures are reported to the Board monthly and annually.

Risk management: H&S management is a complex issue given the nature of the industry, the geographic location of Group activities and the scale of its operations. Tullow has clear H&S policies and procedures supported by strong leadership, accountability and commitment at each level of the organisation.

Staff turnover (%) **new**



2.3%

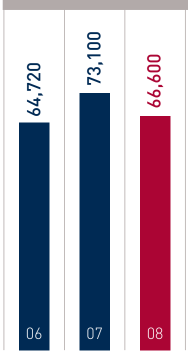
Tullow has a strong track record of retention, with 2.3% staff turnover and a 95% employee satisfaction rating in 2008.

Aim: Tullow's aim is to be the employer of choice in the industry so that the Group has the right people with the right skills in place at the right time to support the continued growth and development of the business.

Measurement: Systems are in place to identify issues early. Detailed induction programmes and support are offered. Debrief processes for leavers helps Tullow improve employee policies. Key measures are staff turnover, satisfaction ratings and the increase in number of employees.

Risk management: An open, engaging and empowering culture, career potential and reward, succession planning and the continued success of the Group are Tullow's best defence against the disruption to the business of a people skills shortage or unexpected departures.

Working interest production (boepd)



66,600 boepd

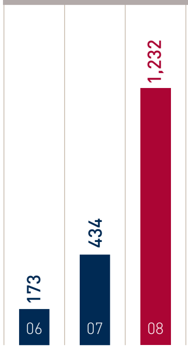
Focused capital investment on major development projects resulted in a reduction of 9% in production output in 2008.

Aim: Production is key to revenue and cash generation. Operational excellence underpins delivery of production in line with the Group's annual budget and external market guidance.

Measurement: Daily and weekly production is monitored from key producing assets. Production is reported weekly and monthly to senior management and forecast updates are prepared regularly during the year.

Risk management: Strong operational capabilities, detailed production planning and monitoring, and a balanced spread of key producing assets mitigate against key production risks including unplanned interruptions, over concentration of production on certain fields and the natural decline of mature fields.

Reserves and resources replacement (%)



1,232%*

Exceptional exploration and appraisal success achieved record reserves and resources replacement of 1,232%. Reserves replacement for the year was 582%.

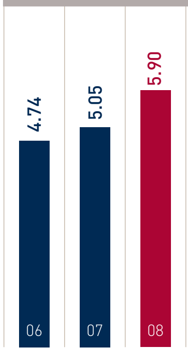
* This is annual reserves and resources revisions divided by annual production.

Aim: Replacement of reserves and resources is focused on continuing to grow the Group's production potential. Tullow aims for 100% annual organic reserves and resources replacement.

Measurement: Reserves estimates for each field are reviewed by an independent engineer, based on significant new data or material change, with a review of each field undertaken every two years. Resources are based on the Group's reserves report, also produced by an independent engineer.

Risk management: Maximising reservoir performance in producing fields through operational and technical capability, and continued exploration success based on focused material campaigns, manages replacement risk.

Cash operating costs per boe (£)



£5.90 per boe

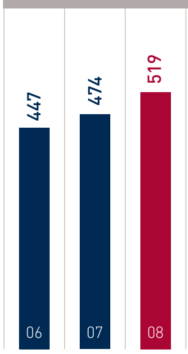
Lower Group production and cost inflation in the industry led to a 17% increase in cash operating costs per barrel of oil equivalent during the year.

Aim: Cash operating costs per barrel of oil equivalent are a function of industry costs, inflation, the Group's fixed cost base and production output. Tullow's aim is to maintain these costs within predefined limits through strict cost management.

Measurement: Cash operating costs are reported monthly on an asset basis and are monitored closely to ensure that they are within preset parameters.

Risk management: A comprehensive annual budgeting process covering all expenditure is prepared. Monthly reporting highlights any variances and corrective action is taken to mitigate against the potential effects of cost increases.

Operating cash flow before working capital (£ million)



£519 million

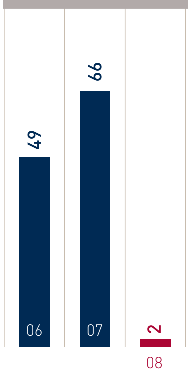
Record operating cash flow facilitated the Group's 2008 capital investment, dividend payments, debt service and a reduction of over £60 million in net debt.

Aim: Tullow's business is capital and cash intensive and the Group's aim is to ensure that capital expenditure together with debt and dividend commitments can be serviced from strong operating cash flow.

Measurement: Operating cash flow is reported monthly with regular forecasting for longer periods to support long-range planning and investment decisions. Detailed annual and project budgets require Board approval.

Risk management: Strong financial and operating management, disciplined monitoring and reporting across the business, long-range cash flow forecasting and strong banking and equity relationships assist the Group in managing liquidity risk.

Total Shareholder Return (%)



2%

Tullow was the 9th best performer in the FTSE 100 for 2008 and a clear leader in the oil and gas sector. The Group has delivered TSR of over 700% since 2004.

Aim: Tullow has a clear vision and a consistent strategy which is set out on page 15 of this report. The Group's strategic objective is to achieve top quintile TSR growth versus its industry peer group, as set out in the Remuneration report on pages 66 to 75.

Measurement: TSR – share price movement and dividend payments – is reported monthly and on an annual basis at year end to the Board.

Risk management: Excellent execution of a clear strategy achieved through entrepreneurial leadership, combined with open and honest communication with the capital markets help in the delivery of a consistent TSR performance.

For more information on how we manage risk see pages 44 to 47

Go online at: www.tullowoil.com

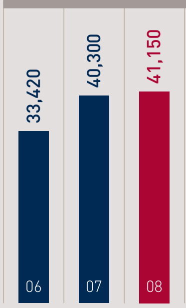
Powerhouse of growth

Africa

Tullow is poised to deliver on major projects in Ghana and Uganda. In the longer-term, the Group has a strong exploration portfolio across 11 countries. Expertise in core plays and a focus on execution creates the opportunity for further material exploration upside.

Underpinning this growth is a high quality production and development portfolio with 17 producing fields across five countries.

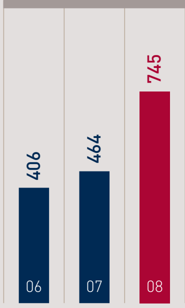
Working interest production (boepd)



2%
Increase in working interest production

62%
Contribution to Group working interest production

Reserves and resources (mmboe)

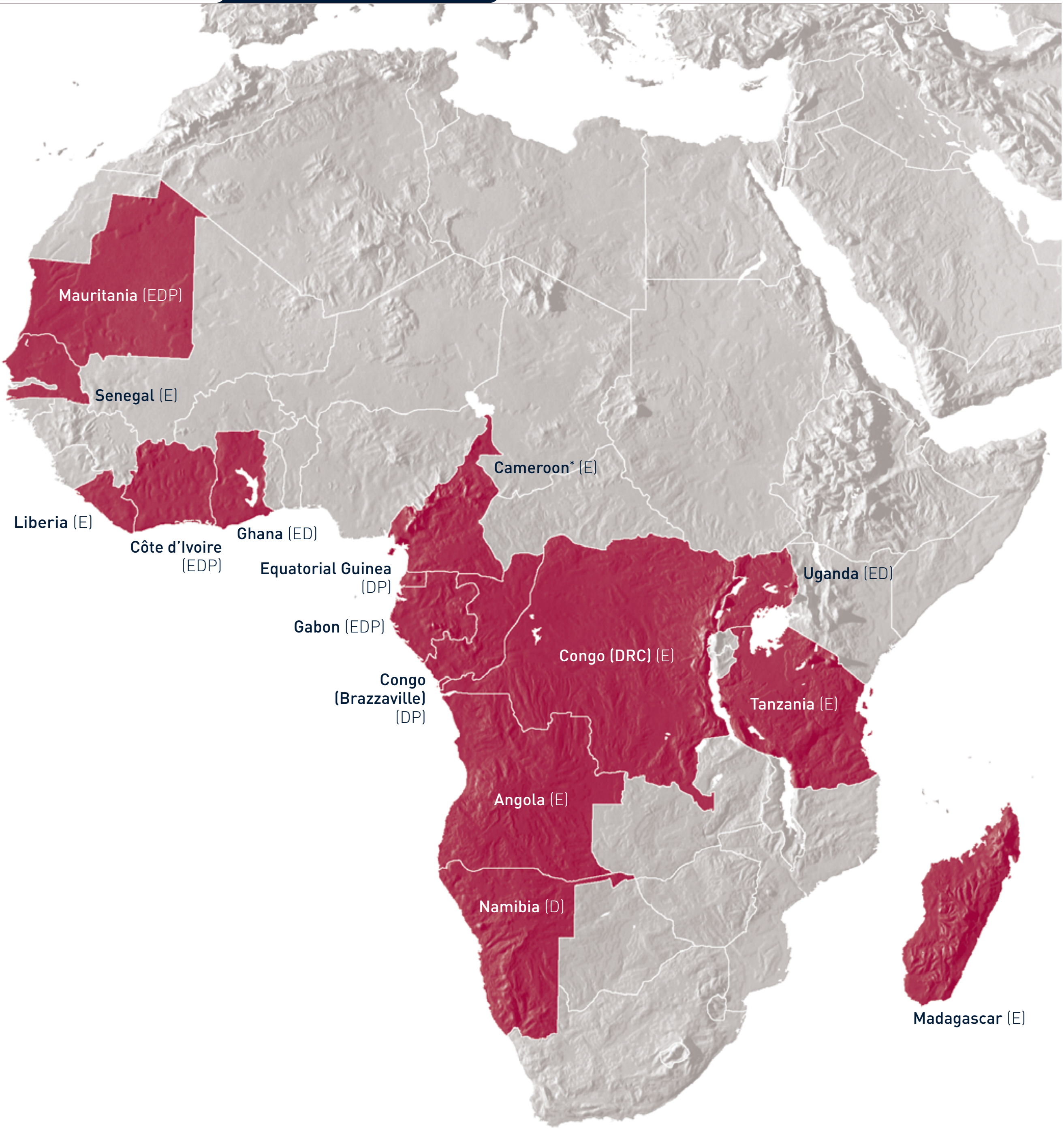


61%
Increase in reserves and resources

90%
Contribution to Group reserves and resources

Key producing assets

Country	Producing field *(Tullow %)*	2008 Working interest production (boepd)
Congo (Brazzaville)	M'Boundi *(11%)*	4,600
Côte d'Ivoire	Espoir *(21.33%)*	6,100
Equatorial Guinea	Ceiba *(14.25%)*	5,400
	Okume Complex *(14.25%)*	10,000
Gabon	Etame/Avouma *(7.5%)*	1,600
	Niungo *(40%)*	4,000
	Tchatamba *(25%)*	4,400
	Others *(3.75% – 40%)*	2,800
Mauritania	Chinguetti *(19.01%)*	2,200



Key: **E** Exploration **D** Development **P** Production

* Tullow sold its interest in Cameroon in mid-2008.

Ghana

Outstanding progress

Tullow has had outstanding success over the last 12 months in Ghana. A 100% success rate in both exploration and appraisal has added materially to the Group's resource base. This success has been matched by tangible progress on the development of the Jubilee field which remains on track for first oil in 2010.

The expertise and knowledge developed in Ghana can be transferred to neighbouring Côte d'Ivoire and Liberian acreage and across the Atlantic to twin basins in South America where significant upside potential exists.

Uganda

Exceptional exploration record

Tullow has made remarkable progress in Uganda since its first discovery in 2006. The Group has now drilled 20 wells, all of which have encountered hydrocarbons. In 2008, a number of sizeable discoveries were made including one of the largest discoveries in Sub-Saharan Africa. In total, sufficient resources have been discovered to justify full-scale development of the Lake Albert Rift Basin.

2009 will see development options being evaluated in parallel with further high-impact exploration in a major new basin with well over one billion barrels of potential.

Africa

In 2008, Tullow had a strong production performance from its African portfolio and outstanding exploration and appraisal results from both Ghana and Uganda. Both regions have contributed to substantial reserves and resources growth and are now being commercialised on a fast-track basis.

2008 Highlights

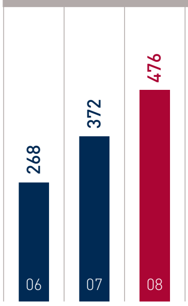
41,150 boepd
Average working interest production

100% success
Achieved from 15 exploration and appraisal wells in Ghana and Uganda

296 mmboe
Reserves and resources added to the African portfolio

1.8 billion barrels
Significant upside potential identified through exploratory appraisal drilling in 2008

Sales revenue (£ million)



£476 million
Sales revenue

28%
Increase on prior year

In Africa, Tullow has 47 licences in 14 countries, 17 producing fields, approximately 745 mmboe booked reserves and resources and majority interests in two world-class basins in Ghana and Uganda.

Ghana

In 2008, the Group focused on the Phase 1 development of the Jubilee field, an appraisal campaign to determine the ultimate field size and exploration work to establish the upside potential of the remainder of the basin.

Outstanding exploration success

In February 2008, the Odum field was discovered in the West Cape Three Points block, some 13 km east of Jubilee. This discovery opened up a new Campanian geological play in a previously unexplored reservoir interval. In November 2008, Tullow drilled the Ebony-1 commitment well in the Shallow Water Tano block which encountered normal pressured oil sand and an over-pressured gas-condensate sand up-dip from Tweneboa. Data acquired from the recent Tweneboa-1 well demonstrated that although charged through Tweneboa, Ebony is not presently in pressure communication and as a result Ebony was determined to have a sub-commercial resource potential. Tullow will therefore relinquish its interest in the Shallow Water Tano licence.

In March 2009, the Tweneboa-1 exploration well, in the Deepwater Tano licence, discovered a highly pressured light hydrocarbon accumulation of up to 1.4 billion barrels of oil equivalent with a liquid yield currently considered to be in the range of 30 to 40%. The well encountered 21 metres of net pay on the edge of a giant 200 sq km Turonian fan system related to the Jubilee play. Appraisal drilling will now be required to test core areas within this stratigraphic trap where thicker Turonian reservoir sections are mapped.

The substantial Teak complex is one of an inventory of prospects located in the region. Drilling is scheduled to commence on Teak in the fourth quarter of 2009.

Glossary

API	Measure of crude oil quality
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
bwpd	Barrels of water per day
CNG	Compressed Natural Gas
FEED	Front End Engineering Design
FPSO	Floating Production Storage and Offtake vessel
mmbbl	Million barrels
mmboe	Million barrels of oil equivalent

Highly successful Jubilee appraisal programme

Three exploratory appraisal wells, Mahogany-2, Hyedua-2 and Mahogany-3, were drilled on the Jubilee structure during the year. Each of the wells were approximately 5 km away from the original discovery well and each intersected considerable hydrocarbon columns in the Upper and Lower Mahogany sands which are both in lateral pressure communication. The Mahogany-3 well also discovered oil in a third and potentially extensive underlying sand, Mahogany Deep, which is being considered for appraisal drilling in 2009. These results led to a significant upgrade in the gross resource base for the field with the most-likely P50 case being upgraded to 1.2 billion barrels with an upside potential case of 1.8 billion barrels. It is anticipated that the initial development area has gross reserves of 490 million barrels resulting in Tullow booking its net share of 170 million barrels at year-end. Further extension of the eastern part of the Jubilee field may be targeted through an additional Mahogany exploratory appraisal well before the end of 2009.

Flow tests performed on both Mahogany-2 and Hyedua-2 confirmed that Jubilee is a highly productive and well connected reservoir and that once the wells have been configured for long-term production, they should be capable of producing at rates in excess of 20,000 barrels of 37° API crude oil per day.

Jubilee Phase 1 on schedule for first oil

Significant progress has been made on the Phase 1 development of the Jubilee field and the project is on schedule to deliver first oil in the second half of 2010. The field has been unitised across the Deepwater Tano and West Cape Three Points blocks with Tullow named as Unit Operator. In addition, a joint venture project team has been established with Kosmos Energy appointed as the Technical Operator. The Phase 1 Plan of Development has been submitted to the Ghanaian Government along with the related Unit Agreement and both are expected to be approved in the near future following final resolution of the gas development plan.

Blackford Dolphin rig drilling Hyedua-2 appraisal well offshore Ghana.

The Phase 1 development plan involves drilling a total of 17 wells, for oil production, water injection and gas injection, which will be tied back to a Floating Production Storage and Offtake vessel (FPSO) with a production capacity of 120,000 bopd. Sufficient rig capacity has been contracted for the development and the first dedicated development well is under way. Contractors have been selected for all major components of the project facilities and construction work has commenced. To support all offshore activities, an operational organisation and associated infrastructure have been established in the city of Accra and the port of Takoradi.

Eirik Raude semi-submersible rig, offshore Ghana.

Excellent execution

Delivering projects of unique scale and reward

Tullow has built a strong track record of achieving excellent execution across the business and this positions us very strongly to deliver projects of unique scale and reward.

Tullow's operating capability and its ability to work with partners in non-operated assets is demonstrated in the development of the Group's key producing assets in Europe, Africa and South Asia.

Working safely and minimising our impact on the environment is underpinned by strong EHS systems, a good performance record including an excellent 2008 H&S outcome and a Group-wide commitment to continuous improvement.

Sophisticated contracts and procurement capability ensures Tullow has the ability to secure rigs, key equipment and resources on time and to budget.

Our aptitude to step up to a challenge, requiring new skills and competencies, is reflected in the accelerated appraisal and development of a major deepwater asset.

Environment

Tullow Oil Environmental Standards defines the Group's position on key environmental issues including biodiversity, climate change, resource management, stakeholder engagement, and monitoring and evaluation. Together these form the Group's environmental footprint.

Procurement

The Jubilee development is a complex project being executed at a record pace. In the last year, in a tight market, Tullow has successfully contracted sufficient rig capacity, an FPSO, all the required subsea equipment and installation capability to deliver first oil in 2010.

Safety

Tullow had three Lost Time Incidents in 2008, resulting in a Lost Time Incident Frequency Rate of 0.49 per million hours worked. This is a record low for Tullow and places the Group's performance in the top quartile for the industry.

The partnership has also agreed, in principle, a gas development plan with the government which will include the capability for gas re-injection and a gas export pipeline to the coast where a gas processing plant will be constructed. Jubilee will be a foundation supplier to this gas infrastructure and commercial agreements will be negotiated in 2009.

In light of continued exploration and appraisal success, the joint venture will commence work to evaluate the potential for further phases of development for the Jubilee field during 2009.

Uganda

In 2008, Tullow embarked on an aggressive drilling and seismic campaign in Uganda with the aim of locating sufficient resources in order to exceed the commercial threshold required to develop the Lake Albert Rift Basin for both the regional market and through an export pipeline to the Indian Ocean. The programme proved to be extremely successful with all of the 10 wells drilled encountering hydrocarbons and proving up a resources base for the basin of around 600 million barrels, which is significantly greater than the volume considered necessary for development. In addition, considerable upside still exists, both onshore and offshore, in Lake Albert and Tullow are confident that the basin has potential of well in excess of one billion barrels. An integrated team has now been set up to plan for the development of the resources discovered to date. The potential for early production phases will be considered.

Exceptional exploration success

Exploration drilling activities during the year have predominantly focused on the Butiaba region of Blocks 1 and 2 where eight discoveries were made. Approximately 400 million barrels have been discovered in this region including the 300 million barrel Buffalo-Giraffe discovery which lies in the southern part of Block 1. The majority of the Butiaba discoveries have been in the prolific Victoria Nile Delta play which is characterised by high net to gross reservoirs that can be clearly identified on seismic. A number of additional high-impact structures have been imaged and further drilling activity, with the light OGEC rig, will continue in the area during 2009 commencing with the Vundu and Nsoga prospects. In March 2009, an integrated testing programme began on the Kasamene and Kigogole discoveries to assess reservoir deliverability of the Butiaba wells, the first well-testing in the northern part of Block 2. Initial test results from Kasamene-1, where an 18 metre

Elly Karuhanga, President and Director of Tullow Uganda and Tim O'Hanlon, Vice President African Business at the Tullow Africa strategy day hosted in London in November 2008.

Nabors 221 rig on location at the Kingfisher-3A well in Block 3A, onshore Uganda.

interval was perforated, have yielded very encouraging results. A maximum flow rate of 3,500 bopd was achieved on a 48/64 inch choke at very low reservoir drawdown, supportive of world-class reservoir quality and productivity.

Most recently, the OGEC rig drilled the Mputa-5 appraisal well in the Kaiso-Tonya region. Drilling operations completed in late February 2009, reaching a total depth of 1,231 metres. Three separate oil-bearing zones were encountered with a total net oil pay of over 12 metres. The well proved the presence of hydrocarbons in the previously undrilled southwestern flank of the field and provided the deepest oil penetration in the field to date. The well results indicate that the recently acquired 3D seismic dataset and new modelling techniques can be used to more accurately identify and map the Mputa field reservoirs and other similar reservoirs in the Lake Albert Rift Basin.

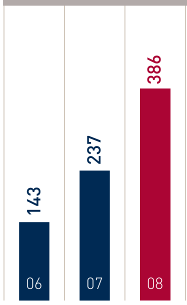
In early 2008, an exploration campaign commenced on the shores of Lake Albert, using the Nabors 221 rig, to drill the deviated high-impact Ngassa-1 well, targeting a prospect located under the lake. The primary objective was not reached due to borehole instability and the well was suspended after discovering gas in the shallower horizons. The rig then moved to the Kingfisher discovery in Block 3A where the Kingfisher-2 and Kingfisher-3 appraisal wells were drilled and Kingfisher-2 was production tested. These wells proved the lateral connectivity and high productivity of the reservoir and demonstrated the structure to be shallower and the oil-water contact to be deeper than expected. These results have upgraded the gross resources for Kingfisher to around 200 million barrels. The rig has now moved back to Block 2 and will commence drilling the Ngassa-2 well from a more optimal location in March.

Evaluating offshore drilling solution
To enable drilling of the significant offshore exploration prospects in Lake Albert, Tullow has initiated a Front End Engineering Design (FEED) study for an offshore drilling solution. This study has been executed jointly with Tullow's partner, Heritage Oil, and is scheduled to be completed in the second quarter of 2009 with offshore drilling now anticipated in 2010.

Fast-track basin development
Following the exceptional exploration success, the pace at which resources have been discovered has exceeded expectations. As a consequence, Tullow and the Government of Uganda are reconsidering the development strategy for the Lake Albert Rift Basin.

An integrated team is now in place to define the optimum development scenario for the whole basin and whilst this work is still in the early conceptual stages, it is anticipated that it will result in a phased development plan.

Capital investment (£ million)



£386 million
Capital investment

63%
Increase on prior year

600 mmbbl
Approximately 600 million barrels of oil have been discovered in the Lake Albert Rift Basin to date.

The significant knowledge acquired from the recently completed FEED study for the previously planned Early Production System project, which concentrated only on the development of the Mputa field, is now being incorporated into the new plan. Early production from one or more fields will remain an integral part of the development plan. The initial phase will involve production from a small number of wells to provide early production data and crude for the local market. It is anticipated that this early production phase would then be expanded to provide more significant production volumes for the local and regional fuel oil and oil products market. The final phase is expected to involve the construction of a 1,300 km pipeline to the Indian Ocean to allow export of the resource base volumes which significantly exceed local and regional demand. It is planned to present these plans to the Government of Uganda in 2009.

Congo (DRC)
On the Congo (DRC) side of Lake Albert, Tullow has interests in a licence containing two blocks. The validity of the award of this licence was disputed during 2008, however Tullow continues to be confident in its title to this acreage.

Equatorial Guinea
Gross production from the Ceiba field and the Okume Complex exceeded expectations in 2008, averaging 38,000 bopd and 70,500 bopd respectively.

Eugenia Fefoame, GNPC Geologist seconded to Tullow Oil, inspecting oil samples offshore Ghana.

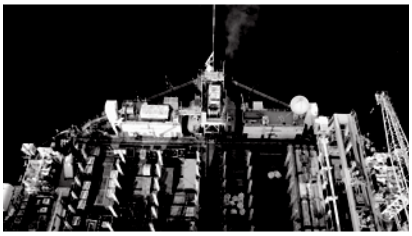
Right skills

Successfully building our team

Tullow is serious about growth and continues to put in place the capital and human resources needed to deliver the next phase. We are building the strongest team by developing talent from within, complemented with carefully selected new recruits – many of whom are industry champions, looking for new opportunities to make a difference.

In developing people with the right skills and the right attitude, our focus is on developing each employee to their full potential, in each area of our business.

Tullow's world-class discoveries in Ghana have led to the development of a Nationalisation Plan in conjunction with the Ghanaian Government and the Ghana National Petroleum Company (GNPC). Through recruitment, training to international accredited standards, and by partnering with Ghanaian Universities to further develop academic qualifications, we will deliver on our commitment to have 90% local staff by 2018. We are already building in-country capability with over 45 Ghanaians working for Tullow in Accra, the capital of Ghana.



Deepwater capability

In the period since the first discovery in Ghana in 2007, Tullow has established a major deepwater operating capability, critical to the development of the Jubilee field and to the Group's longer-term growth ambitions.

Retaining talent

Tullow's ability to attract and retain talented people is a fundamental strength of the Group. We now employ 540 people worldwide and staff turnover in 2008 was just 2.3%. The Group has a consistent record of high staff retention, despite significant growth in recent years.

Pride in Tullow

As part of an independent review of internal communications, 95% of staff said they were proud to work for Tullow and 93% would recommend the Group to their friends as a good employer.

3D seismic survey offshore Angola.

David Roux, Business Unit Manager Central and West Africa.

37,000 boepd

Forecast 2009 average working interest production from the Group's African assets.

An infill drilling campaign on the Ceiba field was completed in April and flowline gas lift has been installed. On the Okume Complex, development drilling on the shallow water Elon field was completed in May while drilling on the deepwater Okume and Oveng fields is expected to continue until 2010 in order to maintain plateau production. Plans for further infill drilling on the Ceiba field and accelerated Okume Complex development drilling will be evaluated during the year based on oil prices and service costs.

Gabon

In 2008, production from Tullow's Gabon assets averaged 12,760 bopd. Activity during the year focused on the optimisation of the current producing asset base and the development of the Ebouri, Tsiengui and Obangue fields. Net production is expected to average over 12,000 bopd for 2009 with first production expected from a number of new fields in 2009, offsetting natural decline.

On the exploration front, existing 3D data from the Tullow-operated Azobe licence is currently being reprocessed and an exploration well is planned for 2010. The operated Akoum licence expired in April 2008 and Tullow completed the sale of its 18.75% interest in the Gryphon licence to Addax Petroleum in December 2008.

Côte d'Ivoire

Gross production from the Espoir fields averaged 25,600 bopd in 2008. Development work on the West Espoir field was completed in January, with eight production and three injection wells now on line. Production is currently restricted to 22,000 boepd by the liquids and gas handling capacity on the FPSO. However, this figure is expected to be restored to 25,000 boepd in the fourth quarter of 2009 following completion of a facilities upgrade.

In blocks CI-103 and CI-105, 3D seismic has delineated several Jubilee-type leads and prospects. The geophysical techniques which proved so successful in Ghana are currently being used to further evaluate the data and to select the best prospects for drilling in 2010.

Blocks CI-107 and CI-108 were relinquished in May 2008 following analysis of 3D data which had been acquired over several leads. Results revealed that there was still considerable risk associated with exploration in this frontier area in western waters off Côte d'Ivoire.

Congo (Brazzaville)

During 2008, as part of an active reservoir management programme on the onshore M'Boundi field, 14 production wells and 13 injection wells were drilled and water injection capacity was increased to 46,000 bwpd. Gross production is currently over 42,000 bopd and a field redevelopment plan is being implemented with the aim of achieving over 50,000 bopd by the end of 2009. This programme includes an upgrade of the water injection capacity to 200,000 bwpd and improvements to the gas re-injection, surface processing and power generation facilities.

Mauritania

At the beginning of 2008, gross production from the Chinguetti field in Mauritania was under 12,000 bopd. A programme of three well interventions and two new infill wells was successfully completed during the year to increase production rates and access undrained reserves. By year end, the field was producing at rates in excess of 17,000 bopd. During 2009, production performance will be carefully monitored and analysed to evaluate if there is potential for a further drilling campaign in 2010.

Two appraisal wells were drilled on the Banda discovery in Mauritania in 2008. In April the Banda North West well encountered both oil and gas pay and pressure testing and sampling indicated that the well is in communication with the original Banda discovery well 2 km away. The Banda East appraisal well was then drilled 5 km up-dip from Banda North West in October and encountered the same oil and gas contacts seen in the other wells. The seismic and well data are now being incorporated into the geological model to determine the commercial potential of the field.

In February 2008, Tullow drilled the Khop-1 exploration well in Block 6 in Mauritania. Only minor oil shows were encountered and the well was abandoned. However, the well did provide important stratigraphic data pertaining to the prospective Cretaceous interval.

Namibia
During 2008, possible development schemes were reviewed for the Kudu gas resources offshore Namibia. A technical study on emerging offshore Compressed Natural Gas (CNG) technology was also carried out. CNG may offer an alternative development option to the previously preferred pipeline to shore plan and could provide a means of delivering gas to more than one regional market. Commercial analysis of the development options is being progressed with the intention of presenting a proposal to the government in 2009 in advance of entering into negotiations with potential gas buyers.

Tanzania
Processing of the 2D seismic dataset was completed in 2008 and two prospects have been identified in the Ruvuma Basin, Sudi-1 and Mikindani-1. Tullow plans to drill its first well in Tanzania, Mikindani-1, in the second half of 2009.

Liberia
Tullow continuously reviews acreage in the Equatorial Atlantic margins of West Africa and South America to identify possible analogues to the deepwater discoveries in Ghana. During 2008, offshore blocks LB-15, LB-16 and LB-17 were targeted as having high potential. A farm-in deal was concluded in January 2009 resulting in Tullow acquiring a 25% interest in all three blocks. A large 3D survey is currently being acquired to delineate high potential prospects identified on existing 2D data.

Angola
During the year, existing seismic was reprocessed and a further 600 sq km of 3D data was acquired. Further evaluation in 2009 will define the future drilling programme for offshore Block 1/06, which contains the Pitanguiera and Bananeira discoveries as well as additional prospects.

Tullow sponsored local football tournament, Bulissa region, Uganda.

Cameroon
Tullow completed the sale of its interest in the offshore Ngosso licence to MOL during 2008.

Outlook
Following exceptional exploration and development success in Ghana and Uganda in 2008, resulting in a year-end reserves and resources upgrade of 296 million barrels, Tullow's 2009 capital programme will primarily focus on fast-track development and high-impact exploration in these two countries. In particular, Tullow will be investing in Phase 1 of the Jubilee field development, to ensure it meets the target of first oil in the second half of 2010 and in an exploration and appraisal programme with a combined upside resource potential of over two billion barrels.

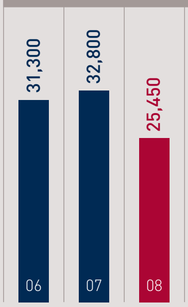
Given the current financial climate, investment in the non-operated areas of our African portfolio is expected to reduce in 2009 resulting in a short-term reduction in production. However, greater investment in these areas during 2010 is expected to reverse any decline in production levels.

Opportunities to balance the portfolio

Rest of the World

Tullow has a significant asset base in Europe, South Asia and South America. The Group has well established production in the UK and Bangladesh, and exciting high-impact exploration acreage positions in Portugal, Pakistan, French Guiana and Guyana. Tullow is targeting Jubilee-type plays across the Atlantic and has identified opportunities in South America which will form part of future campaigns.

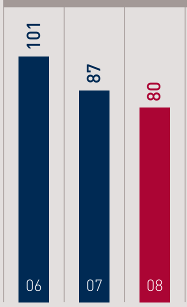
Working interest production (boepd)



22%
Decrease in working interest production

38%
Contribution to Group working interest production

Reserves and resources (mmboe)



8%
Decrease in reserves and resources

10%
Contribution to Group reserves and resources

Key producing assets

Core area / country	Producing field *(Tullow %)*	2008 Working interest production (boepd)
Europe		
UK	CMS Area fields *(9.5% – 100%)*	13,300
	Thames-Hewett fields[1] *(50% – 100%)*	6,800
South Asia		
Bangladesh	Bangora-Lalmai *(30%)*	3,750
Pakistan	Chachar[2] *(75%)*	1,450
	Sara/Suri *(38.18%)*	200

1. Tullow sold its interest in the Hewett field to Eni in December 2008.
2. Tullow is awaiting completion of the sale of this interest to Pakistan Petroleum Ltd.

Europe
Strong platform for growth

Through its UK experience, the Group has developed significant operating capability and these skills are being deployed across the rest of the Tullow portfolio as well as providing a sound base for potential future expansion in Europe. In 2008, Tullow produced over 20,000 boepd in the UK and sold non-core assets for a total of £245 million.

Looking forward, the Group has good organic growth opportunities in the Netherlands and in Portugal where frontier exploration opportunities are being evaluated.

South Asia
More focused portfolio

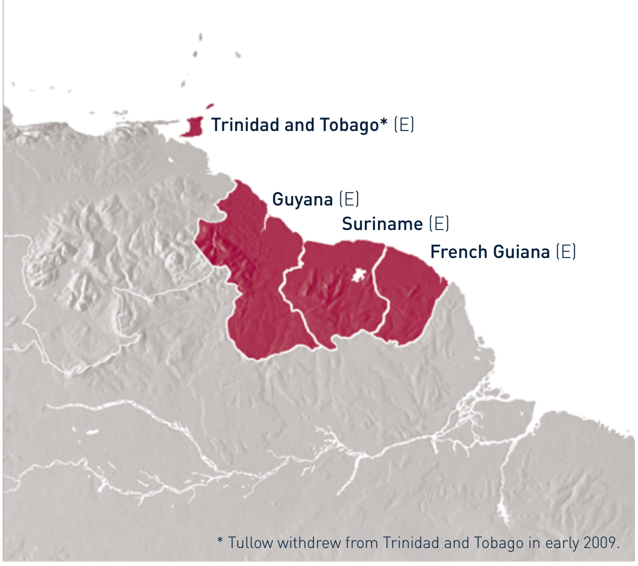
Tullow has had interests in South Asia since 1990 when it signed its first licences in Pakistan. In 2008, the Group produced over 5,000 boepd, following a successful upgrade of its Bangora production facility in Bangladesh.

In early 2009, the Group reviewed its portfolio in South Asia and decided to scale back activities. Going forward, the Group is focusing on production operations in Bangladesh, converting Pakistan operations into a non-operated venture retaining high-impact exploration acreage.

South America
Targeting new plays

Following Tullow's recent success in Ghana, the Group is now targeting similar stratigraphic plays in South America, which correspond to basins in the Equatorial Atlantic region. Tullow is building a strong acreage position in the region and currently has interests in Guyana, Suriname and French Guiana.

The Group's large acreage position in French Guiana has been re-worked in 2008 and several interesting Jubilee-type leads have been identified in the eastern area of the block.



Key: **E** Exploration **D** Development **P** Production

Rest of the World

In 2008 Tullow made good progress in Europe, South Asia and South America with new fields developed, major asset sales completed and acreage acquired in a new country with high-impact exploration potential.

2008 Highlights

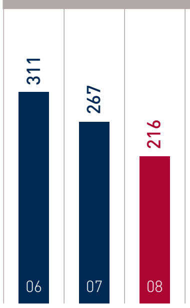
25,450 boepd
2008 average working interest production

£245 million
Sale of Hewett-Bacton and CMS assets in the UK

120 mmscfd
Capacity at Bangora expanded in Bangladesh

Georgetown Block
30% interest acquired in Jubilee type play offshore Guyana

Sales revenue (£ million)



£216 million
Sales revenue

19%
Decrease on prior year

Tullow's Rest of the World assets remain integral to the business and comprise production, development and exploration interests in Europe and South Asia and high-impact exploration licences in South America. In the current financial climate, Tullow has undertaken a strict capital allocation programme which will prioritise key African developments in the near term. However, investment in the Rest of the World is expected to increase in 2010.

Europe

Tullow's initial European offshore production interests were acquired in 2000 through the acquisition of two gas infrastructure hubs in the UK Southern North Sea. Over the last eight years, while benefiting from strong gas pricing, Tullow has grown this asset base through successful cost control, exploration, marginal field development and further acquisitions. Europe remains an important core area, generating revenues of £205 million in 2008 and a high-quality exploration portfolio in the Netherlands and Portugal.

UK

During 2008, while Tullow benefited from a 40% rise in UK gas prices, average net UK production was down to 20,095 boepd, some 29% lower than in 2007. This reduction, which was in line with expectations, was primarily due to the predicted natural decline in mature fields and deferral of development activities.

In the Thames Area, the Wissey field was successfully brought on stream in August 2008 at a rate of 70 mmscfd and is currently producing at a rate of 25 mmscfd. The Bure North subsea development was also sanctioned with first gas targeted towards the end of 2009. Both developments improve the economics of the infrastructure and extend the life of all user fields.

Glossary

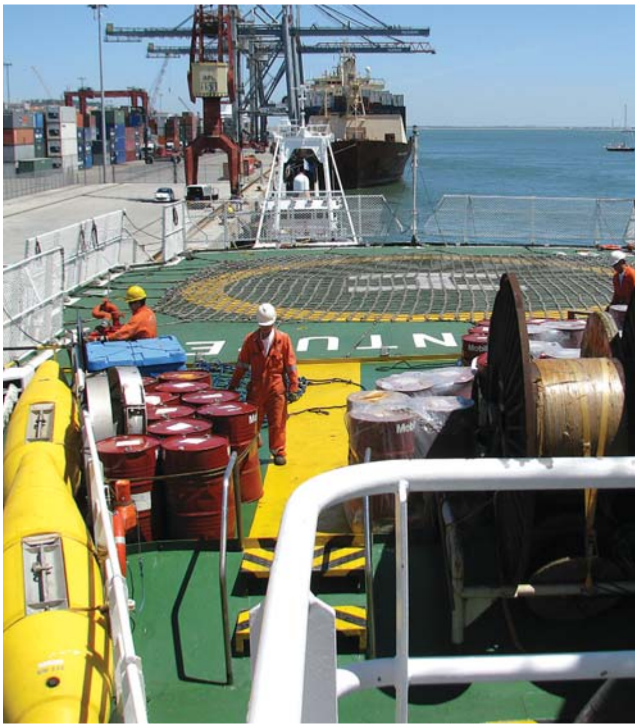
boepd	Barrels of oil equivalent per day
CMS	Caister Murdoch System
mmscfd	Million standard cubic feet per day
PSC	Production Sharing Contract
tcf	Trillion cubic feet

In the Hewett Area, Tullow continued to seek opportunities to extract value from these mature facilities. As part of these initiatives, the Hewett field was fully de-manned in the first half of 2008, yielding significant cost savings and a major technical study to investigate the viability of gas storage was completed. Subsequently, in November 2008, Tullow concluded the sale of its entire interest in the Hewett-Bacton producing assets and terminal to Eni for a headline consideration of £210 million. Tullow has, however, retained an interest in the Carbon Capture and Storage opportunity associated with the main Hewett field and is a member of a consortium which is leading a government-sponsored project. In January 2008, the Doris prospect was drilled but was unsuccessful and was plugged and abandoned.

The CMS Area fields continue to produce strongly. Technical work has identified the potential to access undepleted reservoir compartments in the Ketch field by drilling further infill wells. These wells will most likely be drilled in 2010. Two infill wells are currently drilling on the Murdoch and Boulton fields and these are expected to start producing in the second and third quarters of 2009. Detailed design work has also been carried out for the Harrison development. Sanction of the project is expected in the first half of 2009 and tendering for the platform and pipeline materials is ongoing. In June 2008, Tullow completed the sale of non-core CMS exploration and development assets to Venture Production for a consideration of £35 million.

Netherlands

Recognising the maturity and future limits in materiality to Tullow of the CMS Area, but leveraging our highly successful exploration campaigns in this region, Tullow has extended its exploration portfolio into the adjacent, relatively unexplored area of the Dutch sector. In 2008, Tullow added five blocks to its portfolio, taking the total to seven. In 2009, Tullow will focus on seismic reprocessing and interpretation to refine the prospect portfolio in preparation for a drilling campaign in 2010.



CGG Venturer vessel prior to the start of a 2D seismic survey, offshore Portugal.

Lorna Greig, geologist in the Europe asset team on a geological field trip in County Clare, Ireland.

Helipad of the Transocean Labrador rig during development drilling on the Wissey field, offshore UK.

Proven expertise

Across all areas of the Group

Tullow is organised for exploration success, which is central to the Group's continued growth. A Global Exploration Leadership Team, with over 300 years of exploration experience, works alongside 80 geologists and geophysicists across the Group. Their experience is leveraged through proven expertise in targeted core plays.

Similarly, management of major developments, key producing assets and drilling activities is the remit of a very strong production and development team, whose capabilities are constantly growing to meet the challenges and opportunities the Group's exceptional exploration success has delivered.

Key priorities are to quickly commercialise Ghana and Uganda; major projects that require significant financial resources. Tullow has strong commercial expertise and well-developed bank and shareholder relationships, evidenced by the ability of the Group to raise finance and place equity, despite the current credit environment.

Core plays

Tullow's expertise in core plays helps us open up new basins before the competition. We are at the forefront of unlocking value through selectively applied and innovative technologies that allow us to evaluate acreage, build play diversity and deliver first generation discoveries.

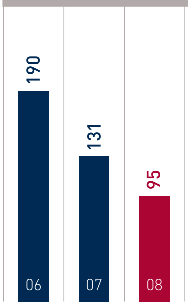
Major projects

Key priorities in 2009 are fast-tracking Ghana and Uganda. Phase 1 of the Jubilee field is well under way, which now allows us to evaluate the timing and plans for the next phase. In Uganda, we have assigned a dedicated team to deliver a commercial development plan for the region.

Financial strength

In 2009, Tullow successfully completed a US$2 billion financing and a £402 million equity placing. This is a significant achievement and a resounding endorsement of not just the Group's major projects, but also of Tullow's ability to successfully deliver the next phase of growth.

Capital investment (£ million)



£95 million
Capital investment

27%
Decrease on prior year

5,000 boepd
Net production from the Group's South Asia assets.

Portugal
Tullow has interests in three blocks in the frontier Alentejo Basin off the southwest coast of Portugal. Regional geological studies and seismic acquisition and interpretation are nearing completion and will assist in evaluating the prospectivity of this Atlantic margin basin. If the evaluation proves encouraging, the forward work programme could include additional 3D seismic acquisition and an exploration well by 2011.

South Asia
Tullow has had interests in South Asia for over 10 years and currently has net production in excess of 5,000 boepd. With the fast expansion of the Asian economy over the last few years, there remains a strong demand for energy in the region which offers significant future growth potential. Tullow's operations in the area remain important to the Group and an active review of the portfolio began during the year to ensure the range of assets continued to deliver the best value now and in the long-term.

Bangladesh
In October 2008, Tullow completed Phase 2 of the Bangora gas field development increasing processing capacity to 120 mmscfd and production from 70 to 100 mmscfd. Further increases are possible when the Bangora-3 well has been worked over and comes on line in the second quarter of 2009.

Elsewhere in Bangladesh, Tullow participated in the 3rd Licensing Round and successfully bid for offshore Block SS-08-05. The formal award of the block by the Government of Bangladesh is expected in the first half of 2009 and, Tullow plans to commence a 2D seismic acquisition programme later in the year. In Blocks 17&18 in the Bay of Bengal, a 250 sq km 3D seismic survey was acquired during the year. Tullow did not identify any material prospectivity on the acreage and has decided to relinquish its interest in these blocks.

Pakistan
During 2008, Tullow decided to restructure its Pakistan business to address the ongoing security concerns and to enhance the value of the operations to the Group. Following this strategic decision, two key changes were made. In November, the operatorship of the Kohat exploration block was transferred to OGDCL, the Pakistan National Oil Company, with Tullow retaining its 40% interest. An exploration well is planned on this block in the first half of 2009. Secondly, in December, Tullow agreed the sale of its interest in the producing Chachar field to Pakistan Petroleum Ltd for US$7.5 million (£5.2 million). As a result, by year end Tullow had significantly reduced its in-country office overheads whilst retaining a significant exploration interest in Pakistan.

Elsewhere in Pakistan, geological field studies and seismic operations commenced on the Kalchas block in September, where multi-tcf surface anticlines could be the target of a drilling campaign in 2010. A possible extension of the Kalchas seismic programme into the neighbouring Kohlu and Block 28 licences will be considered during 2009.

India
2008 was a disappointing year for Tullow in relation to its Indian operations. Three exploration wells were drilled on Block CB-ON/1 with no hydrocarbons being encountered. All three wells were plugged and abandoned. Following a critical review of the drilling programme and the remaining prospectivity in the block, Tullow has decided not to enter the next exploration period and has withdrawn from the licence. During the year, significant efforts were also made to progress Tullow's AA-ONJ/2 licence in Assam which had originally been applied for in 1996. However, at the end of the year, Tullow also took the strategic decision to withdraw from this licence and to fully withdraw from India, closing the Group's Delhi office.

South America
In South America, Tullow has interests in the prospective Guyana Basin in three adjacent countries, Guyana, Suriname and French Guiana. This basin offers exciting frontier exploration opportunities including geological plays analogous to the Jubilee field across the Atlantic.


Senior management visiting Bangora field in Bangladesh.


Chachar field in Pakistan.

French Guiana
Tullow's drilling success in the West African Transform Margin region led to a complete re-evaluation of the deepwater acreage in French Guiana during 2008 where Tullow has a 97.5% interest in the extensive (35,200 sq km) Guyane Maritime licence. In addition to the potential billion barrel Matamata prospect, mapped in the northwestern part of the block, a number of high-impact, high-risk leads have been identified in the southeast, analogous to Tullow's Jubilee field offshore Ghana. Tullow is now planning to acquire an extensive 3D seismic survey in the southeastern portion of the block in order to advance a number of known leads to drillable prospect stage. A drilling campaign would then follow in 2010 or 2011. Tullow plans to commence a farmout programme during the first half of 2009 to reduce its capital exposure to this forthcoming programme.

Guyana
In November 2008, Tullow enhanced its South American portfolio through the acquisition of a 30% interest in the Georgetown Block offshore Guyana, from the YPF Group. The block covers 11,100 sq km, in water depths of 50 to 200 metres, with geological characteristics similar to French Guiana and the proven basins on the other side of the Atlantic. A 1,880 sq km 3D seismic survey was acquired during the fourth quarter of 2008 and the focus for 2009 will be the interpretation and integration of this new data with the objective of identifying exploration targets for drilling in 2010.

Suriname
In Suriname, Tullow has interests in the onshore Uitkijk and Coronie blocks which lie adjacent to the Tambaredjo field, the country's main producing heavy oil field. The 2008 drilling programme commenced in December with five shallow wells drilled in the Uitkijk licence. The results are currently being reviewed and integrated into the regional database. The Uitkijk drilling programme will be followed by a five-well exploration programme on the Coronie block in early 2009.

Trinidad and Tobago
Extensive negotiations were held in 2008 in an attempt to conclude the Production Sharing Contract (PSC) agreements on Block 2ab and the Guayaguayare block in Trinidad and Tobago. Unfortunately, an acceptable commercial solution was not reached and a decision was taken to withdraw from both licences at the end of the year.

Outlook
In Europe, the focus is on high-grading development opportunities in the UK and completing exploration activity in Portugal and the Netherlands for drilling in 2010.

In South Asia, we have rationalised our Pakistan portfolio and continue to develop our existing Bangladesh operation.

The Group's South American business is looking to expand through new ventures, portfolio management, licence rounds and exploration. This activity will continue in 2009 with key exploration campaigns planned for 2010 and 2011.

Further growth and financial flexibility

Tullow delivered a record set of results in 2008 and in early 2009 significantly enhanced the Group's financial flexibility with a successful equity placing and US$2 billion debt financing.

Tullow has recorded record results for 2008 driven by a strong operational performance, increased oil and gas pricing compared with 2007 and profitable portfolio management. Whilst production decreased, by 9% to 66,600 boepd, average price realisations increased by over 25%. Basic earnings per share increased to 30.9 pence per share (2007: 7.1 pence per share).

In 2008, the Group's cash flow was enhanced by portfolio management transactions with proceeds of £285.4 million. Financial flexibility was then significantly improved by an equity placing in January 2009 which raised £402 million and a US$2 billion debt financing was secured in March 2009.

Steady production and strong commodity prices
Working interest production averaged 66,600 boepd, 9% below 2007, primarily as a result of natural decline in mature fields and deferred production due to the reallocation of capital to development projects and high-impact exploration. Sales volumes averaged 55,000 boepd, representing a decrease of 12%, driven by changes in the proportion of sales arising from Production Sharing Contracts (PSC).

On average, oil prices in 2008 were significantly above 2007 levels, although they were impacted by the global economic downturn in the second half of the year. Realised oil price after hedging for 2008 was US$73.6/bbl (2007: US$62.7/bbl), an increase of 17%. Tullow's oil production sold at an average discount of 4% to Brent Crude during 2008 (2007: 3% discount).

UK gas prices in 2008 were extremely strong, returning to the exceptional levels seen in early 2006. Realised UK gas price after hedging for 2008 was 52.4p/therm (2007: 37.3p/therm), an increase of 40%. In Europe, the Group also recorded tariff income of £10.2 million (2007: £17.5 million) from its UK infrastructure interests.

Higher commodity prices, partly offset by marginally lower sales volumes, meant that revenue increased by 8% to £691.7 million (2007: £639.2 million).

Operating costs, depreciation and impairments
Underlying cash operating costs, which exclude depletion and amortisation and movements on under/overlift, amounted to £143.9 million (£5.90/boe) (2007: £5.05/boe). These costs were 17% above 2007 levels, principally due to upward pressure in oil and gas services costs and an increase in Gabonese royalty payments which are directly linked to oil prices.

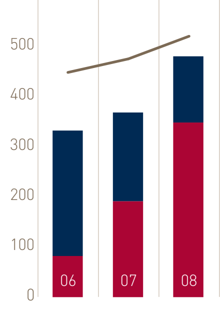
Depreciation, depletion and amortisation charges before impairment charges for the period amounted to £198.4 million (£8.14/boe) (2007: £7.61/boe).

Key financial metrics

	2008	2007	Change	
Production (boepd, working interest basis)	66,600	73,100	-9%	V
Sales volume (boepd)	55,000	62,600	-12%	V
Realised oil price (US$/bbl)	73.6	62.7	+17%	^
Realised gas price (p/therm)	52.4	37.3	+40%	^
Cash operating costs per boe (£)[1]	5.90	5.05	+17%	^
Operating cash flow before working capital per boe (£)	21.3	17.8	+20%	^
Net debt (£ million)[2]	400	480	-16%	V
Interest cover (times)[3]	17.8	10.4	+7.4 times	^
Gearing (%)[4]	30	67	-37%	V

1. Cash operating costs are cost of sales excluding depletion, depreciation and amortisation and under/over lift movements.
2. Net debt is cash and cash equivalents less financial liabilities net of unamortised arrangement fees.
3. Interest cover is earnings before interest, tax, depreciation, amortisation charges and exploration written-off divided by net finance costs.
4. Gearing is net debt divided by net assets.

Operating cash flow and capital investment (£ million)



£519 million

Tullow generated record cash flows in 2008, 9% ahead of 2007. In 2008, approximately 70% of our investment was allocated to exploration assets, with the balance invested in production and development assets.

The Group has also recognised a further impairment charge of £26.3 million (£1.08/boe) (2007: £0.48/boe) in respect of the Chinguetti field in Mauritania and for the Chachar field in Pakistan where the asset sales price was below the carrying value in the balance sheet.

Administrative expenses of £43.1 million (2007: £31.6 million) include an amount of £7.9 million (2007: £5.4 million) associated with IFRS 2 – Share-based payments. The increase in total general and administrative costs is also due to the increase in the scale of our operations. In 2008, staff numbers increased by 46% to 540 people.

Exploration write-off and asset value reduction

Exploration write-offs associated with unsuccessful 2008 exploration activities in the UK, Bangladesh, India and Mauritania, new ventures activity and licence relinquishments totalled £62.4 million (2007: £51.1 million).

The Group has decided to primarily focus on fast-tracking its world-class discoveries in Ghana and Uganda and selective high-impact exploration. Tullow has therefore conducted a fundamental review of the exploration asset values on its balance sheet compared with expected future work programmes and the relative attractiveness of further investment in these assets. In accordance with the Group's successful efforts accounting policy, assets have been written down to reflect this more focused approach. This review has resulted in an additional write-off of £164.3 million (2007: £13.1 million) in respect of interests in Mauritania, Suriname, Tanzania and Trinidad and Tobago.

Tullow's total exploration write-off and asset value reduction for 2008 is therefore £226.7 million (2007: £64.2 million).

Operating profit

Operating profit amounted to £299.7 million (2007: £189.0 million), an increase of 59%, principally due to the higher commodity prices realised during the period, profits of £243.9 million in relation to portfolio management activities offset by exploration costs written-off of £226.7 million.

Derivative instruments

Tullow continues to undertake hedging activities as part of the ongoing management of its business risk and to protect the availability of cash flow for reinvestment in capital programmes that are driving business growth.

At 31 December 2008, the Group's derivative instruments had a net positive mark-to-market value of £49.3 million (2007: negative £158.0 million). The substantial movement in the mark-to-market position during the year has mainly been caused by the significant weakening in oil price in the second half of 2008.

While all of the Group's commodity derivative instruments currently qualify for hedge accounting, a credit of £42.9 million (2007: charge of £29.3 million) has been recognised in the income statement for 2008. This credit largely reflects the change in fair values of the Group's hedging instruments attributable to time value and implied volatility and value being conferred to Tullow by the hedge counterparties.

The Group's hedge position as at 4 March 2009 is:

Hedge position

	2009	2010	2011
Oil			
Volume (bopd)	14,958	7,500	1,500
Current price hedge (US$/bbl)	59.21	74.69	63.89
Gas			
Volume (mmscfd)	56.7	17.8	3.7
Current price hedge (p/therm)	54.32	53.01	58.86

Gearing, financing costs and interest cover

The net interest charge for the period was £43.3 million (2007: £45.6 million) and reflects the reduction in net debt levels during 2008 due to improved operating cash flow and the completion of portfolio management transactions, partially offset by increased capital expenditure.

At 31 December 2008, Tullow had net debt of £400.4 million (2007: £479.5 million), while unutilised debt capacity was in excess of £230 million. The Group's gearing was 30% (2007: 67%) and EBITDA interest cover increased to 17.8 times (2007: 10.4 times).

Portfolio management

During 2008, Tullow completed the disposal of a number of non-core assets for proceeds of £285.4 million, with an overall profit on disposal after tax of £243.9 million. In Africa, Tullow completed the sale of its 40% interest in the Ngosso licence, offshore Cameroon, to MOL in July 2008. In Europe, the sale of certain CMS assets to Venture

Summary cash flow

	2008 £'000
Revenue	691,673
Operating costs	(137,487)
Corporate expenses	(35,392)
Cash flow from operations	**518,794**
Working capital movements and tax	(7,997)
Capital expenditure	(460,352)
Other investing activities	288,736
Financing activities	(151,732)
Net increase in cash and cash equivalents	**187,449**

Production completed in June 2008 and the sale of a 51.68% interest in the Hewett-Bacton complex to Eni was completed in November 2008.

In January 2008, Tullow announced the sale of its 11% interest in the M'Boundi field to the Korea National Oil Company. Despite strenuous efforts, government approvals for the transfer of the asset were not forthcoming within a reasonable timeframe and therefore it was agreed that the transaction could not be concluded. Tullow has retained its 11% interest in the field and will benefit from future operational cash flows as well as debt capacity as the asset will be re-incorporated into the reserves-based lending facility.

Taxation

The tax charge of £73.1 million (2007: £61.6 million) relates to the Group's North Sea, Gabon, Equatorial Guinea and Mauritanian activities and represents 24% of the Group's profit before tax (2007: 54%). This low effective tax rate is principally as a result of asset disposals that were not subject to a tax charge and oil revenues under PSCs where higher prices result in lower entitlement volumes rather than higher taxes.

Dividend

Due to the requirement for major capital investment during 2009, particularly in Ghana and Uganda, and in light of the current economic uncertainty the Board feels that it is prudent to maintain the final dividend at the 2007 level. Consequently the Board has proposed a final dividend of 4.0 pence per share (2007: 4.0 pence per share). This brings the total payout in respect of 2008 to 6.0 pence per share (2007: 6.0 pence per share). The dividend will be paid on 21 May 2009 to shareholders on the register on 17 April 2009.

Record operating cash flow; focused capital investment

Increased commodity prices led to record operating cash flow before working capital movements of £518.8 million (2007: £473.8 million), 9% ahead of 2007. This cash flow facilitated 2008 capital investment of £460.4 million in exploration and development activities, payment of dividends, servicing of debt facilities and a reduction of over £60 million in net debt.

Tullow is currently budgeting for a total 2009 capital expenditure of approximately £600 million (2008: £480 million). Investment in 2009 will be split 70% on production and development and the remainder on exploration and appraisal. Tullow's activities in Africa will comprise 85% of the anticipated capital outlay, with the principal expenditures being in Ghana and Uganda. The potential impact on capital expenditure following the recent success at Tweneboa, coupled with ongoing success and further upside in Uganda, is under review.

Balance sheet

Total net assets at 31 December 2008 amounted to £1,309.2 million (31 December 2007: £712.7 million), with the increase principally due to the profit for the year, currency translation adjustments and hedge movements. Net assets increased by £161.0 million in the year due to the movement of the hedge reserve in accordance with IAS 39 – Financial Instruments: Recognition and Measurement. The significant decrease in the oil price during the second half of the year gave rise to a net positive mark-to-market of £49.3 million at the year end. An increase in net assets (foreign currency translation reserve) of £222.3 million resulted from the weakening of Sterling against the US Dollar from US$2.00 to US$1.45 in the year. As a consequence, underlying US Dollar denominated assets increased in Sterling value terms at the year end.

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 on pages 85 to 89. The Group has not made any material changes to its accounting policies in the year ended 31 December 2008.

Equity placing

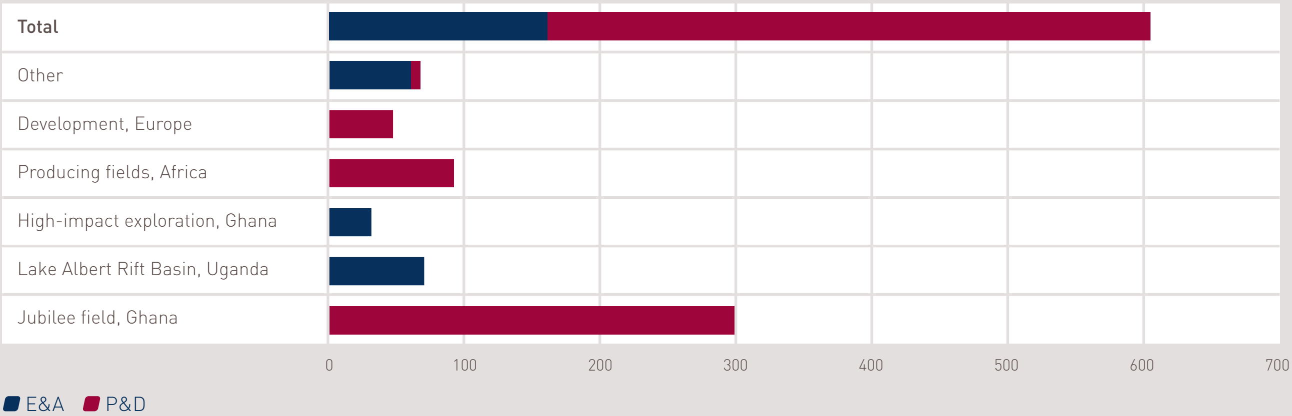
Tullow successfully placed 66,938,141 new ordinary shares with institutional investors at a price of 600 pence per share on 21 January 2009. Based on the placing price, the gross proceeds of the placing amounted to £402 million. The placing shares represent an increase of approximately 9.1% in the Group's existing share issued share capital.

Debt funding

In March 2009 Tullow finalised arrangements for US$2 billion (£1.38 billion) of new debt, structured in the form of secured reserve-based lending facilities with a seven-year term. A total of 13 commercial banks have committed to facilities of US$1.885 billion (£1.3 billion) with the remaining debt of US$115 million (£80 million) being provided by the IFC in a separate facility. The facilities have a final repayment date of December 2015 and the margin on the new facilities, depending on the amount drawn, is up to 3.75%. Tullow will use the proceeds from the facilities to repay existing debt

2009 Capital expenditure (£ million)

The current budget for 2009 capital expenditure is approximately £600 million. Activity in Africa is expected to account for 85%.



facilities and to finance the future capital expenditure requirements of the Group, particularly in Ghana and Uganda. Tullow received strong support from its banking syndicate and it is a very significant achievement to complete a US$2 billion (£1.38 billion) financing in the current economic climate.

Liquidity risk management and going concern

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices and different production rates from the Group's portfolio of producing fields. The Group normally seeks to ensure that it has a minimum ongoing capacity of £200 million for a period of at least 12 months to safeguard the Group's ability to continue as a going concern.

Following the placing announced in January 2009 and securing the US$2 billion financing in March 2009, the Group's forecasts and projections show that there is significant capacity and financial flexibility for the 12 months from the date of the 2008 Annual Report and Accounts.

Although there is considerable economic uncertainty at the present time, after taking account of the above, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the 2008 Annual Report and Accounts.

Capital market relationships

Tullow continues to place great emphasis on achieving top quartile and best practice performance in investor relations and capital market communications. During the year, senior management regularly meet with investors, analysts and banks from the Group's lending syndicate. In 2008, senior management participated in over 200 investor meetings in 18 countries, presented at 17 conferences and hosted investors and sell-side analysts events in Uganda and the UK. There was significant positive news flow, particularly from Ghana and Uganda, and despite volatile equity markets there was positive TSR of 2% in 2008, the 9th best performance in the FTSE 100 index and in the top quintile of Tullow's comparator group.

Financial strategy and outlook

Whilst the global economic environment is extremely challenging, the Group's successful equity placing and recent debt financing means that Tullow has a strong balance sheet and significant financial flexibility.

In 2009, the Group will continue to allocate its capital to projects that provide the opportunity for the highest return for shareholders and seek to augment underlying cash flow through continued cost and capital management and ongoing portfolio activity. The outlook for the Group is very positive, supported by disciplined financial management and significant leverage to higher oil prices.

Managing risk responsibly

Tullow has comprehensive risk management systems in place, with clear targets and responsibility.

Effective risk management is critical to achieving the Group's strategic objectives and protecting its people and reputation. Tullow manages and mitigates risk by maintaining a balanced portfolio, compliance with the terms of its licences, the 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.

The Group has a systematic approach to risk identification and management combining both a 'top-down' (driven by the Board) and a 'bottom-up' (originating from the business units and operations) review and approval process.

Detailed assessment in 2008

The Board completed a detailed update of strategy during 2008 and a key component of this process was an assessment of risks critical to strategic delivery. This assessment was completed with each Board member and senior managers from production, exploration and finance.

One of the main outcomes is that responsibility for managing and monitoring key risks has been assigned to individual Executive Directors and senior managers.

Other key outcomes are that risk management is now integrated with the Group's performance management tools and will be reported on a quarterly basis to the Board.

Assigned responsibility

While the Tullow Board and Executives have collective responsibility for the management of risk, the Group has Board sponsors with responsibility for key risks and these are outlined here.

Aidan Heavey, Chief Executive Officer, has responsibility along with the executive team for strategic delivery consistent with shareholders' expectations.

Cost and capital discipline is the responsibility of Paul McDade, Chief Operating Officer and Angus McCoss, Exploration Director. 70% of 2009 capital expenditure is allocated to P&D and 30% to E&A activities. Paul, with the Head of EHS, Graham Brunton, has responsibility for ensuring the Group achieves its EHS targets and maintains the security of its employees, contractors and operations.

In addition, P&D has direct operational responsibility for the specific targets to achieve the fast-track development of major projects in Ghana and Uganda.

Ian Springett, Chief Financial Officer, has responsibility for managing liquidity and developing the Group's longer-term financing strategy. He is also responsible for external risks such as cost inflation and oil and gas price volatility and internally focuses on ensuring the Group's processes and systems develop in line with the increased scale of Tullow.

Graham Martin, General Counsel and Company Secretary, is responsible for legal and governance issues, and along with Aidan Heavey, he is also tasked with developing and maintaining successful relationships with governments and developing the Group's political risk profiling process.

In each area the Executive Directors are supported by members of the senior management team or managers with key functional responsibilities.

Performance reporting processes

Tullow undertakes a detailed annual business planning and budget process. This includes annual objectives and targets covering production, development, exploration, EHS and financial performance, which are set at a business unit and asset level with key risks to the delivery of these targets identified. Actual performance is reported on a monthly basis with narrative explaining key variances. On a quarterly basis senior management assess the Group's performance through a series of reviews with business units. These reviews include an assessment of risks to delivery of targets and performance, and measures being implemented to manage these potential risks.

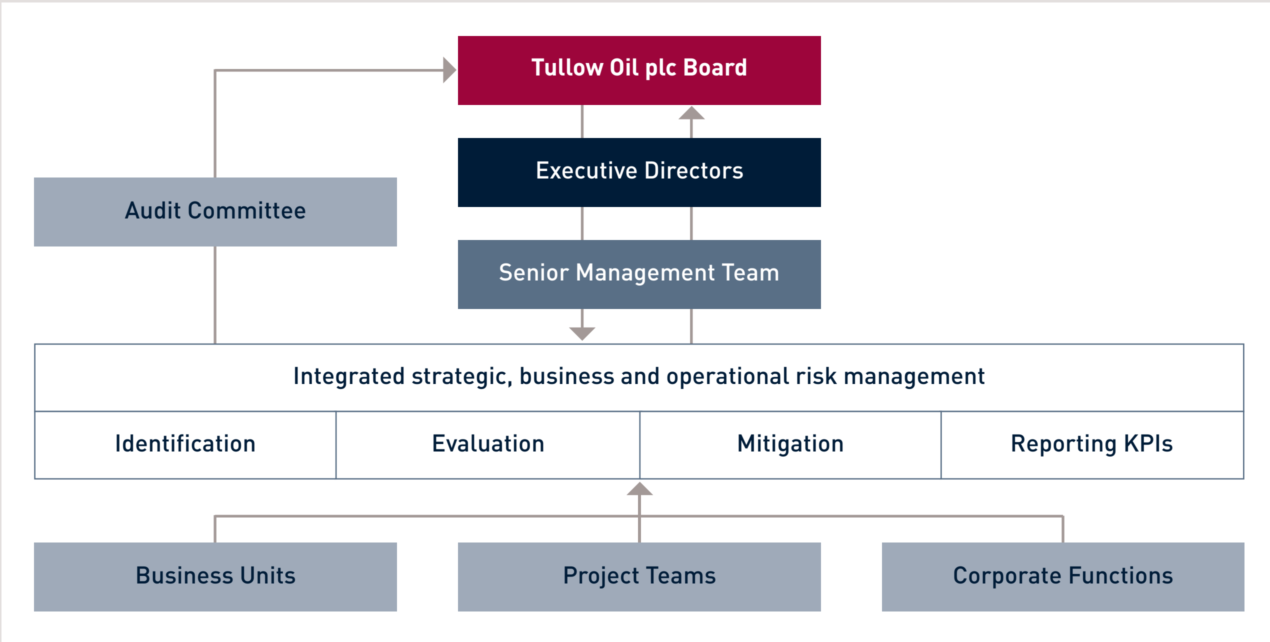
Dedicated major project management

Dedicated teams have been established to manage developments in Ghana and Uganda. Project milestones have been established with progress reported on an ongoing basis. Risk identification, mitigation and monitoring are completed as part of the day-to-day management of the developments. Detailed risk analysis is completed with input from partners as appropriate to identify key risks to project costs and timetable delivery. Plans to mitigate these risks are developed, monitored and reported regularly by the project teams to the Executives and the Board.

Appropriate policies and procedures

Detailed procedures support risk management across Tullow and the application and consistency of these procedures is regularly reviewed by the Group's Internal Audit function. These procedures include:

Risk management at Tullow



- Delegation of authority covering commitment and approval limits for work programmes, activities and expenditure;
- Integrated Management Systems which set minimum business standards to be used throughout Tullow including risk management guidelines;
- Business ethics includes a code of business conduct and ethics and integrity and whistleblowing policies;
- Human resource policies establish a consistent set of values and standards for managing employees and contractors throughout the Group;
- Contract and procurement detail procedures for tendering, evaluation, selection and award of contracts; and
- Exploration business procedures integrate technical, portfolio and financial controls with associated assurance and approval processes.

Further, Tullow has successfully applied for external certification of critical processes such as International Organization for Standardization (ISO) 14001 certification for environmental management in the UK, Dublin, Cape Town, Bangladesh, Pakistan and Mauritania. The review process for this standard involves an assessment of the management of material risks and business and operational controls employed to mitigate such risks.

Tullow groups risk into strategic, financial, operational and external risks. Risks identified are closely aligned with the Group's KPIs, as set out on page 18 to 19 of this report.

Risk management and risk factors continued

Risk analysis outlining key risks facing Tullow together with their potential impact and the mitigation strategies developed is contained below.

Strategic risk

Impact – Ineffective or poorly executed strategy fails to create shareholder value or fails to meet shareholder expectations.

Risk	Mitigation
Strategy fails to meet shareholder expectations	Strategy focused on delivering Ghana and Uganda developments and selective high-impact exploration programme. Effective communication with all stakeholders based on uniform, open and transparent dialogue.
Ineffective capital allocation	Consistent investment appraisal through application of agreed criteria with ranking of opportunities validated by executive management. Material acquisitions and disposals and new country entry require Board approval.
Loss of key staff and succession planning	Remuneration policies to attract and retain staff, staff appraisal, specific development and training policies implemented. Board succession plan to be reviewed in 2009.

Financial risk

Impact – Asset performance and excessive leverage results in the Group being unable to meet its financial obligations.

Risk	Mitigation
Insufficient liquidity, inappropriate financing strategy	Prudent approach to debt and equity balance maintained through refinancing and equity placing. Regular Board review and approval for financing options. Short- and long-term cash forecasts reported to senior management and Board monthly.
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. Hedging activity is reported to the Board monthly and accounting reviewed by external audit.
Underperforming assets	Monthly asset financial and operational performance reporting and KPI measures established. Detailed senior management review completed quarterly with business unit teams. Active portfolio management and review of carrying values.
Cost and capital discipline	Comprehensive annual budgeting process covering all expenditure approved by the Board. Executive management approval required for major categories of expenditure effectively managing capital allocation. Monthly reporting vs budget with variance analysis.
Uninsured events	Comprehensive insurance programme approved annually with business interruption cover for key producing assets.

Operational risk

Impact – Operational event impacting staff, contractors, communities or the environment leading to loss of reputation and/or revenue.

Risk	Mitigation
EHS	EHS performance standards set and monitored regularly across the Group through KPI reporting. EHS management system implemented.
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, dedicated project teams established. Risk evaluation and progress reporting initiated for all projects. Project milestone KPI's established for Ghana and Uganda.
Ineffective management processes / increased scale of business	Policies and procedures developed for all significant business processes appropriate for Tullow's size and scale. Application validated through management and internal audit review.
Failure to secure equipment, services and resources	Rigorous contracting procedures and competitive tendering. Major contracts require senior management and partner approval.
Corruption or reputation risk	Consistent ethical standards established and applied through code of business conduct and contract and procurement procedures.
Corporate and Social Responsibility	Social and community programmes overseen by CSR Committee, policies established and regular reporting of progress and financial commitment implemented.
Sustained exploration failure	Exploration process validates programmes prior to Board approval, KPI measuring success of exploration spend reported monthly to Board.

External risk

Impact – The overall external political, industry or market environment may negatively impact on the Group's ability to independently manage and grow its business.

Risk	Mitigation
Political risk and fiscal change	Developing and maintaining successful relationships with governments and communities.
Lack of control of key assets	Joint venturing with partners and governments. Enforceability of licence and production agreements.
Corporate governance failings	Regular review of compliance requirements with periodic Board reporting.
Oil and gas price volatility	Hedging strategy agreed by Board, monthly reporting of hedging activity.
Hostile acquisition	Robust defence strategies against hostile acquisitions. Effective investor engagement and ongoing communications programmes.
Industry cost inflation	Rigorous contracting procedures and competitive tendering required for all significant expenditures.

Our people deliver

At Tullow we believe that people should be allowed to play to their strengths. Our culture is based on giving individuals the freedom to operate and the skills to perform in an entrepreneurial environment that balances autonomy and accountability.

How we've progressed

46%

Increase in staff globally in 2008

45

Ghanaians work for Tullow, building in-country capability

93%

Of our employees would recommend Tullow as a good employer to a friend

Organised for growth

New senior management team structure

To expand our organisational effectiveness we enhanced our HR capability with the appointment of a Chief HR Officer, Group Talent Manager and Group Reward Manager, providing essential support to a growing business. We have also developed and rolled out a Group-wide HR strategy.

Culture and engagement

Our culture is entrepreneurial and innovative. We provide a creative environment which encourages taking on challenges and rewards performance. As we grow it is important that we maintain and foster the unique characteristics that have supported our growth and development to date.

As a result, we continue to articulate and link the Group's strategic aims, objectives, ways of working and values across Tullow. In 2008, we rolled out Tullow's strong vision across the Group and enhanced our induction processes. Maintaining strong levels of engagement is vital to employee retention and in 2009, we will undertake a global staff survey to test engagement across Tullow. Highlights from the 2008 surveys were: 81% of employees felt valued; 95% said they were proud to work for us; and 93% would recommend Tullow to their friends as a good employer.

Talent development

Our focus in this area is on delivering development and training throughout the Group so that each employee can reach their full potential. In our fast-growing business we must ensure all our staff – at every level – are fully equipped to do their job. We identify leaders and managers of the future to ensure they have the skills they need to contribute to our continued success. Every employee, new or experienced, has the opportunity to grow and develop.

Performance management

Our performance management process is a key tool in maintaining a high performing team. We have a common process of managing performance and setting challenging goals for the business with all locations participating. This creates an environment where leaders and staff give open and honest feedback with the aim of achieving continuous improvement in all that we do.

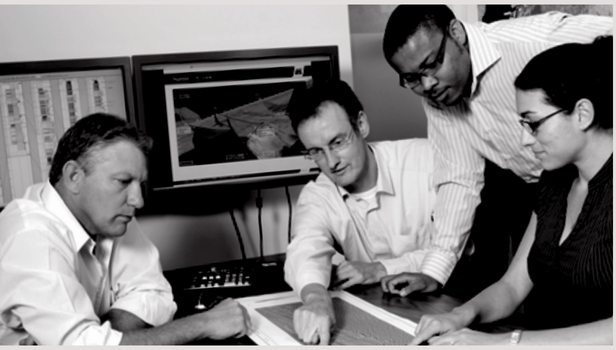
Reward and recognition

We conduct salary benchmarking surveys to ensure that we know what competitors are doing in terms of salaries and benefits. Our reward packages are highly competitive in the external marketplace and relative to our peer group. Every Tullow employee has a stake in the business and its success through share options. Our performance bonus arrangements are designed to reward the best performance, both corporate and individual. These are open and transparent, making a direct link between good performance and reward.

Organised for growth

A new management structure was formed in 2008. The senior management team is responsible for delivering the annual budget and plan and ensuring we are properly resourced to do so. This new structure serves as an important conduit of information to Executive Directors and to the functional and operational teams throughout the business. This in turn helps improve internal communications, integrates decision-making and builds organisational effectiveness.

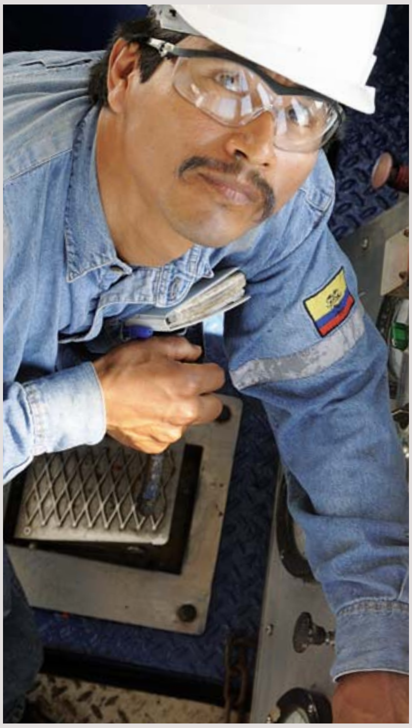
Go online to: www.tullowoil.com/our people, going live summer 2009



Uganda Exploration Team, Cape Town office.

Reward and recognition

To support and enhance our reward design and delivery we have appointed a Group Reward Manager.



Santiago Guevara drilling crew, Uganda.

Our people strategy

Tullow launched a new people vision and strategy in 2008. This is represented by this logo, which shows the four interlinking elements of the Group's HR strategy, with people at the centre of everything we do.

Kristina Kasibayo, Legal & Compliance Adviser, Kampala office, Uganda.

Investing in HR

We have appointed a Group Talent Manager to ensure we develop every employee and give individuals and the Group the skills to support success in the future. In 2009, we will introduce a global e-learning induction programme and e-based performance management.

Diverse training and development

Our talent development programme embraces all types of training and development – leadership, management, functional and people skills – enabling all our employees to reach their full potential.

Jenna Luiten and Candice Wentworth, receptionists in the London head office.

Focused on our responsibilities

2008 has been another successful year for Tullow's EHS and operational teams, with the Group delivering an excellent EHS performance and meeting the majority of its challenging EHS performance targets.

How we've progressed

0.49 LTIFR (Group KPI)
Excellent safety performance in top industry quartile

6.15
Million hours worked across the Group in 2008

US$1.8 million
Doubled our expenditure on voluntary social investment

Eight
2008 Objectives achieved out of 11 in total

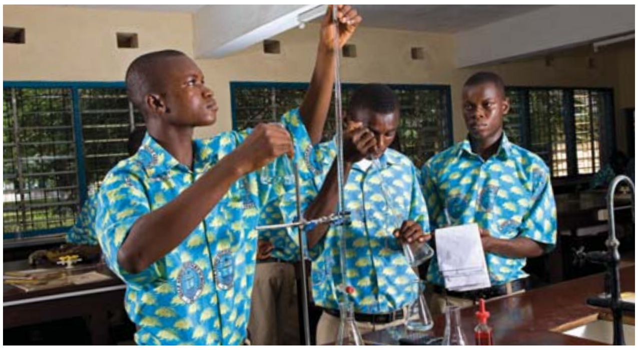
2009 Challenges

Achieve LTIFR of 0.5 or less

Achieve ISO14001 certification of Ugandan operations

Re-issue and enhance EHS leadership commitment statements across the Group

Develop crisis management team (CMT) training for in-country teams in conjunction with Group CMT training



Students at the Half Assini Secondary School Science Laboratory which has been refurbished by Tullow.

At Tullow we are very focused on our responsibilities and we recognise, monitor and manage our environmental and social impacts, including the health and safety of our employees and local communities.

Our disciplined approach to CSR supports our licence to operate, generating reputational benefits with key stakeholders, and obtaining long-term competitive advantage. We are proud of our track record of ensuring safe operations with minimal impact on our surroundings whilst developing local infrastructure and communities.

Strong EHS leadership
In 2008, we achieved great success in managing EHS, principally through the commitment and leadership shown by Tullow people across our organisation. The Group has a strong culture of individual responsibility and empowerment with every single Tullow employee and contractor having the authority and the obligation to stop any activity that could be unsafe. This is complemented by a strong EHS Leadership Team, comprising managers from around the Group.

We recognised that it was very important to provide individuals with key tools to keep EHS at the top of their daily agenda. A dedicated EHS consultant was recruited to specifically engage and support leadership. An example of this proactive support was the preparation of individual commitment statements where 11 EHS leaders each documented their planned EHS personal commitments for the year. They then rolled out these commitments to their operational teams. As well as contributing to a great EHS record for the year, we were delighted that this innovative process was recognised by the UK oil and gas industry 'Step Change' website as a best practice example of leadership engagement and support for improving EHS performance.

The EHS Leadership Team has also developed a focused EHS and CSR training matrix to ensure we continue to develop our leadership team's expertise in key areas.

Glossary

CMT	Crisis Management Team
CSR	Corporate Social Responsibility
EHS	Environment, Health and Safety
HIPO	High Potential Incident
ISO	International Organization for Standardization
LTI	Lost Time Incident
LTIFR	Lost Time Incident Frequency Rate
TRI	Total Recordable Incidents
TRIFR	Total Recordable Incident Frequency Rate

For more information on our CSR activities visit www.tullowoil.com/corporatesocialresponsibility; going live summer 2009

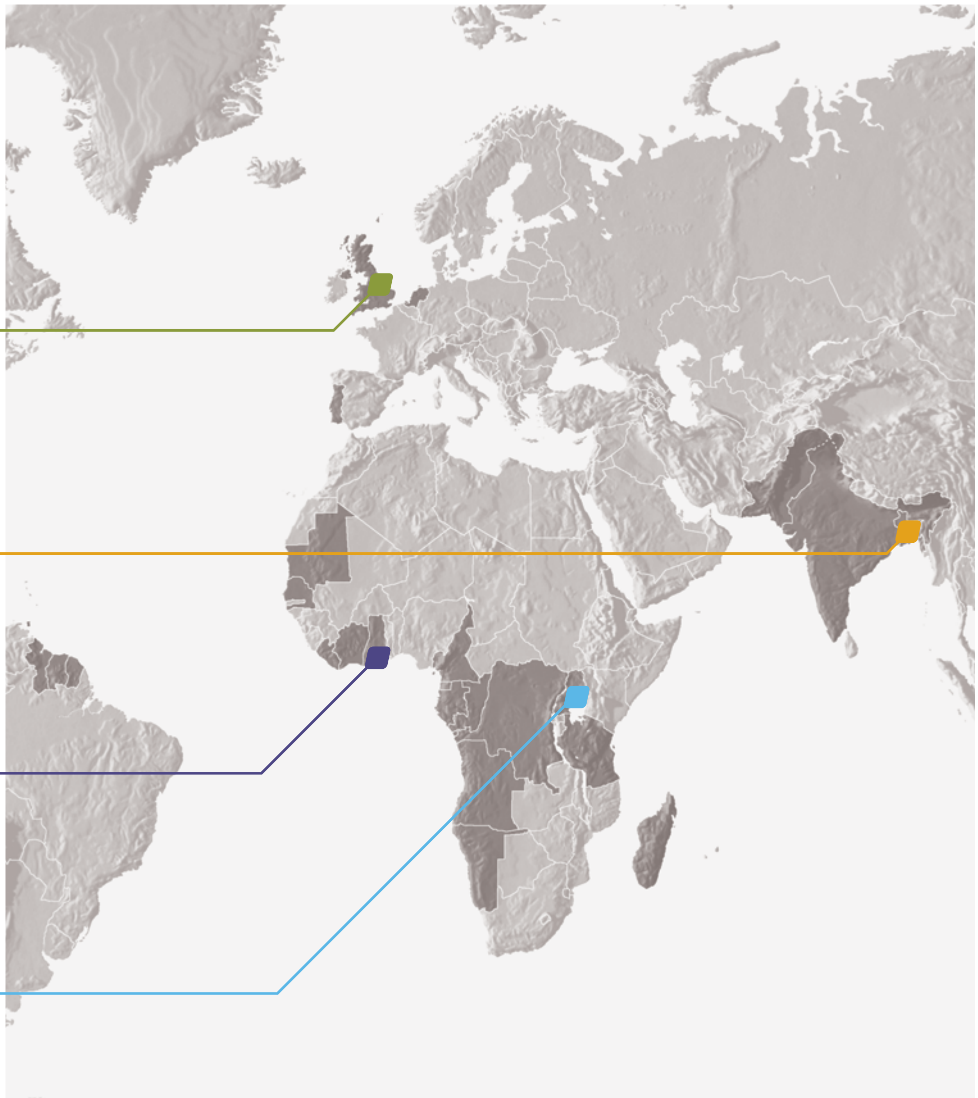
11
EHS commitment statements
developed across the Group to support and improve EHS performance.

27%
Reduction in emissions
from UK operations under the European Union Emissions Trading Scheme.

967
LTI-free days
at the Bangora production facility in Bangladesh.

77%
Local staff
at Tullow's Accra office and the Takoradi operational base in Ghana.

1,104
Children immunised
against eight common childhood diseases in Uganda.



Key EHS metrics

	2008*	2007	2006
Group-wide			
Lost Time Incident (LTI)	3	10	5
Lost Time Incident Frequency Rate (LTIFR)	0.49	1.95	0.81
High Potential Incident (HIPO)	24	29	3
Total Recordable Incidents (TRI)	28	65	74
Total Recordable Incident Frequency Rate (TRIFR)	4.55	12.7	12.1
Hours worked (millions)	6.15	5.1	6.1
Oil and chemical spills	6	1	2
UK only			
EUETS CO_2 emissions (tonnes)	171,702	190,464	215,407
UK produced water quantity (m^3)	8,889.7	6,920.1	9,725.4
UK total oil in produced water (tonnes)	0.25	0.21	0.16
Water abstraction (m^3) – Bacton only	30,639	31,899	18,678
Group figures			
Water usage (m^3) – all production sites, utilised in process	62,380	39,496	
All production emissions (tonnes CO_2)	165,543	199,198	
All drilling emissions (tonnes CO_2)	9,645	23,597	
All well test emissions (tonnes CO_2)	2,632	11,667	

* All 2008 data is preliminary and may be subject to change following completion of assurance work being undertaken by Deloitte LLP.

Libreville, Gabon.

Gert-Jan Smulders visiting the Gopalnagar Primary School, Bangladesh.

Positive health and safety performance

Tullow achieved its best accident and incident performance to date in 2008 with reported incidents significantly down compared with 2007. Three Lost Time Incidents (LTIs) resulted in a Lost Time Incident Frequency Rate (LTIFR) of 0.49 LTIs per million hours worked, well below the challenge set by Tullow Senior Management of less than 1.0. When benchmarked against the OGP 2007 published data, this puts our performance in the industry's top quartile.

The Total Recordable Incident Frequency Rate (TRIFR) reduced by 64% in 2008. During the year, there was an increased focus on High Potential Incidents (HIPOs). Tullow conducted six monthly reviews of reported HIPOs across the business to ensure that reporting was consistent. The 24 HIPOs in the year showed an 18% reduction from the previous year. A recent review highlighted that we have set a more stringent HIPO definition when compared to industry standards. As a result we have now aligned our definitions with industry practice.

Sound environmental management

In 2008, there were no significant environmental incidents across Tullow. A focus during the year was on enhancing environmental reporting at a Group and country level.

We have recently launched Tullow Oil Environmental Standards (toes) to communicate core standards for environmental management. These innovative standards are intended to provide information to internal and external stakeholders on our approach to the following environmental issues – biodiversity, climate change, resource management, stakeholder engagement, and monitoring and evaluation. The standards will also act as a knowledge-sharing tool. Each of the five toes defines Tullow's position and, when combined, form the Group's environmental footprint.

Increased social investment

Our 'Working with Communities' (WwC) initiatives are designed to balance immediate community benefits and long-term sustainable development. The collective focus of these initiatives is well aligned to the United Nations Millennium Development Goals.

With the growth of our Ghana and Uganda businesses, we increased the size of our in-country teams to expand our community engagement and successfully deliver WwC projects. Our voluntary investment in WwC projects has doubled each year for the past three years and in 2008 amounted to US$1.8 million.

Enhanced monthly reporting and improved tracking is supporting managers with responsibility for WwC budgets and assisting the CSR Committee, which continues to ensure that social investment projects are aligned with the Group's business development goals.

Enhanced accountability

We are committed to transparent and accountable disclosure to all stakeholders. Engagement and feedback continues to improve the materiality of our internal and external CSR reporting. We are also improving the accountability of our reporting with increased third-party external assurance provided by Deloitte LLP.

Outlook for 2009

In 2009, we will continue to effectively manage the challenging Environmental, Social and Governance issues arising from our expanding activities.

The EHS leadership commitment programme, in its expanded format, will continue to be rolled out in 2009 and will include the implementation of an EHS leadership training programme.

For health and safety management we will increase our focus on Total Recordable Incidents (TRIs) to ensure that we continue to minimise the number of all incidents to our employees and contractors.

Pamela Uwakwe and Nahya Nkinzi, Ugandan CSR Advisers at the Kampala office.

We will continue to engage and support local communities and all relevant stakeholders, particularly around current major developments projects in Ghana and Uganda.

With well resourced and competent EHS and operational teams, we are well positioned to meet our ambitious annual and longer-term EHS and CSR objectives.

64%

Reduction in the TRIFR in 2008.

Achieving high standards

The role of the Board is to provide strategic leadership, guidance and perspective to the business on behalf of the shareholders and to ensure that the risks and rewards of the business are properly managed through different phases of the industry's cycle.

Pat Plunkett, Chairman

2008 Achievements

Successful appointments
Ian Springett, Chief Financial Officer
Ann Grant, non-executive Director

Board evaluation
Addressed 2007 issues and conducted 2008 review

Senior executive remuneration
Group's remuneration policy reviewed to ensure continued close alignment of the long-term interests of shareholders with those of executives

Business Conduct
Revised Code of Business Conduct, incorporating Ethics and Integrity Policy, adopted

2009 Challenges

- Ensure that the Group stays on target with its key 2009 strategic priorities
- Review Board Committee composition and processes
- Define and progress succession planning
- Undertake key risk reporting, mitigation and progress evaluation
- Enhance Board meeting administration systems

2008 was a busy and successful year for Tullow and the Board. The Group delivered a very strong operational performance and is positioned for a further significant step change in size and scale. While it is a very exciting time for Tullow, it is and has been a very challenging time for world economies and stock markets, and it is against this backdrop that the governance and stewardship obligations of company boards have come into sharp focus across all industries. I am happy to report that the Tullow Board, I believe, continues to operate very effectively.

Strategic review

As Tullow's business has grown and become more complex it is important that the Board continuously reviews and evaluates the Group's strategy. In 2008, a detailed strategic review undertaken by the Board in the second half of the year re-confirmed the Group's vision and strategy, which is set out on page 15 of this report. However, a more challenging strategic objective was agreed in the context of the Group's exceptional performance in recent years and Tullow is now targeting a TSR performance in the top quintile for the industry.

In addition, elements of our strategy have been re-calibrated in light of the current economic backdrop. Liquidity and capital management have been addressed through a very disciplined

Board composition

Board member	Year appointed	Executive Director	Non-Executive Director
Pat Plunkett	1998		x
Aidan Heavey	1985	x	
David Bamford	2004		x
Ann Grant	2008		x
Angus McCoss	2006	x	
Paul McDade	2006	x	
Steven McTiernan	2002		x
Graham Martin	1997	x	
Clare Spottiswoode	2002		x
Ian Springett	2008	x	
David Williams	2006		x

"Our Board composition and the skills and experience of our Directors means that we are well structured to meet the challenges of the next phase of growth."

budgetary and capital allocation process that was undertaken across the business. Maintaining financial flexibility has also been addressed with a successful equity placing and bank financing executed in early 2009.

Enhanced risk management
Risk management and risk factors were also reviewed as part of the strategic review and details of these are outlined in the risk management and risk factors section on pages 44 to 47. Key risks for strategic delivery have now been assigned with a Board level sponsor and are being incorporated in Board reporting on a quarterly basis.

Rebalanced Board
The composition of the Board is a key factor in ensuring that the right mix of skills and experience are in place to lead the Group. One of the Board objectives for 2008 was to rebalance the Board in favour of non-executive Directors and this was successfully achieved during the year. Tullow now has 11 Directors comprising six non-executive Directors and five Executive Directors.

Successful management transition
The appointment of Ian Springett as Chief Financial Officer demonstrates the ability of Tullow to attract high-quality individuals to the Group and is a credit to the Nominations Committee. However, the Board recognises that more focus needs to be given to succession planning across the Group and this is incorporated in Board objectives for 2009. In my Chairman's statement on pages 8 and 9, I have summarised the Board and management changes during 2008.

Performing to the highest level
The Board will continue to keep its work and governance principles under review and to review Board performance annually to ensure that Board members are continually challenged to perform to the highest level.

We always welcome shareholder feedback and if you have any comments or observations about this report please feel free to email me at chairman@tullowoil.com.

Pat Plunkett, Chairman

Board of Directors

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 doing business.

Board members
There are 11 members of Tullow's Board, five Executive Directors and six non-executive Directors. There is clear separation of the roles of the Chairman and the Chief Executive Officer to ensure an appropriate balance of responsibility and accountability.

Chairman
The Chairman, Pat Plunkett, 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 acts as guardian and facilitator of the Board's decision-making process.

Senior Independent Director
In this role, Steven McTiernan is available to shareholders who have concerns that cannot be resolved through discussion with the Chairman, Chief Executive Officer or Chief Financial Officer.

Chief Executive Officer
The Chief Executive Officer, Aidan Heavey, 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 Officer is responsible for maintaining regular dialogue with shareholders as part of the Group's overall investor relations programme.

Principal Board Committees
- Audit Committee
- Nominations Committee
- Remuneration Committee

Executive management
- Chief Financial Officer
- Chief Operating Officer
- Exploration Director
- General Counsel and Company Secretary

Executive Directors

Aidan Heavey [2]

Chief Executive Officer (Age 56)

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. 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.

Ian Springett

Chief Financial Officer (Age 51)

A Chartered Accountant, Ian Springett, was appointed Chief Financial Officer and to the Board on 1 September 2008. Prior to joining Tullow, he worked at BP for 23 years where he gained a wealth of international oil and gas experience. Most recently he was the Group Vice President for Planning with other senior positions including Commercial Director of the Supply and Trading Business, Upstream CFO, Vice President of Finance, US CFO and a Business Unit leader in Alaska. Prior to joining BP, he qualified with Coopers & Lybrand.

Graham Martin

General Counsel and Company Secretary (Age 55)

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 30 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 General Counsel in 2004 and Company Secretary in 2008.

Angus McCoss

Exploration Director (Age 47)

Angus McCoss was appointed to the Board in December 2006. He joined Tullow in April 2006 as General Manager Exploration. A geologist with a PhD, he has 21 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 General Manager of Exploration onshore and offshore Nigeria.

Paul McDade [4]

Chief Operating Officer (Age 45)

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.

1 Member of the Audit Committee.
2 Member of the Nominations Committee.
3 Member of the Remuneration Committee.
4 Member of the Corporate Social Responsibility Committee.

Non-executive Directors

Pat Plunkett 2,3

Chairman (Age 58)

Pat Plunkett joined the Board as a non-executive Director in 1998 and was appointed non-executive Chairman in 2000. Mr Plunkett is an accountant with over 30 years' experience in the financial services sector, particularly in the areas of asset management, stockbroking and corporate finance. Since leaving ABN AMRO Bank in 1998, he has been providing strategic business advice to a number of private companies. He is a former director of The Irish Stock Exchange.

Steven McTiernan 1,2,3

Senior Independent Director (Age 58)

Steven McTiernan was appointed as a non-executive Director in 2002 and was appointed Senior Independent Director on 1 January 2008. 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.

Clare Spottiswoode CBE 1,2,3

Non-executive Director (Age 56)

Clare Spottiswoode was appointed as a non-executive Director in 2002. 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.

David Bamford 1,2,3

Non-executive Director (Age 62)

David Bamford was appointed as a non-executive Director in 2004. With a PhD in Geological Sciences 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 director or advisor to several small companies, including his own consultancy and he writes regularly for journals such as OilVoice and ROGTEC. He co-founded OilVoice Forums as a vehicle for online communication in the oil and gas industry.

Ann Grant 1,2,3,4

Non-executive Director (Age 60)

Ann Grant was appointed as a non-executive Director in May 2008. She joined the UK Diplomatic Service in 1971; from 1998 she worked at the Foreign and Commonwealth Office in London, as Director for Africa and the Commonwealth. She was British High Commissioner to South Africa from 2000 to 2005. She joined Standard Chartered Bank in London as a Special Adviser in 2005. She chairs the Banking Working Group of the Commonwealth Business Council and is a Council Member of the Overseas Development Institute and an independent Trustee on the UK Disasters Emergency Committee.

David Williams 1,2,3

Non-executive Director (Age 63)

David Williams was appointed as a non-executive Director in 2006. 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.

Corporate governance

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.

Throughout 2008 and up to the date of approval of this Annual Report, the Group has complied with the provisions of the Code except that, for the period from 1 January to 14 May 2008, independent non-executive Directors did not comprise at least half the Board (excluding the Chairman). The Board considered that its composition during this period was appropriate for its needs, given the wide range of skills, expertise and experience amongst its members. With the appointment of Ann Grant as a non-executive Director on 15 May 2008, the Group became fully compliant with the Code. 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, five Executive Directors and five 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, commercial and other relevant experience to the Board, which is vital to the management of an expanding international company. Three of the five non-executive Directors either currently hold or 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 56 and 57.

Chairman and Chief Executive Officer

There is a clear separation of the roles of the Chairman, Pat Plunkett, and the Chief Executive Officer, 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 two occasions during 2008 without executive management present. At these meetings, the non-executive Directors examined and reviewed 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 Officer 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 Director is Steven McTiernan. In this role Mr McTiernan is available to shareholders who have concerns that cannot be resolved through discussion with the Chairman, Chief Executive Officer or Chief Financial Officer or where such contact is inappropriate. No such meetings were held during the year.

Independence and conflicts

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 judgement of any Director.

With effect from 1 October 2008, a Director has a duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company. The Board has satisfied itself that there is no compromise to the independence of those Directors who have appointments on the boards of, or relationships with, companies outside the Group. The Board requires Directors to declare all appointments and other situations which could result in a possible conflict of interest and has adopted appropriate processes to manage and, if appropriate, approve any such conflicts.

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 2009 AGM are identified on page 77 of this annual report and in the separate Notice of AGM that accompanies this document.

How the Board operates

Board meetings

The Board holds scheduled meetings regularly during the year and meets 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 2008, the Board met formally on 11 occasions, including two formal strategy review meetings held with senior management present. In addition to the formal meetings of the Board, the Chairman and Chief Executive Officer 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. Much of this 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 a material 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

In accordance with Board policy, 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):

- agreeing 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.

Certain other matters are delegated by the Board to the Audit, Nominations and Remuneration Committees, each of which is described in more detail below.

Subject to these matters, the Board delegates authority for the management of the day-to-day business and operational matters to the Chief Executive Officer and the other Executive Directors who form the Executive Committee. This Committee meets weekly and is responsible for implementing Group policy and monitoring the detailed performance of all aspects of the business. The Executive Committee is assisted by the Senior Management Team (SMT) which was established during 2008. The SMT meets fortnightly and comprises a number of senior financial, operating and other functional heads.

Attendance at meetings

The attendance of Directors at meetings of the Board and its Committees during 2008 was as follows:

No. of Meetings	Board (11)	Audit (4)	Nominations (3)	Remuneration (6)
Pat Plunkett[1]	8/11	–	2/3	4/6
Aidan Heavey	11/11	–	3/3	–
David Bamford	11/11	4/4	3/3	6/6
Ann Grant[2]	7/7	2/2	1/1	2/2
Angus McCoss	11/11	–	–	–
Paul McDade	9/11	–	–	–
Steven McTiernan	11/11	4/4	3/3	6/6
Graham Martin	11/11	–	–	–
Clare Spottiswoode	11/11	4/4	3/3	6/6
Ian Springett[3]	4/4	–	–	–
David Williams	11/11	4/4	3/3	6/6
Directors leaving the Board in 2008				
Tom Hickey[4]	7/7	–	–	–
Matthew O'Donoghue[5]	2/2	–	–	–

1. Pat Plunkett, Chairman, was unable to attend a number of meetings due to illness. Mr McTiernan, the Senior Independent Director, chaired the Board meetings in his absence.
2. Ann Grant was appointed to the Board on 15 May 2008.
3. Ian Springett was appointed to the Board on 1 September 2008.
4. Tom Hickey resigned as a Director on 1 September 2008.
5. Matthew O'Donoghue retired from the Board on 31 March 2008.

Board performance evaluation

Given the number of changes to the Board in 2008, the Directors agreed that the annual Board performance evaluation, and that of its Committees and individual Directors for 2008, should be conducted by way of an internal review. The review commenced with the Directors noting the matters highlighted in the previous year's external evaluation report, the consequential objectives set by the Board for itself for 2008 and the level to which such objectives had been achieved. This was followed by a series of discussions of the issues arising and which took the form of one-to-one interviews with the Chairman; a facilitated discussion among the Executives; various separate discussions among the non-executives and a full Board discussion of the issues.

In summary, the Board considered that good progress had been made towards achieving the Board objectives set for 2008. In particular, the Board was rebalanced in favour of the non–executives following the retirement of Matt O'Donoghue and the addition of Ann Grant as an additional non-executive Director, while improvements were made in the areas of Board induction, training and administration. However, the Board also recognised that in certain areas there was room for improvement. For example, the review concluded that given the extraordinary growth and success of the Group and the resultant challenges, more time at Board meetings could have been devoted to strategic planning rather than routine business and that the visibility of all Directors across the Group's operations should continue to be increased. The view was also taken that while the Nominations Committee had been very successful in its role in the appointments made to the Board in 2008, more focus needed to be given to Board level succession planning issues. Each of the areas which were identified for improvement has now been incorporated in a revised set of objectives for the Board for 2009.

The review concluded that the Board continues to operate effectively and that its functioning had not been adversely affected by the various changes to the Board in 2008. Board meetings continue to be conducted in a manner that encourages open and honest discussion.

The internal review also confirmed that Board Committees continue to function effectively within clear terms of reference although two areas were identified for particular consideration in 2009. Firstly, whether it continues to be appropriate for all non-executive Directors to participate in each Committee, and secondly, to establish a better mechanism for the fuller and timely reporting to the Board of the deliberations of Committee meetings. In that regard, and to facilitate better circulation of Board papers, the Board agreed to investigate the suitability for Tullow of a web-based meeting administration system.

The Chairman has held 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 as soon as practicable after appointment. This includes meetings with senior management, functional and business unit heads and where appropriate, visits to the principal offices. 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.

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 which were reviewed and updated where necessary during the year, can be viewed on the Investor Relations section of the Company's website: www.tullowoil.com. Hard copies can also be obtained from the Company Secretary.

Audit Committee

David Williams, Chairman
David Bamford
Ann Grant (appointed 15 May 2008)
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, who is Chairman of the Committee, is a Chartered Accountant and until his retirement in 2006 was Finance Director of Bunzl plc. Currently, he also chairs the audit committees of Meggitt PLC, Mondi plc and DP World Limited and is a member of the audit committee of Taylor Wimpey plc. For the purposes of the Combined Code, David Williams is considered by the Board to have recent and relevant financial experience. In addition, the other members of the Committee have a range of financial, commercial and other relevant experience.

The Group's external auditors are Deloitte 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 policy for the engagement of external auditors to supply non-audit services was implemented during the year formalising these arrangements. A breakdown of the fees paid to the external auditors in respect of audit and non-audit work is included in note 3 to the Financial Statements. In addition to processes put in place to ensure segregation of audit and non-audit roles, Deloitte LLP are required as part of the assurance process in relation to the audit, 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. This confirmation was given and 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 2008 audit process, the Audit Committee Chairman met with Deloitte's Audit Engagement Partner without the presence of management.

In 2008, the Audit Committee met on 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 2004/05, there were limited further regulatory or financial accounting changes during 2008. These changes are described in the accounting policies note on page 85.

- **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 2008, the Audit Committee Chairman met with the Group Internal Audit Manager without the presence of management. The Committee approved the programme of 2008 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 2008 covering a range of financial and business processes in the Group's three main business units 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 during 2008. The Group also undertook regular audits of non-operated joint ventures under the supervision of business unit management and the Group Internal Audit Manager.

Updated whistle-blowing procedures for the Group were implemented during the year. The Committee considers the whistle-blowing procedures to be appropriate for the size and scale of the Group.

- 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 co-ordinated 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 were implemented during 2008 that have improved the effectiveness of the Committee further. The internal audit and external audit processes were also considered to be operating effectively.

Nominations Committee

Pat Plunkett, Chairman
David Bamford
Ann Grant (appointed 15 May 2008)
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. The Committee met three times in 2008, primarily to review Board and Board Committee composition and succession matters.

The Committee reported in the 2007 Annual Report that it was in the process of interviewing a shortlist of candidates for the role of an additional non-executive Director. The Committee subsequently recommended to the Board that Ann Grant be appointed. The appointment was confirmed unanimously by the Board and announced at the 2008 AGM to take effect on 15 May 2008.

On 30 April 2008, Tom Hickey, Chief Financial Officer, announced that he would be stepping down as a member of the Board. The Committee then embarked on a selection process for a new Chief Financial Officer. It was assisted in this search by Spencer Stuart who drew up a list of potential internal and external candidates, from which two were shortlisted to meet all members of the Board. The Board was unanimous in its decision to appoint Ian Springett as Chief Financial Officer and as a Director of the Company; the appointment being announced on 27 August 2008 to take effect on 1 September 2008.

Remuneration Committee

Clare Spottiswoode, Chairman
David Bamford
Ann Grant (appointed 15 May 2008)
Steven McTiernan
Pat Plunkett
David Williams

Main responsibilities

- Determining and agreeing with the Board the remuneration policy for the Chief Executive Officer, 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 Directors' remuneration report on pages 66 to 75 contains further details of the role and activities of the Remuneration Committee.

Corporate Social Responsibility Committee

Graham Brunton, Head of EHS, Chairman
Ann Grant, Non-executive Director (appointed on 1 January 2009)
Paul McDade, Chief Operating Officer
Kevin Quinn, Business Unit Manager South Asia and South America
Bill Torr, General Manager Cape Town Office
Caragh Whale, EHS Reporting and Communications Co-ordinator
Linda Joseph, Cape Town Office Manager
Ahlem Gamri, London Staff Representative
Sharan Dhami, Investor Relations Assistant
Oliver McCredie, CSR Advisor

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;
- Evolve and further develop Tullow's social and ethical policies as part of the overall risk management framework of the business;
- Prepare the annual CSR Report;
- 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.

In addition to the three principal Committees, the Board has established a Corporate Social Responsibility Committee. This Committee is responsible for managing Tullow's social investments. This includes sponsorships, charitable donations and 'Working with Communities' initiatives.

Tullow's CSR strategy aligns social investment with key areas and countries for business development. Tullow's CSR funding is a combination of licence commitments and discretionary spending. The focus of these projects is on improving education and health standards, developing local enterprises and fulfilling basic human needs, such as potable water.

Projects considered will be mainly recurring, long-term investments where Tullow has established oil and/or gas production or is a key country for development. One-off investments are also undertaken to ensure Tullow generates immediate community development benefits. Overall, Tullow's objective is to make a tangible, positive difference and to foster and support longer-term developments and self-sustaining communities.

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. Throughout 2008, Executive Directors and senior management met with institutional investors in London and across the UK, as well as in Dublin and several other European cities. Three roadshows took place in North America and attendances at several UK and European conferences provided for comprehensive and engaging dialogue with shareholders. In October 2008, a Capital Markets Day was hosted for analysts in the UK with Tullow's Ghanaian operations being the focus of the event. This annual event is scheduled to be repeated later in 2009. 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 and other news releases promptly via the London Stock Exchange's Regulatory News Service and 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. Meetings are also held with the corporate governance representatives of institutional investors when requested.

At the AGM, a business presentation is provided for the benefit of shareholders. 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 withheld, are made available after the vote has been dealt with on a show of hands.

All shareholders are offered the choice of receiving shareholder documentation, including the Annual Report, electronically or in paper format as well as the choice of submitting proxy votes either electronically or by post.

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 and comply with the Turnbull Committee guidance on the Combined Code. 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 has 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.

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

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices and different production rates from the Group's portfolio of producing fields. The Group normally seeks to ensure that it has a minimum ongoing capacity of £200 million for a period of at least 12 months to safeguard the Group's ability to continue as a going concern.

Following the equity placing announced in January 2009 and securing the US$2 billion financing in March 2009, the Group's forecasts and projections show that there is significant capacity and financial flexibility for the 12 months from the date of this Annual Report and Accounts.

Although there is considerable economic uncertainty at the present time, after taking account of the above, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Further information which is relevant to the application of the going concern assumption is provided in Notes 16 and 17 to the Financial Statements and the sections related to funding within the Business Review.

Pat Plunkett
Chairman
10 March 2009

Directors' remuneration report

Year ended 31 December 2008

Dear Shareholder

As you may recall, last year we made some fairly substantial changes to the remuneration packages offered to our Executive Directors, in particular an increase in annual bonus opportunity and maximum award levels under the Group's Performance Share Plan. Both were accompanied by the introduction of a greater 'stretch' in the targets employed under these plans.

We believe it good practice to review regularly the structure of, and quantum available under, the Executive Directors' remuneration packages. Arguably, the current economic climate makes such an approach even more appropriate.

The main conclusion of our most recent review was that no material changes should be made to the pay of our highly regarded senior executive team. We believe that an appropriate balance is currently struck between fixed and variable/performance-related pay. Base salaries are set below the median of comparative benchmarks, with significant reward opportunities available under the Group's short-term and long-term incentive plans. While this ensures that due focus is placed on performance-related pay, the Committee is entirely comfortable that this policy does not encourage inappropriate risk-taking which may be to the long-term detriment of shareholders. Indeed, the Committee believes that the Executive Directors' interests are very closely aligned with the long-term interests of investors through (i) the significant compulsory share deferral feature in the annual bonus plan, (ii) the regular annual grant of awards of share incentives, (iii) the imposition of share ownership guidelines and (iv) the use of Total Shareholder Return targets in both short- and long-term incentives (albeit in both cases 'underpinned' by a Remuneration Committee discretion to reduce payouts if other factors make it appropriate to do so).

However, one minor change is being made to the operation of the annual bonus which, in part, has been implemented to reflect the wishes of some of our major shareholders. In 2009, an increased weighting will be placed on the achievement of a blend of corporate key performance indicators, so that 50% of the total bonus opportunity will relate to performance against these targets (up from 33.33%). The balancing 50% of the bonus opportunity will continue to be payable by reference to performance against relative and absolute TSR targets.

Should any shareholder wish to contact me in connection with the Group's senior executive remuneration policy, please email me at: remunerationchair@tullowoil.com.

Yours sincerely

Clare Spottiswoode
Chairman of the Remuneration Committee
10 March 2009

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, David Williams and Ann Grant (who was appointed on joining the Board on 15 May 2008). The Committee met six times during the year.

The main responsibilities of the Committee include:

- Determining and agreeing with the Board the remuneration policy for the Chief Executive Officer, 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.

Committee's advisers

The Committee invites individuals to attend meetings to provide advice in order to enable it to make informed decisions. These individuals include Aidan Heavey, Chief Executive Officer and Gordon Headley, Chief HR Officer. No Director takes part in any decision directly affecting his own remuneration. The Company Chairman, Pat Plunkett, also absents himself during discussion relating to his own fees. The Committee has appointed Hewitt New Bridge Street (HNBS) as its independent remuneration advisers. They also provide technical advice to the Group in connection with the operation of its share incentive arrangements. A statement outlining the business relationship with HNBS can be viewed on the Investor Relations section of the Group's website. The Committee also consults with the Company's major investors and investor representative groups as appropriate.

Remuneration policy

The Group'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 Group'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 Group'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.

The key elements of the remuneration package for the Executive Directors, are set out below.

Executive Directors' remuneration

Base salary

Base salaries are reviewed annually with effect from 1 January, and are set primarily by reference to external benchmarking data for other UK listed companies of similar market capitalisation and overseas complexity.

In line with the Group's policy that there is a significant weighting attached to the performance-related elements of pay, the salaries of the Executive Directors are set below the median against this peer group.

Following the most recent review, the base salary of each Executive Director with effect from January 2009 is:

Director	2009 salary	% increase since 2008
Aidan Heavey	£666,100	4.0%
Graham Martin	£376,700	4.0%
Paul McDade	£376,700	4.0%
Angus McCoss	£376,700	4.0%
Ian Springett	£400,000	10.4%

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 Group and to continue to ensure that a significant proportion of executive remuneration is linked to performance. However, Ian Springett was appointed in September 2008 on a salary of £362,250 (in line with the other Executive Directors other than the CEO), with a view that this would be formally reviewed in January 2009. His increase reflects this first formal review since his appointment. Following this review, the Committee determined that his base salary should be increased to £400,000 to reflect his specific responsibilities. This increased base salary, in line with Remuneration Committee policy, is still below the median of comparable benchmarks.

Annual bonus

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

Executive Annual Bonus Scheme

The key features of the Annual Bonus Scheme for the Executive Directors are as follows:

- The maximum annual bonus potential for the Executive Directors, for the achievement of outstanding performance, is 150% of salary;
- For meeting target performance, a bonus of 60% of salary is payable (i.e. 40% of the maximum);
- Any bonus earned in excess of 75% of salary is paid in shares and deferred for three years under the Deferred Share Bonus Plan (DSBP);
- In 2008, all the Executive Directors were subject to the same performance targets, which were as follows:
  - One third was based on TSR relative to the same Oil & Gas group as is used to measure performance for the PSP awards made in 2008 (see below) – no bonus will be paid unless median performance is delivered, with the full bonus for upper quartile performance;
  - One third was based on growth in absolute TSR, (calculated by comparing Tullow's average net return index for January 2008 with that of January 2009), with a full bonus payable if Tullow's TSR grows by 15% over the year; and
  - One third was based on certain corporate key performance indicators (KPIs) designed to reflect major strategic and financial targets specific to the Group.
- 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 Group as it considers appropriate.

The Committee believes that these represented a set of challenging, clear and transparent targets for the year to 31 December 2008, which are closely aligned with the interests of shareholders.

Performance under the Annual Bonus Scheme in 2008

The Committee's assessment of performance under each of the bonus elements for 2008 was as follows:

- Relative TSR: 100% of maximum achievement;
- Absolute TSR: 100% of maximum achievement; and
- Corporate KPIs: 72% of maximum achievement.

Based upon the above performance the bonus awards for all the Executive Directors in 2008 are 135% of salary, reflecting another excellent year of performance against very challenging market conditions.

2009 Annual Bonus Scheme

For 2009, the bonus will operate as set out above, with the exception that the weighting of the targets will be amended as follows:

- One quarter will be based on relative TSR compared to the same Oil & Gas comparator group as is used for the PSP award to be made in 2009;
- One quarter will be based on growth in absolute TSR with the same growth range as for 2008; and
- Half will be based on corporate KPIs, comprising Health, Safety & Environment, Operational & Financial and Project-specific targets.

The objective of increasing the weighting on corporate KPIs is to encourage Executive Directors to be even more focused on executing the corporate strategy and achieving key strategic milestones linked to its ongoing projects. The continued weighting on TSR in both the annual bonus and the PSP ensures that full incentive awards are only delivered for both the execution of the corporate strategy and generating substantial returns to shareholders.

Pension and other benefits

The Executive Directors do not participate in the Group's pension plans. 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. Each Executive Director is also entitled to 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)

Under the PSP, senior executives are eligible to be granted conditional awards of rights over whole shares worth up to 200% of salary each year (300% in exceptional circumstances, such as to facilitate the recruitment of a new Executive Director). Currently, it is the policy to grant the Executive Directors 200% of salary each year, although the Committee may elect to vary the allocation taking into account the circumstances which prevail at the time (but always subject to the plan maximum).

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).

For the awards made in 2008, half are subject to performance against the constituents of the FTSE 100 Index as at the start of the performance period (of which Tullow is a member) and the other half are subject to performance against the following comparator group of international 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

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 quintile (top 20%)	100%
Intermediate performance	Pro rata between 30% and 100%

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

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 Group's continued growth. The performance condition applying to the forthcoming 2009 awards will remain unchanged.

The performance conditions applying to outstanding awards made prior to 2008 are shown in the table on page 73.

Share Ownership Guidelines

From 2008, to further align their interests with shareholders, the Executive Directors are 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 Group 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 Group 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 Group's discretionary schemes which may be satisfied by new issue shares must not exceed 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 Group'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 2008, the headroom under the Company's 5% and 10% limits was 3.7 million and 40.3 million shares respectively, out of an issued share capital of 732.9 million shares.

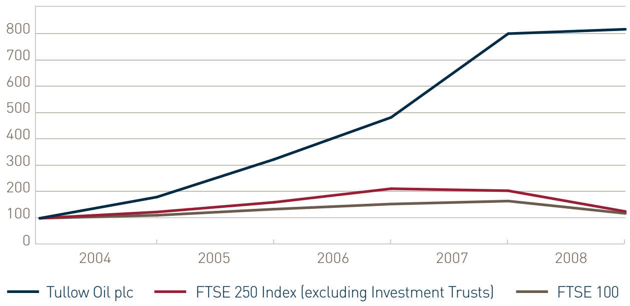
As at 31 December 2008, the Tullow Oil Employee Trust held 1.72 million shares.

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 Group's activities, while also reflecting the time commitment and responsibility of the role. Each non-executive Director currently receives an annual fee of £56,000. Steven McTiernan currently receives an additional annual fee of £11,000 to reflect his additional responsibilities as Senior Independent Director and Clare Spottiswoode and David Williams each receive an additional annual fee of £11,000 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 Group's Pension Schemes.

The Remuneration Committee, with the Chairman absenting himself from discussions, sets the remuneration of the Chairman, whose annual fee is currently £180,000.

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 2004 to 31 December 2008, over which period Tullow outperformed the FTSE 100 by 697% and the FTSE 250 (excluding Investment Trusts) by 690%. The relevant indices are set to 100 at the beginning of the period. These indices have both been shown because the FTSE 250 is the comparator Index for awards made under the PSP in March 2007 before Tullow moved to the FTSE 100 in September 2007.



Source: Datastream.

This graph shows the value, by the end of 2008, of £100 invested in Tullow Oil on 31 December 2003 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.

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 and Graham Martin, dated 29 March 2006 in the case of Paul McDade, dated 18 April 2006 in the case of Angus McCoss and dated 1 September 2008 in the case of Ian Springett). Aidan Heavey has also entered into a service agreement with Tullow Oil International Limited on 16 September 2002 on similar terms. Tom Hickey and Matthew O'Donoghue who left the Board during the year each had a service agreement with Tullow Group Services Limited dated 2 September 2002. Matthew O'Donoghue had also 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 relevant employing 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 Group 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.

Details of remuneration of Executive Directors ceasing to serve in the year

Matthew O'Donoghue ceased to be an Executive Director on 31 March 2008, but continues to provide important consultancy services to the Group for 12 months from 1 April 2008.

Tom Hickey ceased to be an Executive Director on 1 September 2008, although he remained an employee of the Group until 30 September 2008.

Messrs O'Donoghue and Hickey are treated as 'good leavers' under the Group's share incentive plans, reflecting their outstanding performance over the lengthy periods which they served and their crucial contributions to the Group's success.

Their remuneration arrangements on cessation of employment are as follows:

- They were paid no ex-gratia amounts on termination;
- Their salaries were paid up to the date of cessation with no additional amounts in lieu of notice;
- Matthew O'Donoghue was not entitled to participate in the 2008 Annual Bonus Scheme. Tom Hickey was entitled to participate on the same terms as the other Executive Directors, although with his bonus pro-rated to reflect his reduced period of service;
- The Remuneration Committee exercised its discretion to allow both to exercise their outstanding options under the 1998 and 2000 share option schemes for a period of 12 months from leaving;
- Their outstanding PSP awards will vest on their normal vesting dates, subject to performance conditions, with a pro-rata reduction for the reduced period of service (in Mr O'Donoghue's case, being the date to which he ceases to provide consultancy services); and
- DSBP awards will vest in full on their normal vesting dates.

Under the terms of his consultancy agreement, under which Mr O'Donoghue carries out significant and important services (and which the Group believes is very much in the interests of shareholders), he receives £24,500 per month.

Non-executive Director Terms of Appointment

Each of the non-executive Directors is engaged by the Company under the terms of a letter of appointment (dated 9 December 2008 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; dated 31 May 2006 in the case of David Williams and in the case of Ann Grant dated 14 May 2008). Subject to retirement, for example, under the Articles of Association, the appointments are for the period to 31 December 2009 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, to 31 May 2009 in the case of David Williams and to 14 May 2011 in the case of Ann Grant. 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 Director who holds an external directorship is Aidan Heavey who is a director of Traidlinks, a charity promoting enterprise in the developed world, especially Africa. He receives no fee for this position.

Audited information

Directors' remuneration

The remuneration of the Directors for the year ended 31 December 2008 payable by Group companies was as follows:

	Salary/ fees £	Bonuses Cash £	Bonuses Shares[1] £	Pensions £	Taxable benefits[2] £	**2008 Total £**	2007 Total £
Executive Directors							
Aidan Heavey	640,500	480,375	384,300	96,075	33,185	**1,634,435**	1,285,121
Graham Martin	362,250	271,688	217,350	54,338	2,745	**908,371**	710,841
Angus McCoss	362,250	271,688	217,350	36,225	2,388	**889,901**	674,025
Paul McDade	362,250	271,688	217,350	36,225	3,078	**890,591**	645,826
Ian Springett[3]	120,750	163,013	–	18,113	–	**301,876**	–
Directors leaving the Board during 2008							
Tom Hickey[4]	307,125	414,619	–	30,713	–	**752,457**	781,245
Matthew O'Donoghue[5]	73,500	–	–	–	–	**73,500**	518,000
Subtotal	2,228,625	1,873,071	1,036,350	271,689	41,396	**5,451,131**	4,615,058
Non-executive Directors							
Pat Plunkett	170,000	–	–	–	–	**170,000**	150,000
Clare Spottiswoode	63,000	–	–	–	–	**63,000**	46,000
Steven McTiernan	63,000	–	–	–	–	**63,000**	46,000
David Bamford	53,000	–	–	–	–	**53,000**	46,000
David Williams	63,000	–	–	–	–	**63,000**	46,000
Ann Grant[6]	33,363	–	–	–	–	**33,363**	–
Subtotal	445,363	–	–	–	–	**445,363**	334,000
Total	2,673,988	1,873,071	1,036,350	271,689	41,396	**5,896,494**	4,949,058

Notes:

1. These figures represent that part of the bonus required to be deferred into shares as explained on page 67.
2. The amounts disclosed under Taxable Benefits for Aidan Heavey include car benefits.
3. Ian Springett was appointed as Chief Financial Officer on 1 September 2008 on a starting salary of £362,250 p.a. His 2008 bonus entitlement was pro rated for his period of service.
4. Tom Hickey resigned from the Board on 1 September 2008. Following his resignation from the Board, he received £34,125 salary in his capacity as an employee. As he left employment during the year, the Remuneration Committee exercised its discretion not to defer any of the 2008 bonus entitlement into shares.
5. Matthew O'Donoghue retired from the Board on 31 March 2008. Mr O'Donoghue agreed to provide consultancy services for a 12-month period from 1 April 2008 for which he will receive fees of £294,000.
6. Ann Grant was appointed as a non-executive Director on 15 May 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 2008 are set out in the table below. The table also shows the holdings at the date of this report and reflect changes since 31 December 2008 as summarised in the note following the table:

Director	Ordinary shares 10.03.09	Ordinary shares 31.12.08	Ordinary shares 01.01.08 (or date of appointment)
Aidan Heavey	6,020,988	6,000,000	6,000,000
Graham Martin	1,359,610	1,352,005	1,102,005
Angus McCoss	–	–	–
Paul McDade	255,269	243,600	15,578
Ian Springett	12,000	12,000	–
Pat Plunkett	1,011,326	1,011,326	1,229,326
David Bamford	13,445	13,445	13,445
Ann Grant	–	–	–
Steven McTiernan	–	–	–
Clare Spottiswoode	–	–	–
David Williams	5,000	5,000	5,000

Note:
The awards of shares granted under the Deferred Share Bonus Plan on 30 March 2006 as detailed in the table on page 74 vested in Aidan Heavey on 1 January 2009 and in Graham Martin and Paul McDade on 2 January 2009. Aidan Heavey retained the full award of 20,988 shares; Graham Martin and Paul McDade sold sufficient to meet tax obligations, retaining 7,605 shares and 11,669 shares respectively. As a result, the interests of Messrs Heavey, Martin and McDade have increased since the year end. Other than as set out above and in the notes to the tables below, there have been no changes in the interests of any Director between 1 January 2009 and the date of this report.

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 UK SIP and the Irish SIP. A brief description of the SIPs is set out on page 69.

Director	Plan	Shares held 01.01.08	Partnership shares acquired in year	Matching shares awarded in year	Shares released in year	Total shares held 31.12.08
Graham Martin	UK SIP	5,928	229	229	–	6,386
Angus McCoss	UK SIP	958	229	229	–	1,416
Paul McDade	UK SIP	5,928	229	229	–	6,386
Director leaving the Board in 2008						
Tom Hickey	Irish SIP	2,866	236	236	1,495	1,843

Note:
Graham Martin, Angus McCoss and Paul McDade each acquired 53 partnership shares and were awarded 53 matching shares on 5 January 2009.

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 01.01.08	Granted in year	Vested in year	As at 31.12.08	Vesting date
Aidan Heavey	29.06.05	347,755	–	347,755	–	30.06.08
	30.03.06	219,512	–	–	219,512	30.03.09
	22.03.07	230,567	–	–	230,567	22.03.10
	15.05.08	–	141,939	–	141,939	15.05.11
		797,834	141,939	347,755	592,018	
Graham Martin	29.06.05	213,877	–	213,877	–	30.06.08
	30.03.06	129,125	–	–	129,125	30.03.09
	22.03.07	130,402	–	–	130,402	22.03.10
	15.05.08	–	80,277	–	80,277	15.05.11
		473,404	80,277	213,877	339,804	
Angus McCoss	27.04.06	100,230	–	–	100,230	27.04.09
	22.03.07	90,539	–	–	90,539	22.03.10
	15.05.08	–	80,277	–	80,277	15.05.11
		190,769	80,277	–	271,046	
Paul McDade	29.06.05	188,571	–	188,571	–	30.06.08
	30.03.06	118,364	–	–	118,364	30.03.09
	22.03.07	90,539	–	–	90,539	22.03.10
	15.05.08	–	80,277	–	80,277	15.05.11
		397,474	80,277	188,571	289,180	
Ian Springett	01.09.08	–	68,873	–	68,873	01.09.11
		–	68,873	–	68,873	
Directors leaving the Board in 2008						
Tom Hickey	29.06.05	213,877	–	213,877	–	29.06.08
	30.03.06	139,885	–	–	116,570	30.03.09
	22.03.07	147,412	–	–	73,705	22.03.10
		501,174	–	213,877	190,275	
Matthew O'Donoghue	29.06.05	188,571	–	188,571	–	30.06.08
	30.03.06	107,604	–	–	107,604	30.03.09
	22.03.07	72,188	–	–	48,125	22.03.10
		368,363	–	188,571	155,729	

Notes:

1. The awards of conditional shares made on 15 May 2008 equated to shares worth 200% of salary for each Executive Director based on the share price for the dealing day preceding the date of grant. The award made to Ian Springett on 1 September 2008 equated to shares worth 200% of salary pro-rated for the period from his joining to the end of the related performance period based on the average share price for the preceding three dealing days. The Tullow share price on the date of grant of the awards made on 15 May 2008 was 902.5p and for the award made on 1 September 2008 was 791p.
2. Under the PSP, for the 2006 and 2007 awards, 50% of each award is subject to a condition that compares Tullow's TSR to the constituents of the FTSE 250 Index (excluding Investment Trusts). The other 50% of the award is subject to a condition that compares Tullow's TSR condition to a comparator group of specific oil and gas companies. For median performance, 30% of the relevant part of the award will vest, with full vesting for upper quartile performance. Details of the conditions applying to the awards made in 2008 are set out on page 68.
3. The PSP awards made in March 2006 and April 2006 reached the end of their performance period on 31 December 2008. 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 30 March 2009, the third anniversary of grant, subject to continued employment.
4. Tom Hickey resigned from the Board on 1 September 2008. As a result, the PSP awards made on 30 March 2006 and 22 March 2007 have been pro-rated accordingly as reflected in the year end figures in the above table. The above awards will vest on the normal vesting dates, to the extent that the performance conditions are met.
5. Matthew O'Donoghue retired from the Board on 31 March 2008. As disclosed on page 70, he is providing consultancy services to the Group until 31 March 2009. As a result, the PSP award made on 22 March 2007 has been pro-rated accordingly as reflected in the year end figure in the above table. The above awards will vest on the normal vesting dates, to the extent that the performance conditions are met.
6. On 29 June and 30 June 2008, being the dates on which awards made in June 2005 vested, the market prices of a Tullow share were 950.75p and 930p respectively.

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 01.01.08	Granted in year	Vested in year	As at 31.12.08	Vesting date
Aidan Heavey	30.03.06	20,988	–	–	20,988	01.01.09
	18.01.07	42,714	–	–	42,714	01.01.10
	13.03.08	–	28,328	–	28,328	01.01.11
		63,702	28,328	–	92,030	
Graham Martin	30.03.06	12,908	–	–	12,908	02.01.09
	18.01.07	25,126	–	–	25,126	01.01.10
	13.03.08	–	16,021	–	16,021	01.01.11
		38,034	16,021	–	54,055	
Angus McCoss	13.03.08	–	14,686	–	14,686	01.01.11
		–	14,686	–	14,686	
Paul McDade	30.03.06	19,806	–	–	19,806	02.01.09
	18.01.07	7,260	–	–	7,260	01.01.10
	13.03.08	–	14,686	–	14,686	01.01.11
		27,066	14,686	–	41,752	
Directors leaving the Board in 2008						
Tom Hickey	30.03.06	12,908	–	12,908	–	31.12.08
	18.01.07	27,220	–	–	27,220	01.01.10
	13.03.08	–	18,111	–	18,111	01.01.11
		40,128	18,111	12,908	45,331	
Matthew O'Donoghue	30.03.06	13,177	–	13,177	–	31.12.08
	18.01.07	2,147	–	–	2,147	01.01.10
	13.03.08	–	4,334	–	4,334	01.01.11
		15,324	4,334	13,177	6,481	

Notes:

1. The awards of shares made in 2008 equated to shares worth the amount of bonus deferred into shares for 2007 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 13 March 2008 was 629.5p.
2. Further details of the DSBP are set out in the Annual bonus section of this report on pages 67 and 68.
3. On 31 December 2008, being the date on which the awards made in 2006 to Tom Hickey and Matthew O'Donoghue vested, the market price of a Tullow share was 659.5p.

Share options

Details of share options granted to Executive Directors:

Director	Scheme	Grant date	As at 01.01.08	Granted during year	Exercised during year	As at 31.12.08	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	–			
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	–	988,426	970,000			
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	–			
Directors leaving the Board in 2008									
Tom Hickey	1998	02.05.00	220,000	–	–	220,000	61p	02.05.03	30.09.09
	2000	10.10.01	450,000	–	–	450,000	80p	10.10.04	30.09.09
	2000	06.10.03	290,000	–	–	290,000	85p	06.10.06	30.09.09
	2000	20.09.04	350,000	–	–	350,000	131p	20.09.07	30.09.09
			1,310,000	–	–	1,310,000			
Matthew O'Donoghue	1998	30.04.99	699,958	–	699,958	–	€0.84	30.04.02	31.03.09
	2000	10.10.01	250,000	–	250,000	–	80p	10.10.04	31.03.09
	2000	06.10.03	330,000	–	330,000	–	85p	06.10.06	31.03.09
			1,279,958	–	1,279,958	–			

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 IR£/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.
4. The aggregate gains made by Directors and a former director on the exercise of options under the Schemes during the year was £42.3 million. On 30 June 2008, being the date that Aidan Heavey, Graham Martin and Paul McDade exercised the options listed in the table, the market price of a Tullow share was 930p. On 16 December 2008, being the date that Matthew O'Donoghue exercised all his outstanding options, the market price was 620p.
5. During 2008, the highest mid-market price of the Company's shares was 975p and the lowest was 419p. The year-end price was 659.5p.

Clare Spottiswoode
Chairman of the Remuneration Committee
10 March 2009

Other statutory information

Results and dividends

The profit on ordinary activities after taxation of the Group for the year ended 31 December 2008 amounted to £226,243,000 (2007: £52,594,000).

An interim dividend of 2.0p (2007: 2.0p) per share was paid on 6 November 2008. The Directors recommend a final dividend of 4.0p (2007: 4.0p) per share which, if approved at the 2009 AGM, will be paid on 21 May 2009 to shareholders whose names are on the Register of Members on 17 April 2009.

Subsequent events

In January 2009, the Group announced the successful placing and subsequent issue of a total of 66,938,141 new ordinary shares with institutions at 600p per share. This represented an increase of approximately 9.1% in Tullow's existing issued share capital. These shares were credited as fully paid and rank pari passu in all respects with existing ordinary shares of 10p each in the capital of the Company, including the right to receive all dividends and other distributions declared, made or paid on or in respect of such shares after the date of issue.

In March 2009, the Group announced that it had finalised arrangements for US$2 billion (£1.4 billion) of new reserve-based lend debt facilities.

In March 2009, the Group announced a major new discovery at Tweneboa, which continues the 100% exploration success record in Ghana.

Share capital

The Company has an authorised share capital of 1,000,000,000 ordinary shares of 10p each with an aggregate nominal value of £100,000,000. As at 10 March 2009, the Company had an allotted and fully paid up share capital of 800,068,374 ordinary shares of 10p each with an aggregate nominal value of £80,006,837.

Substantial shareholdings

As at 10 March 2009, the Company had been notified in accordance with the requirements of section 5.1.2 of the UK Listing Authority's Disclosure and Transparency Rules of the following significant holdings (3% or more) in the Company's ordinary share capital.

Shareholder	Number of shares	% of issued capital
BlackRock Inc	79,397,756	9.92%
Prudential plc	72,123,865	9.01%
IFG International Trust Company Limited	38,960,366	4.87%
Legal & General Group Plc	31,246,116	3.91%

Shareholders' rights

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. Subject to shareholder approval, payment or satisfaction of a dividend may be made wholly or partly by distribution of specific assets.
- **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, 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 passing of a special resolution by 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.

Control rights under employee share schemes

The Company operates a number of employee share schemes. Under some of these arrangements, shares are held by trustees on behalf of employees. The employees are not entitled to exercise directly any voting or other control rights. The trustees will generally vote in accordance with employees' instructions and either abstain or exercise their discretion where no instructions are received. Unallocated shares are generally voted at the discretion of the trustees.

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.

Material agreements containing 'change of control' provisions

The following significant agreements will, in the event of a 'change of control' of the Company, be affected as follows:

- US$1.785 billion senior secured revolving credit facility agreement between, among others, the Company and certain subsidiaries of the Company, BNP Paribas, Bank of Scotland plc, The Royal Bank of Scotland plc, Standard Chartered Bank, Lloyds TSB Bank plc and Calyon and the lenders specified therein pursuant to which each lender thereunder may demand repayment of all outstanding amounts owed by the Company and certain subsidiaries of the Company to it under the agreement and any connected finance document, which amount will become immediately due and payable and, in respect of each letter of credit issued under the agreement, full cash cover will be required, in the event that any person (or group of persons acting in concert) gains control of the Company; and
- US$100 million junior secured revolving credit facility agreement between, among others, the Company and certain subsidiaries of the Company, BNP Paribas, Bank of Scotland plc, The Royal Bank of Scotland plc and Lloyds TSB Bank plc and the lenders specified therein pursuant to which each lender thereunder may demand repayment of all outstanding amounts owed by the Company and certain subsidiaries of the Company to it under the agreement and any connected finance document, which amount will become immediately due and payable, in the event that any person (or group of persons acting in concert) gains control of the Company.

For the purposes of this provision, (a) 'control' has the meaning given to it under section 416 of the Income and Corporation Taxes Act 1988 and (b) 'acting in concert' has the meaning given to it in the City Code on Takeovers and Mergers.

Directors

The biographical details of the Directors of the Company at the date of this report are given on pages 56 and 57. Matthew O'Donoghue retired from the Board on 31 March 2008. Ann Grant joined the Board as a non-executive Director on 15 May 2008. Tom Hickey resigned from the Board on 1 September 2008 upon the appointment of Ian Springett to the Board and as Chief Financial Officer on the same date.

In accordance with the Company's Articles of Association, Paul McDade retires at this year's AGM. Being eligible, he offers himself for re-election. In addition, as Pat Plunkett has now been a Director for more than nine years he now retires annually and a resolution for his re-election will be proposed at this year's AGM. Ann Grant and Ian Springett having been appointed during the year, retire at this year's AGM and offer themselves for election. Details of Directors' service contracts and letters of appointment are set out on pages 69 and 70. Details of the Directors' interests in the ordinary shares of the Company and in the Group's long-term incentive and share option schemes are set out on pages 72 to 75 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.

Powers of Directors

The general 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 on a pre-emptive basis to existing shareholders, 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 £3,598,331. The authority lasts until the earlier of the Annual General Meeting of the Company in 2009 or 13 August 2009;
- **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 must be cancelled immediately upon completion of the purchase. The Company does not currently have shareholder authority to buy back shares; and

- **Borrowing powers –** The 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 Company's 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 15 Directors. The 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;
- the Board may appoint any person who is willing to act to be a Director. Any Director so appointed shall hold office only until the next Annual General Meeting and shall then be eligible for election;
- each Director shall retire 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; and
- 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.

Charitable and political donations
The Group made charitable, social and community-related donations during the year totalling £980,000 (2007: £435,200). 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 50 to 53. 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 2008.

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 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 Haberdashers' Hall, 18 West Smithfield, London EC1A 9HQ on 12 May 2009 at 12 noon.

This Directors' Report comprising pages 10 to 78 and the information referred to therein has been approved by the Board and signed on its behalf by:

Graham Martin
Company Secretary
10 March 2009

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

Financial statements

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 cash flows. 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; 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.

Directors' responsibility statement required by DTR 4.1.12R

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
2. the business review, which is incorporated into the directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

By order of the Board

Aidan Heavey
Chief Executive Officer
10 March 2009

Ian Springett
Chief Financial Officer
10 March 2009

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 2008 which comprise the Group income statement, the Group statement of recognised income and expense, the Group balance sheet, the Group cash flow 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 2008.

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 2008 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 LLP.

Deloitte LLP
Chartered Accountants and Registered Auditors
London
10 March 2009

Group income statements

Group income statement

Year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Sales revenue	2	**691,673**	639,203
Cost of sales		**(366,108)**	(353,695)
Gross profit		**325,565**	285,508
Administrative expenses		**(43,051)**	(31,628)
Profit/(loss) on disposal of subsidiaries	26	**213,268**	(597)
Profit on disposal of oil and gas assets	26	**30,614**	–
Exploration costs written off	9	**(226,701)**	(64,235)
Operating profit	3	**299,695**	189,048
Gain/(loss) on hedging instruments	17	**42,927**	(29,267)
Finance revenue	2	**3,928**	3,095
Finance costs	5	**(47,238)**	(48,673)
Profit from continuing activities before tax		**299,312**	114,203
Income tax expense	6	**(73,069)**	(61,609)
Profit for the year from continuing activities		**226,243**	52,594
Attributable to:			
Equity holders of the parent		**223,211**	50,887
Minority interest	24	**3,032**	1,707
		226,243	52,594
Earnings per ordinary share	8	**Stg p**	Stg p
Basic		**30.86**	7.10
Diluted		**30.49**	6.96

Group statement of recognised income and expense

Year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Profit for the financial year		**226,243**	52,594
Currency translation adjustments	23/24	**222,266**	(5,321)
Hedge movement, net of deferred tax	23	**160,966**	(79,780)
		383,232	(85,101)
Total recognised income and expense for the year		**609,475**	(32,507)
Attributable to:			
Equity holders of the parent		**599,631**	(34,214)
Minority interest		**9,844**	1,707
		609,475	(32,507)

Group balance sheet
As at 31 December 2008

	Notes	2008 £'000	2007 (as restated*) £'000
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	9	**1,417,777**	956,580
Property, plant and equipment	10	**986,374**	890,416
Investments	11	**447**	447
Derivative financial instruments	17	**29,280**	–
		2,433,878	1,847,443
Current assets			
Inventories	12	**37,850**	24,897
Trade receivables		**69,344**	91,444
Other current assets	13	**60,208**	33,351
Cash and cash equivalents	14	**311,020**	82,224
Derivative financial instruments	17	**19,989**	–
Assets held for sale	18	**–**	11,843
		498,411	243,759
Total assets		**2,932,289**	2,091,202
LIABILITIES			
Current liabilities			
Trade and other payables	15	**(330,215)**	(180,626)
Other financial liabilities	16	**(210,528)**	(9,793)
Current tax liabilities		**(105,282)**	(31,457)
Derivative financial instruments	17	**–**	(89,509)
		(646,025)	(311,385)
Non-current liabilities			
Trade and other payables	15	**(6,089)**	(15,586)
Other financial liabilities	16	**(489,041)**	(540,272)
Deferred tax liabilities	20	**(347,940)**	(307,615)
Provisions	20	**(134,019)**	(135,139)
Derivative financial instruments	17	**–**	(68,535)
		(977,089)	(1,067,147)
Total liabilities		**(1,623,114)**	(1,378,532)
Net assets		**1,309,175**	712,670
EQUITY			
Called up share capital	22	**73,288**	71,961
Share premium	22	**160,714**	128,465
Other reserves	23	**582,131**	210,089
Retained earnings	21	**467,711**	286,668
Equity attributable to equity holders of the parent		**1,283,844**	697,183
Minority interest	24	**25,331**	15,487
Total equity	21	**1,309,175**	712,670

* The 2007 comparatives have been restated due to an asset held for sale being reclassified during 2008 (see note 18).

Approved by the Board and authorised for issue on 10 March 2009

Aidan J Heavey

Aidan Heavey
Chief Executive Officer

Ian Springett
Chief Financial Officer

Group cash flow statement

Year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Cash flows from operating activities			
Cash generated from operations	25	**587,650**	446,660
Income taxes paid		**(76,853)**	(30,030)
Net cash from operating activities		**510,797**	416,630
Cash flows from investing activities			
Acquisition of subsidiaries		**–**	(334,954)
Disposal of subsidiaries	26	**207,834**	(597)
Disposal of oil and gas assets		**77,530**	–
Purchase of intangible exploration and evaluation assets		**(323,569)**	(165,726)
Purchase of property, plant and equipment		**(136,783)**	(198,355)
Finance revenue		**3,372**	3,206
Net cash used in investing activities		**(171,616)**	(696,426)
Cash flows from financing activities			
Net proceeds from issue of share capital		**8,089**	2,661
Proceeds from issue of subsidiary share capital to minority interest		**–**	1,244
Debt arrangement fees		**(5,318)**	(8,431)
Repayment of bank loans		**(372,583)**	(29,474)
Drawdown of bank loan		**312,929**	379,979
Finance costs		**(40,441)**	(40,782)
Dividends paid	7	**(43,173)**	(39,406)
Purchase of treasury shares		**(11,235)**	(3,722)
Net cash (used in)/generated by financing activities		**(151,732)**	262,069
Net increase/(decrease) in cash and cash equivalents		**187,449**	(17,727)
Cash and cash equivalents at beginning of year		**82,224**	99,478
Translation difference		**41,347**	473
Cash and cash equivalents at end of year	14	**311,020**	82,224

Accounting policies
Year ended 31 December 2008

(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 134. The nature of the Group's operations and its principal activities are set out in the operations and finance reviews on pages 20 to 43.

(b) Adoption of new and revised standards
Two Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 11 – Group and Treasury Transactions and IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding requirements and their interaction. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

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 (and in some cases have not yet been adopted by the EU).

IFRS 1/ IAS 27	Cost of and investment in a subsidiary, jointly controlled entity or associate
IFRS 2	Share-based payment – Vesting conditions and cancellations (amended)
IFRS 3	Business combinations (revised 2008)
IFRS 8	Operating segments
IAS 1	Presentation of financial statements (revised 2008)
IAS 23	Borrowing cost (revised 2007)
IAS 27	Consolidated and separate financial statements (revised 2008)
IAS 32/ IAS 1	Puttable financial instruments and obligations arising on liquidation (amended)
IFRIC 12	Service concession arrangements
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign operation

Improvements to IFRS (May 2008)
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; and
- treatment of acquisition of subsidiaries when IFRS 3 comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 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 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.

(d) Basis of consolidation continued
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 as exploration costs in the Income Statement 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 cash flows based on management's expectations of future oil and gas prices and future costs. Where there is evidence of economic interdependency between fields, such as common infrastructure, the fields are grouped as a single cash generating unit for impairment purposes.

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 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.

(r) Derivative financial instruments continued
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 cash flow hedges, where they hedge exposure to variability in cash flows 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 cash flow 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.

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) Financial assets
All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL); 'held-to-maturity' investments; 'available-for-sale' (AFS) financial assets; and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

(v) Cash and cash equivalents
Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(w) Loans and receivables
Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

(x) Effective interest method
The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL. The Group chooses not to disclose the effective interest rate for debt instruments that are classified as at fair value through profit or loss.

(y) Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

(z) Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(aa) Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(ab) 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);
- Presumption of going concern (note 16);
- Derivative financial instruments (note 17);
- Decommissioning costs (note 20); and
- Recoverability of deferred tax assets (note 20).

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 2008 and 2007.

	Africa £'000	Europe £'000	South Asia £'000	South America £'000	Unallocated £'000	**Total £'000**
2008						
Sales revenue by origin	475,672	204,602	11,399	–	–	691,673
Segment result	137,387	50,615	(31,854)	(40,474)	–	115,674
Profit on disposal of subsidiaries						213,268
Profit on disposal of oil and gas assets						30,614
Unallocated corporate expenses						(59,861)
Operating profit						299,695
Gain on hedging instruments						42,927
Finance revenue						3,928
Finance costs						(47,238)
Profit before tax						299,312
Income tax expense						(73,069)
Profit after tax						226,243
Total assets	2,229,704	495,163	65,290	100,624	41,508	2,932,289
Total liabilities	(651,311)	(213,050)	(19,494)	(31,783)	(707,476)	(1,623,114)
Other segment information						
Capital expenditure:						
Property, plant and equipment	103,710	39,990	4,408	–	7,036	155,144
Intangible exploration and evaluation assets	293,618	34,445	11,589	12,131	–	351,783
Depletion, depreciation and amortisation	(110,647)	(81,978)	(5,749)	–	(3,933)	(202,307)
Impairment losses recognised in income	(18,220)	–	(8,085)	–	–	(26,305)
Exploration costs written off	(146,916)	(12,582)	(26,729)	(40,474)	–	(226,701)

	Africa £'000	Europe £'000	South Asia £'000	South America £'000	Unallocated £'000	Total £'000
2007						
Sales revenue by origin	371,883	258,838	8,482	–	–	639,203
Segment result	144,886	78,979	1,827	(4,419)	–	221,273
Loss on 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	1,344,226	553,340	66,465	112,008	15,163	2,091,202
Total liabilities	(527,843)	(242,597)	(13,870)	(37,731)	(556,491)	(1,378,532)
Other segment information						
Capital expenditure:						
Property, plant and equipment	115,012	86,960	6,096	–	4,145	212,213
Intangible exploration and evaluation assets	152,129	32,587	4,411	4,745	–	193,872
Depletion, depreciation and amortisation	(98,379)	(101,359)	(3,286)	–	(2,781)	(205,805)
Impairment losses recognised in income	(13,834)	–	–	–	–	(13,834)
Exploration costs written off	(45,862)	(12,504)	(1,450)	(4,419)	–	(64,235)

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

	2008 £'000	2007 £'000
Sales revenue		
Oil and gas revenue from the sale of goods	**800,715**	619,607
(Loss)/profit on realisation of cash flow hedges	**(119,258)**	2,058
	681,457	621,665
Tariff income	**10,216**	17,538
Total operating revenue	**691,673**	639,203
Finance revenue	**3,928**	3,095
Total revenue	**695,601**	642,298

Note 3. Operating profit

	2008 £'000	2007 £'000
Operating profit is stated after charging:		
Staff costs (see note 4 below)	**46,015**	33,632
Depletion and amortisation	**198,374**	203,024
Impairment of property, plant and equipment	**26,305**	13,834
Depreciation of other fixed assets	**3,933**	2,781
Exploration write off	**226,701**	64,235
Share-based payment charge	**7,862**	5,388
Gain/(loss) on hedging instruments	**42,927**	(29,267)
Operating lease rentals	**5,098**	4,798
Auditors' remuneration (see below)	**781**	767

	2008 £'000	2007 £'000
Audit services:		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	**176**	168
Audit of the Company's subsidiaries pursuant to legislation	**402**	358
	578	526
Tax services:		
Compliance services	**–**	68
Advisory services	**18**	6
	18	74
Other non-audit services:		
Services related to corporate finance transactions	**82**	119
Other services	**103**	48
	185	167
Total	**781**	767

Note 4. Staff costs

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

	2008 Number	2007 Number
Administration	265	156
Technical	206	121
Total	**471**	277

Staff costs in respect of those employees was as follows:

	2008 £'000	2007 £'000
Salaries	41,507	30,442
Social security costs	2,272	1,750
Pension costs	2,236	1,440
	46,015	33,632

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 £7,862,000 (2007: £5,388,000).

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.

Note 5. Finance costs

	2008 £'000	2007 £'000
Interest on bank overdrafts and loans	36,556	43,561
Interest on obligations under finance leases	241	288
Total borrowing costs	36,797	43,849
Less amounts included in the cost of qualifying assets	(5,999)	(7,431)
	30,798	36,418
Finance and arrangement fees	6,368	3,646
Unwinding of discount on decommissioning provision (note 20)	10,072	8,609
	47,238	48,673

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 5.36% (2007: 7.74%) to cumulative expenditure on such assets.

Note 6. Taxation on profit on ordinary activities

(a) Analysis of charge in period

The tax charge comprises:

	2008 £'000	2007 £'000
Current tax		
UK corporation tax	38,541	2,328
Foreign taxation	77,034	27,768
Total corporate tax	115,575	30,096
UK petroleum revenue tax	1,382	11,048
Total current tax	116,957	41,144
Deferred tax		
UK corporation tax	(10,355)	21,631
Foreign taxation	(37,385)	229
Total corporate tax	(47,740)	21,860
UK petroleum revenue tax	3,852	(1,395)
Total deferred tax (note 20)	(43,888)	20,465
Total tax expense	73,069	61,609

(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 applicable to UK upstream profits (30%) plus the rate of SCT in respect of UK upstream profits (20%) to the profit before tax is as follows:

	2008 £'000	2007 £'000
Group profit on ordinary activities before tax	**299,312**	114,203
Tax on group profit on ordinary activities at a combined standard UK corporation tax and SCT rate of 50% (2007: 50%)	**149,656**	57,102
Effects of:		
Expenses not deductible for tax purposes	**938**	12,056
Utilisation of tax losses not previously recognised	**1,863**	–
Net losses not recognised	**118,371**	50,706
Petroleum revenue tax (PRT)	**5,234**	9,654
UK corporation tax deductions for current PRT	**(2,617)**	(4,827)
Adjustments relating to prior years	**(379)**	(5,613)
Income taxed at a different rate	**(29,849)**	(7,321)
Income not subject to corporation tax	**(170,148)**	(50,148)
Group total tax expense for the year	**73,069**	61,609

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 £155 million (2007: £131 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

	2008 £'000	2007 £'000
Declared and paid during year		
Final dividend for 2007: Stg4p (2006: Stg3.5p) per ordinary share	**28,690**	25,051
Interim dividend for 2008: Stg2p (2007: Stg2p) per ordinary share	**14,483**	14,355
Dividends paid	**43,173**	39,406
Proposed for approval by shareholders at the AGM		
Final dividend for 2008: Stg4p (2007: Stg4p) per ordinary share	**29,316**	28,784

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 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.

	2008 £'000	2007 £'000
Earnings		
Net profit attributable to equity shareholders	223,211	50,887
Effect of dilutive potential ordinary shares	–	–
Diluted net profit attributable to equity shareholders	223,211	50,887

	2008	2007
Number of shares		
Basic weighted average number of shares	723,355,745	717,025,714
Dilutive potential ordinary shares	8,675,224	14,348,042
Diluted weighted average number of shares	732,030,969	731,373,756

Note 9. Intangible exploration and evaluation assets

	2008 £'000	2007 £'000
At 1 January	956,580	820,437
Acquisition of subsidiaries (note 26)	–	48,959
Additions	351,783	193,872
Disposals	(40,149)	–
Transfer to assets held for sale (note 18)	–	(11,398)
Amounts written off	(226,701)	(64,235)
Transfer from/(to) property, plant and equipment (note 10)	368	(15,442)
Currency translation adjustments	375,896	(15,613)
At 31 December	1,417,777	956,580

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.

Amounts written off include an impairment charge calculated in accordance with IAS 36 – Impairment of assets of £60.1 million (2007: £nil). This impairment has resulted from lower reserves estimates following a change in the most likely development plans and lower assumed oil prices following the fall in oil prices in the second half of the year. In calculating this impairment, management has used a range of assumptions, including a long-term oil price of $80 per barrel and a 15% pre-tax discount rate.

Note 10. Property, plant and equipment

	Oil and gas assets £'000	Other fixed assets £'000	Total £'000
Cost			
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
Transfer from intangible exploration and evaluation fixed assets (note 9)	15,442	–	15,442
Currency translation adjustments	(19,291)	273	(19,018)
At 1 January 2008 *(as restated*)*	**1,522,022**	**14,414**	**1,536,436**
Additions	**148,109**	**7,035**	**155,144**
Disposals	**(33,752)**	**(258)**	**(34,010)**
Transfer to intangible exploration and evaluation fixed assets (note 9)	**(368)**	**–**	**(368)**
Currency translation adjustments	**319,287**	**1,886**	**321,173**
At 31 December 2008	**1,955,298**	**23,077**	**1,978,375**
Depreciation, depletion and amortisation			
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
Currency translation adjustments	(6,769)	230	(6,539)
At 1 January 2008 *(as restated*)*	**638,610**	**7,410**	**646,020**
Charge for the year	**198,374**	**3,933**	**202,307**
Impairment loss	**26,305**	**–**	**26,305**
Disposals	**(25,951)**	**(111)**	**(26,062)**
Currency translation adjustments	**142,197**	**1,234**	**143,431**
At 31 December 2008	**979,535**	**12,466**	**992,001**
Net book value			
At 31 December 2008	**975,763**	**10,611**	**986,374**
At 31 December 2007 *(as restated*)*	883,412	7,004	890,416

* The 2007 comparatives have been restated due to an asset held for sale being reclassified during 2008 (see note 18).

Additions include capitalised interest of £5,999,000 (2007: £7,431,000).

The carrying amount of the Group's oil and gas assets includes an amount of £9,833,000 (2007: £8,147,000) in respect of assets held under finance leases.

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

The 2008 impairment loss relates to the Chinguetti field in Mauritania and the Chachar field in Pakistan (2007: Chinguetti field in Mauritania). The recoverable amount of the Chinguetti field in Mauritania was determined by estimating its value in use. In calculating this impairment, management used a production profile based on proven and probable reserves estimates and a range of assumptions, including an oil price assumption equal to the forward curve in 2009 and 2010 and $80 per barrel thereafter and a 12.5% pre-tax discount rate. The recoverable amount of the Chachar field in Pakistan was determined by reference to its disposal value less costs to sell.

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.

Note 11. Investments

	2008 £'000	2007 £'000
Unlisted investments	**447**	447

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

Principal subsidiary undertakings

At 31 December 2008 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 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 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

	2008 £'000	2007 £'000
Warehouse stocks and materials	27,943	16,927
Oil stocks	9,907	7,970
	37,850	24,897

Inventories includes a provision of £2,400,000 (2007: £nil) for warehouse stock and materials where it is considered that the net realisable value is lower than the original cost.

Note 13. Other current assets

	2008 £'000	2007 £'000
Other debtors	45,606	27,214
Prepayments	5,518	2,458
VAT recoverable	9,084	3,679
	60,208	33,351

Note 14. Cash and cash equivalents

	2008 £'000	2007 £'000
Cash at bank and in hand	241,513	69,357
Short-term deposits	69,507	12,867
	311,020	82,224

Cash and cash equivalents includes an amount of £36,000,000 (2007: £8,254,000) 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 and an amount of £152,972,000 (2007: £24,453,000) which the Group holds as operator on behalf of joint venture partners.

Note 15. Trade and other payables

Current liabilities

	2008 £'000	2007 (as restated*) £'000
Trade payables	129,693	65,922
Other payables	30,938	9,174
Deferred income (take or pay)	722	722
Accruals	138,241	86,032
PAYE and social security	17,507	6,649
VAT and other similar taxes	10,189	10,064
Current portion of finance lease (note 19)	2,925	2,063
	330,215	180,626

Non-current liabilities

	2008 £'000	2007 £'000
Other payables	–	9,051
Non-current portion of finance lease (note 19)	6,089	6,535
	6,089	15,586
– After one year but within five years	6,089	14,872
– After five years	–	714
	6,089	15,586

* The 2007 comparatives have been restated due to an asset held for sale being reclassified during 2008 (see note 18).

Trade and other payables are non-interest bearing except for finance leases (note 19).

Note 16. Financial liabilities

	2008 £'000	2007 £'000
Current		
Short-term borrowings	**210,528**	9,793
Non-current		
Term loans repayable		
– After one year but within two years	**393,257**	282,275
– After two years but within five years	**95,784**	257,997
	489,041	540,272

Group bank loans are stated net of unamortised arrangement fees of £11,806,000 (2007: £11,635,000).

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, excluding trade and other receivables and trade and other payables, at 31 December 2008 was as follows:

	Stg £'000	Euro £'000	US$ £'000	Other £'000	Total £'000
Cash at bank at floating interest rate	**55,711**	**1,251**	**240,157**	**9,450**	**306,569**
Cash at bank on which no interest is received	**21**	**20**	**3,997**	**413**	**4,451**
Fixed rate debt	**–**	**–**	**(34,533)**	**–**	**(34,533)**
Floating rate debt	**–**	**–**	**(676,842)**	**–**	**(676,842)**
Net cash/(debt)	**55,732**	**1,271**	**(467,221)**	**9,863**	**(400,355)**

The profile at 31 December 2007 for comparison purposes 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)

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 now a US$200 million (£138.1 million) revolving facility which is repayable in full on 31 December 2009. The facility incurs interest on outstanding debt at US Dollar LIBOR plus a margin ranging from 300 basis points increasing in quarterly 25 basis point increments until expiry in December 2009. 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 2008, the headroom under the facilities amounted to US$335 million (£231.4 million); US$235 million (£162.3 million) under the Borrowing Base and US$100 million (£69.1 million) under the Hardman Bridge Facility. At the end of December 2007, the headroom under the two facilities was 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.

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 collars and interest rate caps. All interest rate derivatives currently in place were put in place for a three-year period in May 2008 and expire in May 2011. The interest rate swap currently in place has a swap rate of 3.4375% for a current notional principal of US$50 million (£34.5 million). The effect of the interest rate collar currently in place limits the exposure to US Dollar LIBOR at varying rates (maximum of 4.3%) over the life of the derivative for a current notional principal of US$50 million (£34.5 million). The combined mark-to-market position as at the 2008 year end was £2,089,000 (2007: £104,000). The interest rate hedges are included in fixed rate debt in 2008 and were included in the floating rate debt table in 2007 as there was non-material differences between book and fair values for the mark-to-markets on the hedges in place at the time.

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 2008 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 2008, 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$930 million (£642.3 million) cash drawings under the US$1,350 million Borrowing Base Facility and US$100 million (£69.1 million) cash drawings under the US$200 million Hardman Bridge Facility. As at 31 December 2007 the only material assets or liabilities 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 Borrowing Base facility and US$400 million (£200.3 million) cash drawings under the $550million Hardman Bridge Facility. These US Dollar cash drawings at 31 December 2008 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 £444.5 million (2007: £452.2 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 20% 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 20% change in foreign currency rates.

As at 31 December 2008, a 20% increase in Sterling against the US Dollar would have resulted in a decrease in foreign currency denominated liabilities and equity of £133.1 million (2007: £49.4 million 10% increase) and a 20% decrease in Sterling against US Dollar would have resulted in an increase in foreign currency denominated liabilities and equity of £199.7 million (2007: £60.3 million 10% decrease).

Liquidity risk

The Group 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 Group's short, medium and long-term funding and liquidity management requirements.

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices and different production rates from the Group's portfolio of producing fields. The Group normally seeks to ensure that it has a minimum ongoing capacity of £200 million for a period of at least 12 months to safeguard the Group's ability to continue as a going concern.

Following the equity placing announced in January 2009 and securing the US$2 billion financing in March 2009, the Group's forecasts and projections show that there is significant capacity and financial flexibility for the 12 months from the date of this Annual Report and Accounts.

Although there is considerable economic uncertainty at the present time, after taking account of the above, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

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. The Group has no material financial assets that are past due.

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 cash flow 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 2008 £'000	Less than one year £'000	One to three years £'000	Total 2007 £'000
Cash flow hedges						
Gas derivatives	(5,666)	(5,161)	(10,827)	(7,573)	(13,489)	(21,062)
Oil derivatives	26,523	35,662	62,185	(81,832)	(55,046)	(136,878)
Interest rate derivatives	(868)	(1,221)	(2,089)	(104)	–	(104)
	19,989	29,280	49,269	(89,509)	(68,535)	(158,044)

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, D-1 Heren and M-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 2008, the Group's oil hedge position was summarised as follows:

Oil hedges	H1 2009	H2 2009	2010	2011
Volume – bopd	14,414	14,000	6,500	1,000
Average Price* – $/bbl	59.68	60.42	78.80	69.40

* Average hedge prices are based on market prices as at 31 December 2008 and represent the current value of hedged volumes at that date.

At 31 December 2008, the Group's gas hedge position was summarised as follows:

Gas hedges	H1 2009	H2 2009	2010	2011
Volume – mmscfd	64.4	44.4	17.8	3.7
Average Price* – p/therm	57.74	54.30	56.94	63.16

* Average hedge prices are based on market prices as at 31 December 2008 and represent the current value of hedged volumes at that date.

As at 31 December 2008, 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:

Gain/(loss) on hedging instruments:	**2008 £'000**	2007 £'000
Cash flow hedges		
Gas derivatives		
Ineffectiveness	**103**	(533)
Time value	**4,289**	(9,989)
	4,392	(10,522)
Oil derivatives		
Ineffectiveness	**8,183**	(2,380)
Time value	**30,352**	(10,476)
	38,535	(12,856)
Fair value through profit and loss		
Foreign exchange derivatives	**–**	(5,889)
Total net gain/(loss) for the year in Income Statement	**42,927**	(29,267)

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

Deferred amounts in hedge reserve	**2008 £'000**	2007 £'000
At 1 January	**(131,993)**	(52,213)
Amounts recognised in profit for the year	**(42,927)**	23,917
Deferred gains/(losses) before tax arising during the year	**206,219**	(133,615)
Deferred tax movement taken directly to equity	**(2,326)**	29,918
	160,966	(79,780)
At 31 December	**28,973**	(131,993)

Deferred amounts in hedge reserve net of tax effects	**2008 £'000**	2007 £'000
Cash flow hedges		
Gas derivatives	**(3,644)**	(7,191)
Oil derivatives	**34,111**	(124,706)
Interest rate derivatives	**(1,494)**	(96)
	28,973	(131,993)

Note 17. Financial instruments continued

Financial derivatives

The Group internally measures its market risk exposure by running various sensitivity analyses, including utilising 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 and M-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 2008, a 10% increase in the dated Brent oil price curve would have decreased equity by approximately £22 million (2007: £49 million), a 10% decrease would have increased equity by approximately £27 million (2007: £43 million).

As at 31 December 2008, a 10% increase in the UK D-1 Heren and M-1 Heren natural gas price curves would have decreased equity by approximately £10.5 million (2007: £14 million), a 10% decrease would have increased equity by approximately £10.3 million (2007: £12 million).

Interest rate sensitivity analysis

As at 31 December 2008, the interest rate derivative position was out-of-the-money to an amount of £2.1 million (2007: £104,000) and due to immateriality no sensitivity analysis has been performed on the position.

FX sensitivity analysis

As at 31 December 2008 and 31 December 2007, there were no foreign exchange derivatives outstanding.

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. The maximum financial exposure due to credit risk on the Group's financial assets, representing the sum of cash and cash equivalents, investments, derivative assets, trade receivables and other current assets, as at 31 December was £490.2 million (2007: £207.4 million).

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 latter was successfully completed in July 2008.

However, the proposed divestment of Tullow Congo Ltd was not concluded as government approvals for the transfer of the asset were not received within a reasonable timeframe. The 2007 balance sheet has consequently been restated as the asset is no longer classified as an asset held for sale. In addition, in accordance with IFRS 5 – Non-current assets held for sale and discontinued operations, the carrying value of the asset has been adjusted for any depletion or amortisation that would have been recognised had the asset not been originally classified as held for sale. The impact of the restatement on 2007 net assets is £nil and the impact on the income statement is £nil.

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

	2008 **£'000**	2007 (as restated*) £'000
Property, plant and equipment	**–**	–
Intangible exploration and evaluation assets	**–**	11,398
Trade and other receivables	**–**	445
Total assets classified as held for sale	**–**	11,843
Trade and other payables	**–**	–
Decommissioning provisions	**–**	–
Total liabilities directly associated with assets classified as held for sale	**–**	–
Net assets of disposal group	**–**	11,843

* The 2007 comparatives have been restated due to an asset held for sale being reclassified during 2008.

Note 19. Obligations under finance leases

	2008 **£'000**	2007 £'000
Amounts payable under finance leases:		
– Within one year	**3,164**	2,294
– Within two to five years	**6,329**	6,882
	9,493	9,176
Less future finance charges	**(479)**	(578)
Present value of lease obligations	**9,014**	8,598
Amount due for settlement within 12 months (note 15)	**2,925**	2,063
Amount due for settlement after 12 months (note 15)	**6,089**	6,535

The fair value of the Group's lease obligations approximates the carrying amount. The remaining lease term is three years (2007: four years). For the year ended 31 December 2008, the effective borrowing rate was 2.8 % (2007: 2.8%).

Note 20. Provisions

(i) Decommissioning costs

	2008 £'000	2007 (as restated) £'000
At 1 January *(as restated)*	**135,139**	124,868
New provisions and changes in estimates	**9,987**	7,252
Disposal of subsidiaries (note 26)	**(37,916)**	–
Decommissioning payments	**(194)**	(5,065)
Unwinding of discount (note 5)	**10,072**	8,609
Currency translation adjustment	**16,931**	(525)
At 31 December	**134,019**	135,139

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 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 1 January 2008	**1,356**	**306,259**	**307,615**
Charged to income statement	**3,852**	**(47,740)**	**(43,888)**
Disposal of subsidiary (note 26)	**–**	**7,398**	**7,398**
Hedge movement directly to equity (note 17)	**–**	**2,326**	**2,326**
Currency translation adjustment	**–**	**74,489**	**74,489**
At 31 December 2008	**5,208**	**342,732**	**347,940**

Deferred UK and overseas corporation tax is provided as follows:

	2008 £'000	2007 £'000
Accelerated capital allowances	**294,809**	175,549
Decommissioning charges	**(25,009)**	(40,223)
Other temporary differences	**(1,557)**	174,810
Currency translation adjustment	**74,489**	(3,877)
Provision	**342,732**	306,259

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.

Deferred tax assets are recognised only to the extent it is considered probable that those assets will be recoverable. This involves an assessment of when those deferred tax assets are likely to reverse, and a judgement as to whether or not there will be sufficient taxable profits available to offset the tax assets when they do reverse. This requires assumptions regarding future profitability and is therefore inherently uncertain. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the level of deferred tax assets recognised which can result in a charge or credit in the period in which the change occurs.

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 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	6,500	–	229,121	(235,621)	–	–	–	–
New shares issued in respect of employee share options	271	2,390	–	–	–	2,661	–	2,661
Share-based payment charges	–	–	–	–	5,388	5,388	–	5,388
Dividends paid (note 7)	–	–	–	–	(39,406)	(39,406)	–	(39,406)
At 1 January 2008	**71,961**	**128,465**	**210,089**	**–**	**286,668**	**697,183**	**15,487**	**712,670**
Total recognised income and expense for the year	**–**	**–**	**376,420**	**–**	**223,211**	**599,631**	**9,844**	**609,475**
Purchase of treasury shares	**–**	**–**	**(11,235)**	**–**	**–**	**(11,235)**	**–**	**(11,235)**
New shares issued in respect of employee share options	**692**	**5,840**	**–**	**–**	**–**	**6,532**	**–**	**6,532**
New shares issued in respect of royalty obligation	**635**	**26,409**	**–**	**–**	**–**	**27,044**		**27,044**
Vesting of PSP shares	**–**	**–**	**6,857**	**–**	**(6,857)**	**–**	**–**	**–**
Share-based payment charges	**–**	**–**	**–**	**–**	**7,862**	**7,862**	**–**	**7,862**
Dividends paid (note 7)	**–**	**–**	**–**	**–**	**(43,173)**	**(43,173)**	**–**	**(43,173)**
At 31 December 2008	**73,288**	**160,714**	**582,131**	**–**	**467,711**	**1,283,844**	**25,331**	**1,309,175**

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

(a) Authorised

	2008 £'000	2007 £'000
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	Equity share capital allotted and fully paid £'000	Share premium £'000
Ordinary shares of Stg10p each			
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 1 January 2008	**719,610,522**	**71,961**	**128,465**
Issues during the year			
– Exercise of share options	**6,926,931**	**692**	**5,840**
– New shares issued in respect of royalty obligation	**6,352,114**	**635**	**26,409**
At 31 December 2008	**732,889,567**	**73,288**	**160,714**

Note 23. Other reserves

	Merger reserve £'000	Foreign currency translation reserve £'000	Hedge reserve £'000	Treasury shares £'000	Total £'000
At 1 January 2007	178,953	(52,972)	(52,213)	(3,977)	69,791
Hedge movement	–	–	(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 1 January 2008	**408,074**	**(58,293)**	**(131,993)**	**(7,699)**	**210,089**
Hedge movement (note 17)	**–**	**–**	**160,966**	**–**	**160,966**
Currency translation adjustment	**–**	**215,454**	**–**	**–**	**215,454**
Vesting of PSP shares	**–**	**–**	**–**	**6,857**	**6,857**
Purchase of treasury shares	**–**	**–**	**–**	**(11,235)**	**(11,235)**
At 31 December 2008	**408,074**	**157,161**	**28,973**	**(12,077)**	**582,131**

During 2007 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 foreign currency translation reserve represents exchange gains and losses arising on translation of foreign currency subsidiaries, 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, and exchange gains or losses arising on long-term foreign currency borrowings which are a hedge against the Group's overseas investments.

The hedge reserve represents gains and losses on hedging instruments classed as cash flow hedges that are determined as an effective hedge.

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 awards held under the Group's share incentive plans (see note 27).

Note 24. Minority interest

	2008 £'000	2007 £'000
At 1 January	**15,487**	–
Additions	**–**	13,780
Foreign currency translation	**6,812**	–
Share of profit for the year	**3,032**	1,707
At 31 December	**25,331**	15,487

The minority interest relates to Tulipe Oil SA, where the Group acquired a 50% controlling shareholding during 2007.

Note 25. Cash flows from operating activities

	2008 £'000	2007 £'000
Profit before taxation	299,312	114,203
Adjustments for:		
Depletion, depreciation and amortisation	202,307	205,805
Impairment loss	26,305	13,834
Exploration costs written off	226,701	64,235
(Profit)/loss on disposal of subsidiaries	(213,268)	597
Profit on disposal of oil and gas assets	(30,614)	–
Decommissioning expenditure	(194)	(5,065)
Share-based payment charge	7,862	5,388
(Gain)/loss on hedging instruments	(42,927)	29,267
Finance revenue	(3,928)	(3,095)
Finance costs	47,238	48,673
Operating cash flow before working capital movements	518,794	473,842
Decrease/(increase) in trade and other receivables	18,548	(20,472)
Increase in inventories	(12,952)	(11,162)
Increase in trade payables	63,260	4,452
Cash generated from operations	587,650	446,660

Note 26. Acquisition and disposal of subsidiaries and oil and gas assets

(i) Disposal of subsidiary

Tullow completed the sale of Tullow Oil UK Limited incorporating the 51.68% interest in the Hewett-Bacton complex to ENI in November 2008.

The net assets of Tullow Oil UK Limited at the date of disposal in November 2008 were as follows:-

	2008 £'000
Property, plant and equipment	24,331
Inventories	998
Trade receivables	3,791
Cash and cash equivalents	19
Other creditors	(15,309)
Current tax liability	11,254
Deferred tax liability	7,398
Provisions	(37,916)
Net liability on disposal	(5,434)
Gain on disposal	213,268
Total consideration	207,834
Satisfied by:	
Cash	207,834

(ii) Disposal of oil and gas assets

On 5 November 2007 and 2 April 2008, the Group entered into sale agreements to dispose of its 40% interest in the Ngosso Permit in Cameroon and certain non-core CMS assets in the UK respectively. The disposals were completed in June 2008. The gain on disposal of oil and gas assets amounted to £30,614,000 and total consideration received amounted to £77,530,000.

Note 26. Acquisition and disposal of subsidiaries and oil and gas assets continued

(iii) 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 were reassessed in 2007, 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 to the 2007 financial statements are set out in the following table:

	Fair value as previously reported £'000	2007 Fair value adjustment £'000	**2007 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 200% of salary p.a. (300% in exceptional circumstances). The awards granted in 2008 under the PSP vest 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 an Index and a comparator group of oil and gas companies. For awards from March 2008 the Index is the FTSE 100 index (excluding investment trusts); for awards before March 2008, the Index is the FTSE 250 index (excluding investment trusts). 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:

	2008 PSP shares	2008 Average weighted share price at grant p	2007 PSP shares	2007 Average weighted share price at grant p
Outstanding at 1 January	**4,451,474**	**293.25**	2,903,082	251.66
Granted	**1,328,692**	**917.58**	1,548,392	371.24
Exercised during the year	**(1,747,750)**	**187.50**	–	–
Forfeited/expired during the year	**(175,503)**	**365.75**	–	–
Outstanding at 31 December	**3,856,913**	**552.92**	4,451,474	293.25

The inputs of the option valuation model were:	2008	2007
Risk free interest rate	**4.4%-4.7% pa**	5.3% pa
Expected volatility	**39%-41%**	33%
Dividend yield	**0.7%-0.8% pa**	1.5% 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 2008 was 653.94p per award (2007: 181.57p).

The Group recognised a total expense of £3,974,000 (2007: £2,233,000) in respect of the PSP.

Note 27. Share-based payments continued

2005 Deferred Share Bonus Plan (DSBP)

Under the DSBP, the portion of any annual bonus entitlement of a senior executive nominated by the Remuneration Committee that is above 75% of base salary (60% for bonuses paid for 2007 and earlier years) 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:

	2008 DSBP shares	2008 Share price at grant	2007 DSBP shares	2007 Share price at grant
Outstanding at 1 January	184,254	375.4p	79,787	348.5p
Granted	96,166	629.5p	104,467	396.0p
Exercised during the year	(79,787)	348.5p	–	–
Outstanding at 31 December	200,633	507.9p	184,254	375.4p
The inputs of the option valuation model were:				
Dividend yield		1.0% pa		1.3% pa

The expected life is the period from the date of grant to the vesting date. The fair value of the awards granted in 2008 was 611.9 p per award (2007: 381.23p).

The Group recognised a total expense of £537,000 (2007: £226,000) in respect of the DSBP.

2000 Executive Share Option Scheme (ESOS)

The only share option scheme operated by the Group 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 condition requires that the Company's TRS performance over a fixed three-year period must exceed the median company in the constituents of an index. For awards granted from March 2008 the index is the FTSE 100 index (excluding investments trusts); for awards before March 2008 the index is the FTSE 250 index (excluding investments trusts). 100% of the awards will vest if the Company's TSR is above the median of the respective 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.

	2008 Number	2008 WAEP p	2007 Number	2007 WAEP p
Outstanding as at 1 January	19,216,684	166.04	19,637,480	129.39
Granted during the year	2,475,251	647.28	2,358,408	396.46
Exercised during the year	(6,926,931)	91.50	(2,711,407)	98.31
Expired during the year	(76,899)	210.37	(67,797)	317.85
Outstanding at 31 December	14,688,105	282.06	19,216,684	166.04
Exercisable at 31 December	7,971,074	121.49	11,410,205	83.83

The weighted average share price at exercise for options exercised in 2008 was 854.25p (2007: 439.32p).

Options outstanding at 31 December 2008 had exercise prices of 61.0p to 754.0p and remaining contractual lives of one to 10 years.

The fair values were calculated using a proprietary binomial valuation model. The principal inputs to the options valuation model were:

Risk free interest rate	2.6-4.1% pa
Expected volatility	38-48%
Dividend yield	0.9-1.3% pa
Employee turnover	From 0% – 5% 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 2006	347.7	109.7	4.4
Jan – Dec 2007	396.9	123.4	4.8
Jan – Dec 2008	647.3	205.8	4.3

The Group recognised a total expense of £3,191,000 (2007: £2,794,000) 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 £148,000 (2007: £126,000) for the matching shares and £12,000 (2007: £9,000) for the partnership shares.

Note 28. Operating lease arrangements

	2008 £'000	2007 £'000
Minimum lease payments under operating leases recognised in income for the year	**5,098**	4,798

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:

	2008 £'000	2007 £'000
Minimum lease payments under operating leases		
Due within one year	**7,781**	5,098
After one year but within two years	**7,753**	5,229
After two years but within five years	**16,769**	15,522
Due after five years	**976**	3,236
	33,279	29,085

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 £606.2 million (2007: £445.6 million).

Note 30. Contingent liabilities

At 31 December 2008 there existed contingent liabilities amounting to £73.3 million (2007: £14.1 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 66 to 75. 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 2009 the Group announced the successful placing and subsequent issue of a total of 66,938,141 new ordinary shares with institutions at 600 pence per share. This represents an increase of approximately 9.1% in Tullow's existing issued share capital. These shares are credited as fully paid and rank pari passu in all respects with existing ordinary shares of 10 pence each in the capital of the Company, including the right to receive all dividends and other distributions declared, made or paid on or in respect of such shares after the date of issue.

In March 2009, the Group announced that it had finalised arrangements for US$2 billion (£1.4 billion) of new reserve based lending facilities.

In March 2009, the Group announced a major new discovery at Tweneboa, which continues the 100% exploration success record in Ghana.

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 £2,236,000 (2007: £1,440,000). At 31 December 2008, there was a liability of £82,000 (2007: £51,000) for contributions payable included in creditors.

Independent auditors' report

to the members of Tullow Oil plc

We have audited the Parent Company financial statements of Tullow Oil plc for the year ended 31 December 2008 which comprise the balance sheet and the related notes 1 to 13. 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 2008 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 2008;
- 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 LLP
Chartered Accountants and Registered Auditors
London
10 March 2009

Company balance sheet

As at 31 December 2008

	Notes	2008 £'000	2007 £'000
Fixed assets			
Investments	1	**950,872**	951,414
Current assets			
Debtors	3	**739,121**	400,856
Cash at bank and in hand		**29,806**	3,956
		768,927	404,812
Creditors – amounts falling due within one year			
Trade and other creditors	4	**(4,297)**	(10,242)
Bank loans	5	**(210,528)**	–
		(214,825)	(10,242)
Net current assets		**554,102**	394,570
Total assets less current liabilities		**1,504,974**	1,345,984
Creditors – amounts falling due after more than one year			
Bank loans	5	**(489,041)**	(539,288)
Loans from subsidiary undertakings	6	**(127,776)**	(227,488)
Net assets		**888,157**	579,208
Capital and reserves			
Called up equity share capital	7	**73,288**	71,961
Share premium account	7	**160,714**	128,465
Other reserves	9	**339,380**	343,758
Profit and loss account	8	**314,775**	35,024
Shareholders' funds	8	**888,157**	579,208

Approved by the Board and authorised for issue on 10 March 2009

Aidan Heavey
Chief Executive Officer

Ian Springett
Chief Financial Officer

Notes to the Company financial statements

Year ended 31 December 2008

(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 84.

(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 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.

Note 1. Investments

	2008 £'000	2007 £'000
Shares at cost in subsidiary undertakings	**950,425**	950,967
Unlisted investments	**447**	447
	950,872	951,414

The movement in investments during the year is due to the disposal of Tullow Oil UK Limited to ENI in November 2008.

Principal subsidiary undertakings

At 31 December 2008 the Company's principal subsidiary undertakings were:

Name	%	Country of operation	Country of registration
Directly held			
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 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.

The Company is required to assess the carrying values of each of its investments in subsidiaries for impairment. The net assets of certain of the Company's subsidiaries are predominantly intangible exploration and evaluation (E&E) assets. Where facts and circumstances indicate that the carrying amount of an E&E asset held by a subsidiary may exceed its recoverable amount, by reference to the specific indicators of impairment of E&E assets in IFRS 6, an impairment test of the asset is performed by the subsidiary undertaking and the asset is impaired by any difference between its carrying value and its recoverable amount. The recognition of such an impairment by a subsidiary is used by the Company as the primary basis for determining whether or not there are indications that the investment in the related subsidiary may also be impaired, and thus whether an impairment test of the investment carrying value needs to be performed. The results of exploration activities are inherently uncertain, and the assessment for impairment of E&E assets by the subsidiary, and that of the related investment by the Company, is judgemental.

Note 2. Dividends

	2008 £'000	2007 £'000
Declared and paid during year		
Final dividend for 2007: Stg4.0p (2006: Stg3.5p) per ordinary share	28,690	25,051
Interim dividend for 2008: Stg2.0p (2007: Stg2.0p) per ordinary share	14,483	14,355
Dividends paid	**43,173**	39,406
Proposed for approval by shareholders at the AGM		
Final dividend for 2008: Stg4.0p (2007: Stg4.0p)	29,316	28,784

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

	2008 £'000	2007 £'000
Other debtors	429	19
Prepayments	–	12
Due from subsidiary undertakings	738,692	400,825
	739,121	400,856

The amounts due from subsidiary undertakings include £332.9 million (2007: £388.9 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

	2008 £'000	2007 £'000
Other creditors	2,322	17
Accruals	1,696	6,534
VAT	279	3,691
	4,297	10,242

Note 5. Bank loans

	2008 £'000	2007 £'000
Current		
Short-term borrowings	210,528	–
Non-current		
Term loans repayable		
– After one year but within two years	393,257	281,291
– After two years but within five years	95,784	257,997
	489,041	539,288

Company bank loans are stated net of unamortised arrangement fees of £11,806,000 (2007: £11,367,000).

Term loans and guarantees are secured by fixed and floating charges over the oil and gas assets (note 10) 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 2008 was as follows:

	Stg £'000	US$ £'000	Total £'000
Cash at bank at floating interest rate	**29,806**	**–**	**29,806**
Amounts due from subsidiaries at LIBOR + 1.7%	**494,595**	**–**	**494,595**
Fixed rate debt	**–**	**(69,066)**	**(69,066)**
Floating rate debt	**–**	**(642,309)**	**(642,309)**
Net cash/(debt)	**524,401**	**(711,375)**	**(186,974)**

The profile at 31 December 2007 for comparison purposes was as follows:

	Stg £'000	US$ £'000	Total £'000
Cash at bank at floating interest rate	3,764	192	3,956
Amounts due from subsidiaries at LIBOR + 1.7%	388,903	–	388,903
Fixed rate debt	(25,000)	(75,101)	(100,101)
Floating rate debt	(40,000)	(410,554)	(450,554)
Net (debt)/cash	327,667	(485,463)	(157,796)

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 market rates.

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.

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 now a US$200 million (£138.1 million) revolving facility which is repayable in full on 31 December 2009. The facility incurs interest on outstanding debt at US Dollar LIBOR plus a margin ranging from 300 basis points increasing in quarterly 25 basis point increments until expiry in December 2009. 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 2008, the headroom under the facilities amounted to US$335 million (£231.4 million); US$235 million (£162.3 million) under the Borrowing Base and US$100 million (£69.1 million) under the Hardman Bridge Facility. At the end of December 2007, the headroom under the two facilities was 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.

The Company is exposed to floating rate interest rate risk as entities in the Group borrow funds at floating interest rates. The company hedges its floating rate interest rate exposure on an ongoing basis through the use of interest rate derivatives, namely interest rate swaps, interest rate collars and interest rate caps. All interest rate derivatives currently in place were put in place for a three-year period in May 2008 and expire in May 2011. The interest rate swap currently in place has a swap rate of 3.4375% for a current notional principal of US$50 million (£34.5 million). The effect of the interest rate collar currently in place limits the exposure to US Dollar LIBOR at varying rates (maximum of 4.3%) over the life of the derivative for a current notional principal of US$50 million (£34.5 million). The combined mark to market position as at the 2008 year end was £2,089,000 (2007: £104,000). The interest rate hedges are included in fixed rate debt in the 2008 and were included in the floating rate debt table in 2007 as there was non-material differences between book and fair values for the mark-to-markets on the hedges in place at the time.

Foreign currency risk

As at 31 December 2008, the only material monetary assets or liabilities of the Company that were not denominated in the functional currency of the respective subsidiaries involved were US$930 million (£642.3 million) cash drawings under the US$1,350 million Borrowing Base Facility and US$100 million (£69.1 million) cash drawings under the US$200 million Hardman Bridge Facility. As at 31 December 2007 the only material assets or liabilities 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 Borrowing Base facility and US$400 million (£200.3 million) cash drawings under the $550million Hardman Bridge Facility. These US Dollar cash drawings at 31 December 2008 continue to be held as a hedge against US Dollar denominated net assets in subsidiaries.

The net carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are £711.3 million (2007: £485.5 million).

Foreign currency sensitivity analysis

The Company is mainly exposed to fluctuation in the US dollar. The Group measures its market risk exposure by running various sensitivity analyses including 20% favorable 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 2008, a 20% increase in Sterling against the US Dollar would have resulted in a decrease in foreign currency denominated liabilities and equity of £118.6 million (2007: £44.1 million10% increase) and a 20% decrease in Sterling against US Dollar would have resulted in an increase in foreign currency denominated liabilities and equity of £177.8 million (2007: £54.0 million 10% decrease).

Note 6. Loans from subsidiary undertakings

Amounts falling due after more than one year

	2008 £'000	2007 £'000
Loans from subsidiary companies	**127,776**	227,488

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

(a) Authorised

	2008 £'000	2007 £'000
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 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 1 January 2008	**719,610,520**	**71,961**	**128,465**
Issues during the year			
– Exercise of share options	**6,926,931**	**692**	**5,840**
– New shares issued in respect of royalty obligation	**6,352,114**	**635**	**26,409**
At 31 December 2008	**732,889,565**	**73,288**	**160,714**

Note 8. Shareholders' funds

	Share capital £'000	Share premium £'000	Other reserves (note 9) £'000	Profit and loss account £'000	Total £'000
At 1 January 2007	65,190	126,075	118,359	38,999	348,623
Total recognised income and expense for the year	–	–	–	30,043	30,043
Purchase of treasury shares	–	–	(3,722)	–	(3,722)
Shares to be issued in respect of Hardman acquisition	6,500	–	229,121	–	235,621
New shares issued in respect of employee share options	271	2,390	–	–	2,661
Share-based payment charges	–	–	–	5,388	5,388
Dividends paid	–	–	–	(39,406)	(39,406)
At 1 January 2008	**71,961**	**128,465**	**343,758**	**35,024**	**579,208**
Total recognised income and expense for the year	**–**	**–**	**–**	**321,919**	**321,919**
Purchase of treasury shares	**–**	**–**	**(11,235)**	**–**	**(11,235)**
New shares issued in respect of employee share options	**692**	**5,840**	**–**	**–**	**6,532**
New shares issued in respect of royalty obligation	**635**	**26,409**	**–**	**–**	**27,044**
Vesting of PSP shares	**–**	**–**	**6,857**	**(6,857)**	**–**
Share-based payment charges	**–**	**–**	**–**	**7,862**	**7,862**
Dividends paid	**–**	**–**	**–**	**(43,173)**	**(43,173)**
At 31 December 2008	**73,288**	**160,714**	**339,380**	**314,775**	**888,157**

The Company has tax losses of £35 million (2007: £42 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 9. Other reserves

	Merger reserve £'000	Treasury shares £'000	Total £'000
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 1 January 2008	**351,457**	**(7,699)**	**343,758**
Purchase of treasury shares	**–**	**(11,235)**	**(11,235)**
Vesting of PSP shares	**–**	**6,857**	**6,857**
At 31 December 2008	**351,457**	**(12,077)**	**339,380**

During 2007 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 11).

Note 10. Disposal of subsidiary

Tullow Oil Plc completed the sale of Tullow Oil UK Limited incorporating the 51.68% interest in the Hewett-Bacton complex to ENI in November 2008 with a profit on sale of £236,761,000.

Note 11. 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 200% of salary p.a. (300% in exceptional circumstances). The awards granted in 2008 under the PSP vest 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 an Index and a comparator group of oil and gas companies. For awards from March 2008 the index is the FTSE 100 index (excluding investments trusts); for awards before March 2008, the index is the FTSE 250 index (excluding investment trusts). 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:

	2008 PSP shares	**2008 Average weighted share price at grant p**	2007 PSP shares	2007 Average weighted share price at grant p
Outstanding at 1 January	**4,451,474**	**293.25**	2,903,082	251.66
Granted	**1,328,692**	**917.58**	1,548,392	371.24
Exercised during the year	**(1,747,750)**	**187.50**	–	–
Forfeited/expired during the year	**(175,503)**	**365.75**	–	–
Outstanding at 31 December	**3,856,913**	**552.92**	4,451,474	293.25

The inputs of the option valuation model were:

	2008 Average weighted share price at grant p	2007 Average weighted share price at grant p
Risk free interest rate	**4.4%-4.7% pa**	5.3% pa
Expected volatility	**39%-41%**	33%
Dividend yield	**0.7%-0.8% pa**	1.5% 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 2008 was 653.94p per award (2007: 181.57p).

The Company recognised a total expense of £1,807,000 (2007: £1,335,000) in respect of the PSP.

2005 Deferred Share Bonus Plan (DSBP)

Under the DSBP, the portion of any annual bonus entitlement of a senior executive nominated by the Remuneration Committee that is above 75% of base salary (60% for bonuses paid for 2007 and earlier years) 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:

	2008 DSBP shares	**2008 Share price at grant**	2007 DSBP shares	2007 Share price at grant
Outstanding at 1 January	**184,254**	**375.4p**	79,787	348.5p
Granted	**96,166**	**629.5p**	104,467	396.0p
Exercised during the year	**(79,787)**	**348.5p**	–	–
Outstanding at 31 December	**200,633**	**507.9p**	184,254	375.4p
The inputs of the option valuation model were:				
Dividend yield		**1.0% pa**		1.3% pa

The expected life is the period from the date of grant to the vesting date. The fair value of the awards granted in 2008 was 611.9p per award (2007: 381.23p).

The Company recognised a total expense of £537,000 (2007: £226,000) in respect of the DSBP.

Note 11. Share-based payments continued

2000 Executive Share Option Scheme (ESOS)

The only share option scheme operated by the Group 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 condition requires that the Company's TRS performance over a fixed three-year period must exceed the median company in the constituents of an index. For awards granted from March 2008 the index is the FTSE 100 index (excluding investments trusts); for awards before March 2008 the index is the FTSE 250 index (excluding investments trusts). 100% of the awards will vest if the Company's TSR is above the median of the respective 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.

	2008 Number	**2008 WAEP p**	2007 Number	2007 WAEP p
Outstanding as at 1 January	**19,216,684**	**166.04**	19,637,480	129.39
Granted during the year	**2,475,251**	**647.28**	2,358,408	396.46
Exercised during the year	**(6,926,931)**	**91.50**	(2,711,407)	98.31
Forfeited/expired during the year	**(76,899)**	**210.37**	(67,797)	317.85
Outstanding at 31 December	**14,688,105**	**282.06**	19,216,684	166.04
Exercisable at 31 December	**7,971,074**	**121.49**	11,410,205	83.83

The weighted average share price at exercise for options exercised in 2008 was 854.25p (2007: 439.32p).

Options outstanding at 31 December 2008 had exercise prices of 61p to 754.0p and remaining contractual lives of one to 10 years.

The fair values were calculated using a proprietary binomial valuation model. The principal inputs to the options valuation model were:

Risk free interest rate	2.6-4.1% pa
Expected volatility	38-48%
Dividend yield	0.9-1.3% pa
Employee turnover	From 0% – 5% 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 2006	347.7	109.7	4.4
Jan – Dec 2007	396.9	123.4	4.8
Jan – Dec 2008	647.3	205.8	4.3

The Company recognised a total expense of £nil (2007: £336,000) 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 expense of £nil (2007: £nil) for the matching shares and £nil (2007: £nil) for the partnership shares.

Note 12. Related party transactions

Transactions with the Directors of Tullow Oil plc are disclosed in the Remuneration Report on pages 66 to 75. 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 13. Subsequent events

In January 2009 the Company announced the successful placing and subsequent issue of a total of 66,938,141 new ordinary shares with institutions at 600 pence per share. This represents an increase of approximately 9.1% in Tullow's existing issued share capital. These shares are credited as fully paid and rank pari passu in all respects with existing ordinary shares of 10 pence each in the capital of the Company, including the right to receive all dividends and other distributions declared, made or paid on or in respect of such shares after the date of issue.

In March 2009, the Company announced that it had finalised arrangements for US$2 billion (£1.4 billion) of new reserve-based lending facilities.

In March 2009, the Company announced a major new discovery at Tweneboa, which continues the 100% exploration success record in Ghana.

Five year summary

	IFRS					UK GAAP*
	2008 £'000	2007 (as restated**) £'000	2006 £'000	2005 £'000	2004 £'000	2004 £'000
Group income statement						
Sales revenue	**691,673**	639,203	578,847	445,232	225,256	225,256
Cost of sales	**(366,108)**	(353,695)	(261,268)	(243,149)	(141,228)	(131,071)
Gross profit	**325,565**	285,508	317,579	202,083	84,028	94,185
Administrative expenses	**(43,051)**	(31,628)	(22,490)	(13,793)	(10,926)	(10,370)
Profit/(loss) on disposal of subsidiaries	**213,268**	(597)	–	–	–	–
Profit on disposal/farm out of oil and gas assets	**30,614**	–	–	36,061	2,292	2,292
Exploration costs written off	**(226,701)**	(64,235)	(32,494)	(25,783)	(17,961)	(17,961)
Other expenses	**–**	–	–	–	(647)	(647)
Operating profit	**299,695**	189,048	262,595	198,568	56,786	67,499
Profit/(loss) on hedging instruments	**42,927**	(29,267)	15,701	(159)	–	–
Finance revenue	**3,928**	3,095	3,030	4,367	3,458	3,458
Finance costs	**(47,238)**	(48,673)	(17,994)	(24,197)	(13,449)	(12,960)
Profit from continuing activities before taxation	**299,312**	114,203	263,332	178,579	46,795	57,997
Taxation	**(73,069)**	(61,609)	(105,894)	(65,443)	(15,460)	(25,048)
Profit for the year from continuing activities	**226,243**	52,594	157,438	113,136	31,335	32,949
Earnings per share						
Basic – Stg p	**30.86**	7.10	24.23	17.50	5.88	6.18
Diluted – Stg p	**30.49**	6.96	23.67	17.20	5.81	6.11
Dividends paid	**43,173**	39,406	32,492	14,555	6,995	6,995
Group balance sheet						
Fixed assets	**2,433,877**	1,847,443	1,755,301	897,602	649,967	599,728
Net current (liabilities)/assets	**(147,613)**	(67,276)	(290,924)	(71,273)	21,394	23,353
Total assets less current liabilities	**2,286,264**	1,779,817	1,464,377	826,329	671,361	623,081
Long term liabilities	**(977,089)**	(1,067,147)	(697,901)	(437,310)	(295,894)	(243,997)
Net assets	**1,309,175**	712,670	766,476	389,019	375,467	379,084
Called up equity share capital	**73,288**	71,961	65,190	64,744	64,537	64,537
Share premium account	**160,714**	128,465	126,075	123,019	121,656	121,656
Other reserves	**582,131**	210,089	305,412	60,589	148,591	148,591
Profit and loss account	**467,711**	286,668	269,799	140,667	40,683	44,300
Equity attributable to equity holders of the parent	**1,283,844**	697,183	766,476	389,019	375,467	379,084
Minority interest	**25,331**	15,487	–	–	–	–
Total equity	**1,309,175**	712,670	766,476	389,019	375,467	379,084

* The UK GAAP column represents the numbers previously reported; however, the presentation has been amended to comply with IAS 1.

** The 2007 comparatives have been restated due to an asset held for sale being reclassified during 2008 (see note 18).

Licence interests

Current exploration, development and production interests

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
Congo (Brazzaville)					
M'Boundi	M'Boundi	146	11.00%	ENI	SNPC, Jabbour
Congo (DRC)					
Block I[1]		3,700	48.50%	Tullow	Heritage, COHYDRO
Block II[1]		2,870	48.50%	Tullow	Heritage, COHYDRO
Côte d'Ivoire					
CI-26 Special Area "E"	Espoir	139	21.33%	CNR	PETROCI
CI-102		865	31.50%	Edison	Kufpec, PETROCI
CI-103		2,603	85.00%	Tullow	PETROCI
CI-105		2,070	22.37%	Al Thani	PETROCI
Equatorial Guinea					
Ceiba	Ceiba	70	14.25%	Hess	GEPetrol
Okume Complex	Okume, Oveng, Ebano, Elon	192	14.25%	Hess	GEPetrol
Gabon					
Avouma	Avouma	52	7.50%	Vaalco	Addax, Sasol, Sojitz, PetroEnergy
Azobe Marin[2]		1,737	60.00%	Tullow	MPDC Gabon
Echira	Echira	76	40.00%	Perenco	
Etame	Etame	49	7.50%	Vaalco	Addax, Sasol, Sojitz, PetroEnergy
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%[3]	Perenco	AIC Petrofi
Obangue	Obangue	40	3.75%[3]	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%[3]	Addax	AIC Petrofi
Turnix	Turnix	18	27.50%	Perenco	
Back-In Rights[4]					
Arouwe		4,414	7.50%[5]	Perenco	
Azobe Marin[2]		1,737	5.00%[5]	Tullow	MPDC Gabon
Dussafu Marin		2,780	5.00%[5]	Harvest Natural Resources	Perenco, Premier
Ebouri[6]	Ebouri	15	7.50%	Vaalco	Addax, Sasol, Sojitz, PetroEnergy
Etame Marin		2,972	7.50%	Vaalco	Addax, Sasol, Sojitz, PetroEnergy
Etekamba		773	5.00%[5]	Maurel & Prom	Transworld
Gryphon Marin		9,764	10.00%	Addax	PetroSA
Maghena		631	3.75%[5]	Addax	
Nyanga Mayumbe		2,831	3.75%[5]	Maurel & Prom	
Omoueyi		4,133	7.50%[5]	Maurel & Prom	
Onal[7]	Onal	46	7.50%[5]	Maurel & Prom	

Licence interests continued

Licence	Fields	Area sq km	Tullow interest	Operator	Other partners
AFRICA continued					
Ghana					
Shallow Water Tano[8]		86	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	1,761	22.90%	Kosmos	Anadarko, GNPC, KG Group, Sabre
Jubilee Field Unit Area[9]	Jubilee		34.70%	Tullow/Kosmos[10]	Anadarko, Sabre, KG Group, GNPC
Liberia					
LB-15		3,400	25.00%	Anadarko	Repsol, Woodside
LB-16		3,225	25.00%	Anadarko	Repsol, Woodside
LB-17		3,150	25.00%	Anadarko	Repsol, Woodside
Madagascar					
Block 3109[11]		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%	Tullow	Dana, Roc Oil
PSC – Area A Block 3 Blocks 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 EEA	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
Namibia					
Production Licence 001	Kudu	4,567	70.00%	Tullow	NAMCOR, Itochu
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	Buffalo-Giraffe	4,285	50.00%	Heritage	
Block 2	Mputa, Kasamene, Waraga	3,900	100.00%	Tullow	
Block 3A	Kingfisher	1,991	50.00%	Heritage	

Notes
1. Awaiting Presidential ratification. The validity of the original award was disputed during 2008, however, Tullow is working closely with the government of Congo (DRC) and continues to be confident of its title to these blocks.
2. Tullow has 'Back-In Rights' on this licence as well as a working interest.
3. Tullow's interest in this licence is held through its 50% holding in Tulipe Oil SA.
4. Back-In Rights: Tullow has the option, in the event of a discovery, to acquire varying interests in these licences.
5. Tullow has the option to acquire an interest in this licence through its 50% holding in Tulipe Oil SA.
6. Tullow is in the process of exercising its option to acquire a 7.5% interest in this field.
7. Tullow is in the process of evaluating the Onal field prior to confirming if it will exercise its option to participate in this field.
8. Tullow is in the process of withdrawing from this licence.
9. A unitisation agreement has been agreed by the partners of the West Cape Three Points and Deepwater Tano licences for the area covering the Jubilee field Phase 1 Development Area.
10. Tullow is the Unit Operator and Kosmos is the Technical Operator for Phase 1 of the Jubilee development.
11. Madagascar Oil has given notice of its intention to withdraw from this licence.

Licence	Blocks	Fields	Area sq km	Tullow interest	Operator	Other partners
EUROPE						
United Kingdom						
CMS Area						
P450	44/21a	Boulton B & F	77	9.50%	ConocoPhillips	GDF
P451	44/22a 44/22b	Murdoch Boulton H[12], Watt[12]	121	34.00%	ConocoPhillips	GDF
P452	44/23a (part)	Murdoch K[12]	48	6.91%	ConocoPhillips	GDF
P453	44/28b	Ketch	85	100.00%	Tullow	
P516	44/26a	Schooner[13]	99	97.05%	Tullow	GDF
P1006	44/17b	Munro[14]	60	20.00%	GDF	ConocoPhillips
P1058	44/18b 44/23b	 Kelvin	129	22.50%	ConocoPhillips	GDF
P1139	44/19b		60	22.50%	ConocoPhillips	GDF
P1437	44/13a		192	25.00%	GDF	E.ON, Endeavour
CMS III Unit[15]	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[15]	44/17b 44/17a	Munro		15.00%	ConocoPhillips	GDF
Schooner Unit[15]	44/26a 43/30a	Schooner		90.35%	Tullow	GDF, Faroe Petroleum
Thames Area						
P007	49/24aF1 (Excl Gawain)		163	100.00%	Tullow	
	49/24aF1 (Gawain)	Gawain[16]		50.00%	Perenco	
P037	49/28a 49/28b	Thames, Yare, Bure, Deben, Wensum	90	66.67%	Perenco	Centrica
	49/28a (part)	Thurne		86.96%	Tullow	Centrica
P039	53/04a	Welland[17]	58	75.00%	Tullow	First Oil
	53/04d	Wissey		62.50%	Tullow	First Oil, Faroe Petroleum
P060	50/26a	Orwell	27	100.00%	Tullow	
P105	49/29a (part)	Gawain[16]	17	50.00%	Perenco	
P786	53/03c	Horne	8	50.00%	Tullow	Centrica
P852	53/04b	Horne & Wren	17	50.00%	Tullow	Centrica
P1445	48/28c, 52/03a 52/04b, 52/05b		428	100.00%	Tullow	
Gawain Unit[15]	49/24F1(part) 49/29a (part)	Gawain		50.00%	Perenco	
Welland Unit[15]	49/29b (part) 53/04a	Welland[18]		33.73%	ExxonMobil	First Oil

Licence	Fields	Area sq km	Tullow interest	Operator	Other partners
EUROPE continued					
Netherlands					
D9		149	25.00%	Tullow	XTO, GTO, Gas Plus, EBN
E10		401	32.00%	Tullow	XTO, GTO, EBN
E13a		232	50.00%	Tullow	EBN, Gas Plus
E13b		168	16.67%	GDF	Wintershall, EBN
E14		403	32.00%	Tullow	XTO, GTO, EBN
E15c		364	20.00%	Tullow	XTO, GTO, Gas Plus, EBN
E18b		192	32.00%	Tullow	XTO, GTO, 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
SOUTH ASIA					
Bangladesh					
Block 9	Bangora/Lalmai	1,770	30.00%	Tullow	Niko, Bapex
Pakistan					
Bannu West		1,230	40.00%	Tullow	OGDCL, MGCL, SEL
Block 28		6,200	95.00%	Tullow	OGDCL
Chachar D&PL[19]	Chachar	34	75.00%	Tullow	Govt. Holdings
Kalchas		2,068	30.00%	OGDCL	MGCL
Kohat		1,107	40.00%	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	97.50%	Tullow	Northern Petroleum[20]
Guyana					
Georgetown Block[21]		11,100	30.00%	YPF (Repsol)	CGX Resources
Suriname					
Coronie		2,592	40.00%[22]	Paradise Oil	
Uitkijk		757	40.00%	Paradise Oil	

Notes
12. Refer to CMS III Unit for field interest.
13. Refer to Schooner Unit for field interest.
14. Refer to Munro Unit for field interest.
15. 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.
16. Refer to Gawain Unit for field interest.
17. Refer to Welland Unit for field interest.
18. Production from the Welland Field ceased in 2002.
19. Tullow has agreed the sale of its interest in this licence to Pakistan Petroleum Ltd. The deal is awaiting completion.
20. Formal assignment of a 2.5% interest to Northern Petroleum is awaiting completion.
21. Tullow is still awaiting government approval for its farm-in to this licence.
22. Tullow will acquire its interests on completion of work programme.

Commercial reserves and contingent resources (unaudited) working interest basis

Year ended 31 December 2008

	Africa		Europe		South Asia		Total		
	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Petroleum mmboe
Commercial reserves[1]									
1 January 2008	131.1	20.1	2.0	258.7	–	105.9	133.1	384.7	197.2
Revisions	140.2	(6.5)	–	(15.9)	–	36.8	140.2	14.4	142.6
Disposals	–	–	–	(7.9)	–	–	–	(7.9)	(1.3)
Production	(14.8)	(1.3)	(0.2)	(43.5)	–	(11.8)	(15.0)	(56.6)	(24.4)
31 December 2008	256.5	12.3	1.8	191.4	–	130.9	258.3	334.6	314.1
Contingent resources[2]									
1 January 2008	160.9	1,014.5	–	129.3	–	16.2	160.9	1,160.0	354.2
Revisions	140.7	96.0	–	15.2	–	–	140.7	111.2	159.2
Disposals	–	–	–	(12.7)	–	–	–	(12.7)	(2.1)
31 December 2008	301.6	1,110.5	–	131.8	–	16.2	301.6	1,258.5	511.3
Total									
31 December 2008	558.1	1,122.8	1.8	323.2	–	147.1	559.9	1,593.1	825.4

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.

The Group provides for depletion and amortisation of tangible fixed assets on a net entitlements basis, which reflects the terms of the Production Sharing Contracts related to each field. Total net entitlement reserves were 114.5 mmboe at 31 December 2008 (31 December 2007: 128.1 mmboe).

Contingent Resources relate to resources 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
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

Contact: www.investorcentre.co.uk/contactus

Telephone number – UK shareholders:	0870 703 6242
Telephone number – Irish shareholders:	00 353 1 216 3744
Telephone number – other shareholders:	00 44 870 703 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.investorcentre.co.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.

Overseas shareholders who wish to have their dividends paid in a local currency can use the Global Payments Service that Computershare has established. 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:	00 353 1 41 270 3203
Other shareholders*:	00 44 141 270 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 under which the Company makes a donation to the eTree initiative for every shareholder who registers for electronic communication. 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, Half-yearly Report or Notice of Meeting is available for viewing in 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 2008
2008 Full-year results announced	11 March 2009
Annual General Meeting	12 May 2009
Interim Management Statement	12 May 2009
2008 Final dividend payable	21 May 2009
2009 Half-yearly results announced	26 August 2009
2009 Interim dividend payable	November 2009
Interim Management Statement	November 2009

Senior management

Business Support
Gordon Headley, Chief Human Resources Officer
Tim O'Hanlon, Vice President African Business
Peter Sloan, General Counsel Africa
Andrew Windham, Managing Director Africa

Exploration and Appraisal
Kevin Christopherson, Exploration Manager North Africa
Ian Cloke, Exploration Manager Uganda
Joel Corcoran, Exploration Manager Europe
John Faulks, Finance Manager Exploration
Chris Flavell, General Manager Exploration
Jerry Jarvis, Exploration Manager Global New Ventures
Jerome Kelly, Global Geological Adviser
John McKenna, Exploration Manager South Asia & South America
Jan Maier, Exploration Manager Sub Sahara
Joe Mongan, Geophysical Technology Manager
Heinz Pferdekamper, Geoscientist
Robin Sutherland, Exploration Manager Gulf of Guinea
Bob Winter, Global Portfolio Manager

Finance and IT Business Systems
Nicky Breslin, Group Accounting Manager
John Burton, Finance Manager Africa
Sam Carroll, Group Contracts & Procurement Manager
Bob Cramp, Finance Manager South Asia & South America
Xavier Desautel, Finance Manager Central & West Africa
Pete Dickerson, Head of Corporate Planning & Economics
Richard Inch, Group Tax Manager
Andrew Marks, Chief Information Officer
Chris Perry, Head of Investor Relations
Julia Ross, Risk & Marketing Manager
Julian Tedder, General Manager Finance
Bill Torr, Finance Accounting Manager Africa
Rob White, Finance Manager Ghana
Brian Williams, Head of Risk & Marketing
Colin Wright, Group Internal Auditor

Production and Development
Graham Brunton, Group Environment, Health & Safety Manager
Doug Field, Business Unit Manager North Africa
Brian Glover, Business Unit Manager South & East Africa
Dai Jones, Country Manager Ghana
Martyn Morris, General Manager Production & Development
Kevin Quinn, Business Unit Manager South Asia & South America
David Roux, Business Unit Manager Central & West Africa
Mike Simpson, Group Commercial Manager
Gert-Jan Smulders, Group Engineering Manager
Mike Williams, Group Well Engineering Manager

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London EC2M 4AA

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2 New Street Square
London EC4A 3BZ

Legal advisers
Dickson Minto W.S.
Royal London House
22/25 Finsbury Square
London EC2A 1DX

Index

Glossary

API	Measure of crude oil quality
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
CSR	Corporate Social Responsibility
CMT	Crisis Management Team
CNG	Compressed Natural Gas
D&PL	Development and Production Lease
DRC	Democratic Republic of Congo
DSBP	Deferred Share Bonus Plan
E&A	Exploration and Appraisal
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EHS	Environment, Health and Safety
EPS	Early Production System
ERC	Energy Resource Consultants
ESOS	Executive Share Option Scheme
EUETS	European Union Emission Trading Scheme
FEED	Front End Engineering and Design
FPSO	Floating Production Storage and Offtake vessel
FRS	Financial Reporting Standard
FTSE 100	Equity index whose constituents are the 100 largest UK listed companies by market capitalisation
FTSE 250	Equity index whose constituents are the next 250 largest UK listed companies after the top 100
GNPC	Ghana National Petroleum Corporation
Group	Company and its subsidiary undertakings
H&S	Health and Safety
HIPO	High Potential Incident
HR	Human Resources
IAS	International Accounting Standard
IFC	International Finance Corporation
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMS	Information Management System
ISO	International Organization for Standardization
km	Kilometres
KPI	Key Performance Indicator
LIBOR	London Interbank Offered Rate
LNG	Liquid Natural Gas
LTI	Lost Time Incident
LTIFR	LTI Frequency Rate measured in LTIs per million hours worked
mmbbl	Million barrels
mmboe	Million barrels of oil equivalent
mmscfd	Million standard cubic feet per day
OGP	Oil & Gas Producers
P&D	Production and Development
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
SMT	Senior Management Team
sq km	Square kilometres
tcf	Trillion cubic feet
toes	Tullow Oil Environmental Standards
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

Get more online

We are very committed to communicating with all stakeholders.
Our policy is to be open, transparent, uniform and timely.

www.tullowoil.com

Relaunching our website

We are undertaking a major upgrade of our corporate website which will go live on a phased basis starting in summer 2009.

Lots of additional features

We are incorporating lots of new features including the ability to customise the site for individual users.

More interactivity

Enhanced alerting, RSS, glossary, share charting, what's new and search facilities will make the site more user-friendly.

New content

There is a new 'Our people' and 'Our business' section, together with additional content across the site and an interactive operations map.

2008 Annual Report

We are producing an online version of the Annual Report and you can also download key sections in pdf format.

http://ara2008.tullowoil.com

2008 CSR Report

The 2008 CSR Report will be published in May 2009 and a pdf format will be available online. Our new website will have a significantly enhanced CSR section to provide additional information on how Tullow approaches and undertakes its responsibilities throughout its operations.

Visit the Reports & Presentations section at:

www.tullowoil.com/tlw/ir

2009 Fact Book

We publish a Fact Book twice a year in March and August to coincide with the Group's full and half-yearly results. It contains a lot of additional, mainly operational, information to complement the results announcement and presentation.

Visit the Reports & Presentations section at:

www.tullowoil.com/tlw/ir

E-communications

- All documents on the website are available without any particular software requirement other than the software which is available on the Group's website.
- Paper copies of the 2008 Annual Report and Accounts can be obtained by contacting Computershare Investor Services from the UK on 0870 703 6242, from Ireland on 01 2163744 or from any other country on +44 870 703 6242.
- For every shareholder who signs up for electronic communications, a donation is made to the eTree initiative run by Woodland Trust. You can register for email communication at: **www.etreeuk.com/tullowoilplc**

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