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Tullow Oil plc Annual Report and Accounts 2005

Benefiting from the advantages that greater scale allows

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TULLOW OIL PLC

Tullow Oil plc is one of the largest independent oil and gas exploration and production companies in Europe. The Group focuses on gas in the UK Southern North Sea, oil in Africa and has ongoing appraisal and development in South Asia.

2005 Core Area Overview

1. NW Europe

Production

	boepd
Oil	2,168
Gas	22,246
Total	24,414
% of Group Total	42

Sales Revenue

	£ million
Revenue	179.5
% of Group Total	40

Commercial Reserves

	mmboe
Oil	–
Gas	59.4
Total	59.4
% of Group Total	31

> The Group's interests in NW Europe are in the UK, where Tullow is primarily focused on gas in the Southern North Sea.

2. Africa

Production

	boepd
Oil	33,434
Gas	189
Total	33,623
% of Group Total	57

Sales Revenue

	£ million
Revenue	264.9
% of Group Total	59

Commercial Reserves

	mmboe
Oil	113.0
Gas	3.9
Total	116.9
% of Group Total	61

> Tullow has interest in 11 countries in Africa, with production operations in Gabon, Equatorial Guinea, Côte d'Ivoire and Congo (Brazzaville).

3. South Asia

Production

	boepd
Oil	–
Gas	413
Total	413
% of Group Total	1

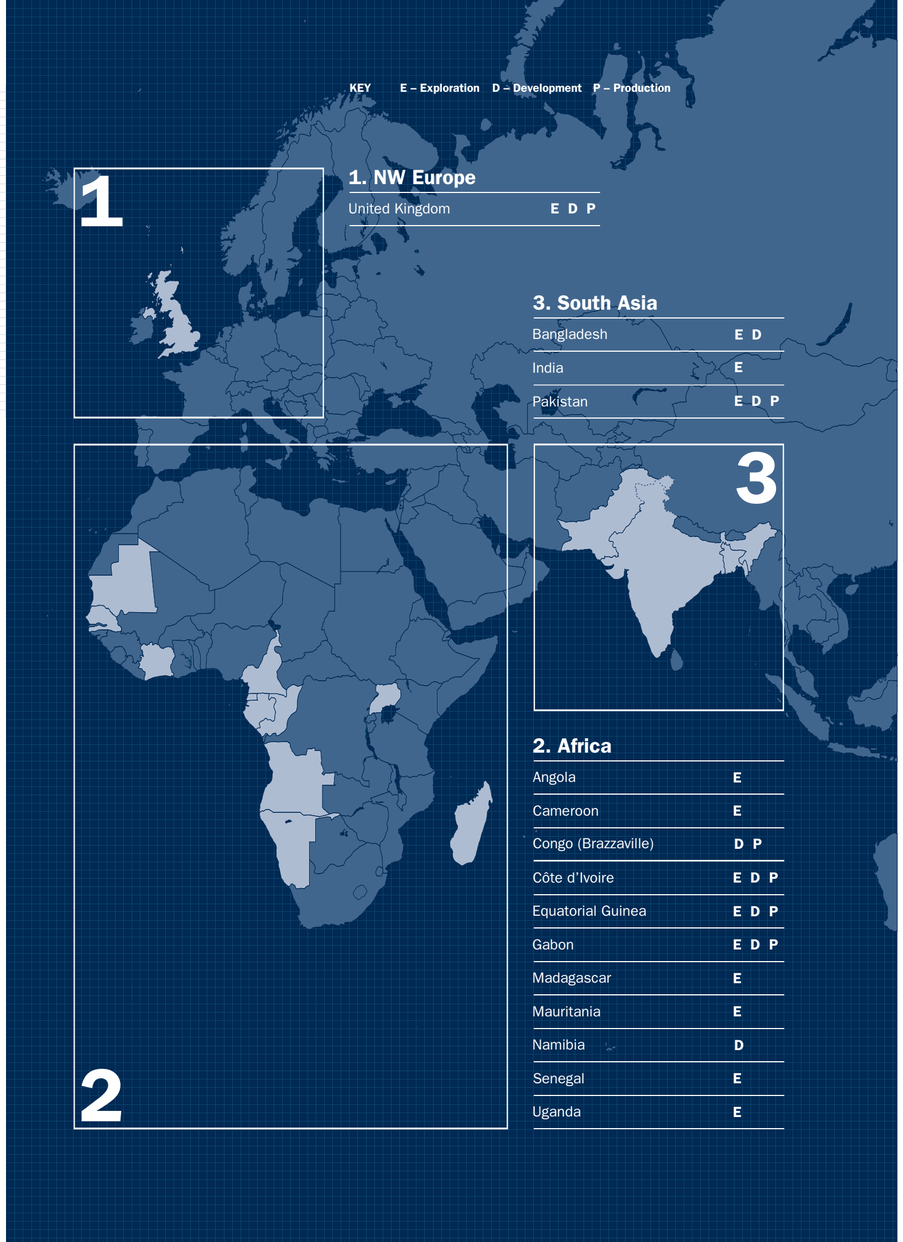
Sales Revenue

	£ million
Revenue	0.8
% of Group Total	1

Commercial Reserves

	mmboe
Oil	–
Gas	15.9
Total	15.9
% of Group Total	8

> In South Asia, the Group has operations covering extensive acreage with significant exploration opportunities.



1. NW Europe

United Kingdom	E D P

3. South Asia

Bangladesh	E D
India	E
Pakistan	E D P

2. Africa

Angola	E
Cameroon	E
Congo (Brazzaville)	D P
Côte d'Ivoire	E D P
Equatorial Guinea	E D P
Gabon	E D P
Madagascar	E
Mauritania	E
Namibia	D
Senegal	E
Uganda	E

OTHER PUBLICATIONS AND INFORMATION

The Group publishes a range of corporate communications documents and information. Tullow's Corporate Profile provides an overview of the Group and includes information on our history, our strategy, our business and our responsibilities. The Corporate and Social Responsibility Report covers our role as an operator, partner and neighbour and includes details of our environmental record. Tullow's website gives up to date and archive information on the Group, including news and events, reports and presentations and shareholder information.

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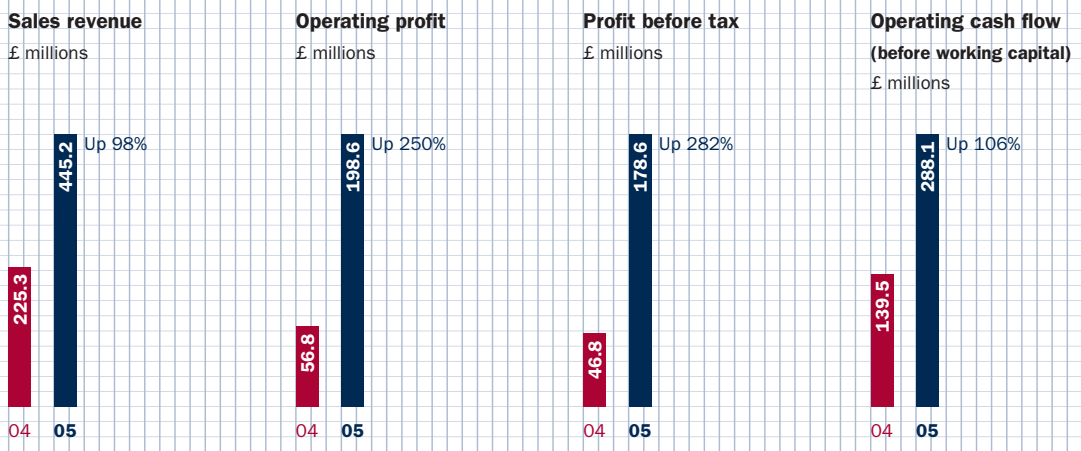
Glossary

AGM	Annual General Meeting
bbl	Barrel
bcf	Billion cubic feet
bfpd	Barrels of fluid per day
boe	Barrels of oil equivalent
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day
CMS	Caister Murdoch System
CMS III	A group development of five satellite fields linked to CMS
CSR	Corporate Social Responsibility
D&PL	Development and Production Lease
EAGHL	Energy Africa Gabon Holdings Limited
EHS	Environment, Health and Safety
ERC	Energy Resource Consultants Ltd
Farm in	To acquire an interest in a licence from another party
Farm out	To assign an interest in a licence to another party
Farmout	A licence interest that has been farmed out
FEED	Front End Engineering Design
FPSO	Floating production, storage & offtake vessel
FRS	Financial Reporting Standard
GIIP	Gas initially in place
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
ISO	International Organisation for Standardisation
km	Kilometres
LIBOR	London Interbank Offered Rate
LNG	Liquefied Natural Gas
LTI	Lost Time Incident
LTIFR	LTI Frequency Rate measured in LTIs per million worker hours
mmbbl	Million barrels
mmboe	Millions of barrels of oil equivalent
mmscfd	Millions of standard cubic feet per day
PRT	Petroleum Revenue Tax
SADC	Southern African Development Community
SCT	Supplementary Corporation Tax
SNS	Southern North Sea
SORP	Statement of Recommended Practice
Spud	to commence drilling a well
sq km	Square kilometres
tcf	Trillion cubic feet
TLP	Tension leg platform
TSR	Total Shareholder Return

2005 Results Highlights



Tullow had a strong 2005, delivering record profits, earnings and cash flow in a positive operating environment with buoyant oil and gas prices.

The Group's portfolio of assets performed exceptionally well, with new fields added, a major increase in output and good progress in key development projects.

Production increased 44% to 58,450 boepd and continues to rise steadily. Current production is 69,000 boepd and expected to reach 75,000 boepd by year end.

Organic reserves replacement was 118% and total reserves increased by 53 mmboe to 358 mmboe.

The Group had two UK North Sea gas discoveries, one discovery in Gabon and one in Mauritania. 20 wells are planned for 2006 and results so far in Uganda are very encouraging.

The outlook for Tullow is very positive as the Group continues to build on the scale achieved in recent years.

Chairman's Statement Tullow delivered excellent results in 2005 and accomplished a number of operational milestones during the year, which will drive the Group's future growth.

Pat Plunkett
Chairman

In 2005 the Group adopted new accounting policies to comply with International Financial Reporting Standards (IFRS) and our results are prepared in accordance with these.

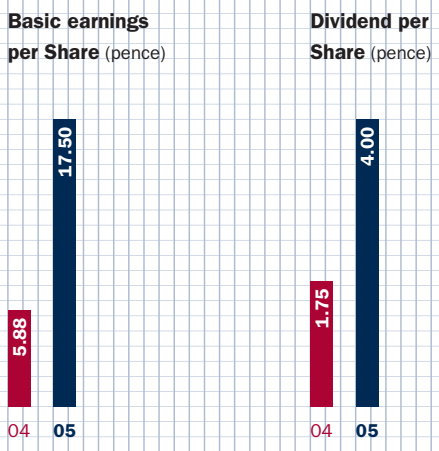
Record Financial Performance
Sales revenue increased 98% to £445.2 million (2004: £225.3 million), reflecting a full year contribution from the Energy Africa assets, nine months' contribution from the Schooner and Ketch fields and oil and gas prices significantly higher than in 2004.

Operating profit increased 250% to £198.6 million (2004: £56.8 million) and profit before tax increased 282% to £178.6 million (2004: £46.8 million), including a profit of £36.1 million on the disposal of non-core oil assets in the UK and offshore Congo and the sale of equity in the Horne & Wren development.

Basic earnings per share amounted to 17.50 pence, an increase of 198% compared to 5.88 pence in 2004. Operating cash flow before movements in working capital amounted to £288.1 million, an increase of 106% over 2004, reflecting the quality of the Group's producing asset base and allowing record levels of reinvestment in the business.

Significant Operational Milestones
In the UK we completed our first operated offshore development and assumed operatorship of the Schooner and Ketch fields, helping to increase our net production to over 200 mmscfd, 60% of which we operate. In Africa, our focus was on development and infill programmes, most notably in Gabon, where our proven and probable reserves increased by over 50% during the period. In Equatorial Guinea the Okume project remains on target for first oil during 2006 and in Congo (Brazzaville) the M'Boundi field continues to perform strongly. In Asia, during 2006, the Bangora long-term test will commence and the Chachar development will produce first gas. Organic reserves replacement for the year was 118% and total reserves increased by 53 mmboe to 358 mmboe.

Financial Strength and Progressive Dividend Policy
Tullow's capital expenditure requirements are comfortably funded from Group resources. In 2005, operating cash flow before working capital movements amounted to £288.1 million (2004: £139.5 million) and profit on non-core disposals was £36.1 million as we rebalanced our asset portfolio.



A US$850 million refinancing initiative undertaken during 2005 has significantly enhanced the Group's financial flexibility over both the short and long term.

In line with the Group's progressive dividend policy, and reflecting the cash generated by the business and the capital investment and acquisition opportunities available, the Board recommends a final dividend of 3 pence per share. This will bring the total dividend for the year to 4 pence per share (2004: 1.75 pence per share) and represents an increase of 129%. Subject to shareholder approval at the Annual General Meeting (AGM), the dividend will be paid on 7 June to shareholders on the register at 12 May.

Major Investment in People and Facilities

A major investment in people and facilities has been made reflecting the material growth of the Group in recent years. During 2005, the London team moved to a new office at Chiswick. Over 40 additional staff were recruited and dedicated teams were put in place for the important Schooner and Ketch fields and the Kudu project.

The Group continued to work on Board succession and development. As recently announced, Adrian Nel, Exploration Director will retire at the AGM in May. Since his appointment to the Board in September 2004, Adrian has made an outstanding contribution to the integration of Tullow's exploration activities with Energy Africa's assets and enhanced the Group's licence portfolio and exploration strategy. Paul McDade was appointed to the Board of Tullow in March 2006 and will be proposed for election at the AGM. Paul joined the Group in 2001 and became Chief Operating Officer following the Energy Africa acquisition in 2004.

Angus McCoss will join Tullow in April as General Manager Exploration. Angus has 19 years' exploration experience, working with Shell in Africa, Europe, South America and the Middle East. Angus has held a number of senior positions, most recently as Shell's general manager of exploration in Nigeria.

Increased Commitment to Corporate Social Responsibility (CSR)

Tullow's Board and Management work within a clear and effective governance framework and a detailed Corporate Governance Report begins on page 29 of this report.

Much of the Group's success has been based on building and fostering strong relationships with all of our stakeholders, in particular employees, industry partners, local communities and our shareholders. In 2005, we conducted over 250 shareholder meetings and continue to enhance our overall communications initiatives externally and internally.

At Tullow, we aim to conduct our business to the best industry standards in a manner that is safe, environmentally acceptable and sensitive to the needs and concerns of local communities. I am pleased to report that in the 3.7 million man hours worked across the Group during 2005 there were no significant environmental incidents in Tullow's operations and no occupational health related issues. We achieved a further reduction in the frequency of Lost Time Incidents and all instances, although regrettable, were of a minor nature. Further information on our performance and progress this year begins on page 20 and, to complement this report, we are publishing our first Group CSR Report.

2005 results reflect exceptional asset performance, consistent organic production growth and strong oil and gas prices

Tullow has steadily developed a balanced portfolio of international exploration and production assets. The performance of these assets during 2005 and the organic growth expected in 2006 provide a solid base for further growth. Projects such as the development of the Kudu field in Namibia and the exploration programme in Uganda provide possibilities for significant changes in the Group's scale, while our strong cash flow and modest gearing create the flexibility to accelerate programmes and take advantage of development and acquisition opportunities as they arise. The outlook for Tullow is very positive. We are reaping the benefits of the scale achieved through our major acquisition and investment programme of recent years and we look forward to the many exciting opportunities for further development and growth.

Chief Executive's Review Tullow aims to maintain a strong portfolio of assets and a growth strategy that will allow the Group to continue its development through all phases of the resource price cycle.

Aidan Heavey
Chief Executive Officer

2005 was an excellent year for the Group, with many new achievements in operations and a record financial performance. These results illustrate the benefits of the Group's increased scale and deliver on the significant investments made over the past five years, during which period the Group has been transformed through a mixture of organic and acquisition-led expansion.

Strong Production Growth

Tullow operates in three core areas, focusing on gas in the UK, oil in the African continent and a variety of growth opportunities in South Asia. Current production is 69,000 boepd. It is growing steadily and is forecast to exceed 75,000 boepd by the end of the year. In 2006, we plan over 20 exploration wells and capital expenditure on exploration and production is expected to be £280 million. In 2005, organic reserve replacement was over 118%, a clear demonstration of the quality of our assets.

Valuable Assets and Further Opportunities

Tullow has steadily increased its acreage and developed its reputation as a technically innovative and commercially astute operator since its entry into the UK Southern North Sea in 2001. During this time, the UK has become a net importer of gas to satisfy indigenous demand. Our UK gas production was over 200 mmscfd for the first time in December and has since increased to 210 mmscfd. Tullow has over 40 licences and a strategic position in terms of acreage and infrastructure. We operate over 60% of our UK production, allowing the Group material control and influence over its daily production, gas sales and the management of its assets.

There is an outstanding opportunity, we believe, over the coming years to continue to build a truly Pan-African oil and gas business. In 2005, we invested over £139 million in our African operations with exceptional results. Current African oil production exceeds 34,000 bopd, with further increases anticipated during 2006 as new developments in Côte d'Ivoire and Equatorial Guinea come on stream. Africa is a region with high exploration potential and our recent results in Uganda and Mauritania are very encouraging. We are establishing a presence in new countries where attractive prospects exist. In 2005, the Government of Madagascar approved Tullow's participation in onshore Block 3109. Further exploration and development opportunities are in the final stages of

The outlook for Tullow is very positive:

Oil and gas prices are strong and forecast to remain so;

Our existing assets and work programmes are expected to deliver robust organic growth;

Our new ventures programme and other development opportunities offer compelling upside potential.

negotiation and should include entry into at least one additional new country this year. In Namibia, we are making steady progress, together with our joint development partners, in ensuring that the significant potential of the Kudu gas field is realised.

While Tullow's production in South Asia has been modest, an extensive work programme in 2005, covering a number of important exploration and development projects has the potential to transform the Group's business in the area. We are already seeing results with first gas in 2006 from two new developments in Bangladesh and Pakistan. In India, a 1,152 km 2D seismic programme recently commenced in Block CB-ON/1. In parallel, the joint venture is integrating information from significant regional discoveries to the South and the North, and we anticipate a multi-well drilling programme in 2007.

The Group's 2005 results demonstrate the quality of our people and portfolio

Rigorous Operational Risk Management

Risk management is central to our business, particularly in light of the international spread of our activities and the dynamic nature of our industry. Our Integrated Management System provides a disciplined framework to assess, manage and measure the range of operational, environmental, social and political risks that we encounter. The Board gives regular consideration to the key risks facing the business, with particular reference to those concerning the overall safety of our operations, the geographical balance of our activities and the characteristics of our individual assets and joint ventures.

Business and External Challenges

Oil and gas markets are volatile and we expect them to remain so in light of the current geo-political environment. However, we expect, along with many industry commentators, that prices will remain above their long-run average for some time to come.

The UK market is not without some challenges, such as the Government's decision in the 2006 Budget to raise the supplemental corporation tax for the industry by 10%. Despite this we believe that, as the UK increasingly becomes a net importer of gas to satisfy indigenous demand, the prospects for Tullow in this market remain very favourable.

There are also potential political and economic risks associated with doing business in developing regions. Tullow has operated in Africa for 20 years and is very conscious of both the challenges and the opportunities that exist in emerging markets. We produce oil in four African countries and we have significant projects at different stages in three South Asian countries. In total, the Group has operations in 15 countries across 90 licences, avoiding over-dependence on any single region, country, field or project.

A Proactive Environmental Engagement

Tullow has a Group-wide commitment to environmentally sensitive operations for which every employee has responsibility. We conduct environmental impact assessments across the Group prior to all significant operations, integrating results into decision-making at all stages of the project from licence application to field abandonment.

Increasing levels of carbon dioxide (CO_2) in the atmosphere are a major concern in the debate about climate change. In the past two years we have embraced the requirement to reduce emissions and in 2005 have achieved excellent results with levels of CO_2 emissions at the Hewett and Bacton facilities 40% lower than their allocation under the EU Emissions Trading Scheme.

A Long-term Perspective

The Group has a consistent growth strategy and a long-term perspective. We invest in assets and markets where our skills and focus make a difference and seek developments where modern technology, attention to detail and a rigorous commercial approach adds significant value.

Operations Review Another exceptional year with record production levels, new fields on stream, progress towards new production in a number of key development projects and exploration success in the UK and Africa.

Adrian Nel
Exploration Director

Paul McDade
Chief Operating Officer

During 2005, we continued to consolidate our business and enhance our operating capabilities, commencing gas production from Tullow's first operated UK offshore development. We now operate over 60% of our UK production. UK and African assets delivered well, with Group production up 44% to 58,450 boepd, while a dual focus on new developments and exploration ensures that growth can be maintained in the long term. Our exploration activities included drilling 10 wells in five countries. These increased levels of activity and production were delivered whilst maintaining our excellent Environment, Health and Safety (EHS) standards.

The focus of our business continues to be on expansion within our three core areas, NW Europe, Africa and South Asia, to maintain:

- A diverse and balanced portfolio of oil and gas producing assets;
- A series of development projects to deliver growth in production;
- A balanced exploration portfolio containing higher risk-reward prospects and lower risk infrastructure-led prospects; and
- A strong and qualified team to continue the development of our business.

Exploration

Tullow's current production level of 24 mmboe per year has increased the Group's targets for production and growth. To meet those targets, Tullow identified the need to expand its exploration portfolio and has enhanced its exploration strategy to achieve this. Our strategy has two principal and balancing aspects – lower-risk exploration in the areas close to infrastructure, particularly where Tullow has a competitive advantage, and high impact exploration in Africa and South Asia. In general our near-facility exploration, in the mature areas of the UK Southern North Sea and Gabon, targets net reserves of less than 20 mmboe, whereas our high impact exploration in higher risk areas targets net reserves in excess of 20 mmboe in locations where success is likely to yield further discoveries.

2005 Sales Revenue by Core Area

	£ million	%
NW Europe	179.5	40
Africa	264.9	59
South Asia	0.8	1

2005 Production by Core Area

	boepd	%
NW Europe	24,414	42
Africa	33,623	57
South Asia	413	1

2005 Sales Revenue by Segment

	£ million	%
Oil and Gas Sales	430.5	97
Tariff Income	14.7	3

2005 Commercial Reserves by Core Area

	mmboe	%
NW Europe	59.4	31
Africa	116.9	61
South Asia	15.9	8

In 2005 a major goal was to add attractive acreage in both the near-infrastructure and high impact categories and Tullow maintains a policy of actively screening any opportunities arising within its core areas. During 2005, the Group evaluated a large number of opportunities, resulting in the addition of four high impact licences in Pakistan and three licences in the UK North Sea. Five new licences in Africa are currently under negotiation.

The Group completed seismic surveys in four regions and drilled 10 exploration wells in 2005, resulting in two gas discoveries in the UK North Sea, an oil discovery onshore Gabon and a gas discovery offshore Mauritania. The successful programme has continued into 2006 with a gas discovery in the UK Southern North Sea and two oil discoveries in Uganda proving the Albertine Basin to be a new hydrocarbon province.

We expect to drill up to 20 exploration wells during 2006. 13 of these currently fall into the near-infrastructure exploration category – seven in the UK North Sea, five in Gabon and one in Pakistan. Five high impact wells are planned for Blocks 2 and 3A in Uganda and one for Block L in Equatorial Guinea. Ongoing seismic programmes in India, Pakistan and Côte d'Ivoire are each expected to yield further high impact prospects. In particular, accelerated seismic programmes in the Kohat licence in Pakistan (Tullow 40%) and the CB-ON/1 licence in India (Tullow 50%) could define prospects for drilling in late 2006. We will spud the first of two important appraisal wells on the potentially major Kudu gas field in early 2007. Rigs have already been contracted for most of the scheduled wells.

Production and Development

Activity levels were exceptionally high in 2005 on both the producing fields and the fields currently under development. The Group drilled 50 development wells across its UK and African producing assets, resulting in strongly increased production and significant upgrades of reserves.

Highlights were:

- First gas from our first operated offshore development, Horne & Wren in the UK, delivered within budget and only 12 months after sanction;
- The acquisition and integration of the operated Schooner and Ketch assets and achieving significantly enhanced production uptime;
- The Niungo infill and appraisal drilling project in Gabon which resulted in a reserves increase of 51% for the field;
- Ongoing expansion of the M'Boundi field and facilities in Congo (Brazzaville), where production and reserves increased by 264% and 13% respectively;
- Successful infill programmes on the offshore Ceiba field in Equatorial Guinea and East Espoir field in Côte d'Ivoire.

In addition, Tullow made significant progress on a number of ongoing development projects, which will deliver further production growth in 2006.

Unit cash operating costs were similar to 2004 despite increasing pressure on industry costs. It is anticipated that this performance can be maintained in 2006 and 2007 through increased production levels and improved synergies in the use of our infrastructure in the UK, Equatorial Guinea, Côte d'Ivoire and Congo (Brazzaville).

We anticipate similar levels of activity in 2006 across the producing assets, however, of particular importance in 2006 will be the start-up of a number of new fields and the redevelopment of the Schooner and Ketch fields. In Africa we expect the offshore West Espoir and Okume developments to come on stream in the third and fourth quarters of this year. These fields should add over 11,000 bopd net to Tullow when they reach plateau production. In Asia we expect the Bangora long-term test to commence in the second quarter and the Chachar field to come on stream in the fourth quarter of 2006, significantly enhancing our Asian production. The redevelopment of the Schooner and Ketch fields, which is under way, will be significantly advanced by the end of 2006, adding substantially to our UK gas production. In aggregate, these projects should allow Group production to rise to over 75,000 boepd by the end of 2006 and reach 80,000 boepd during 2007. In addition, we expect to sanction the significant gas-to-power project in Namibia and at least one offshore development in the UK in 2006.

NW Europe Tullow intends to continue to grow as a leading producer and operator of gas in the UK, steadily building influence in this key market.

In NW Europe, Tullow focuses on gas in the UK Southern North Sea, where the Group has material interests in two major infrastructure hubs: the Caister-Murdoch System (CMS) and the Thames-Hewett Area. The Group's interests comprise over 40 licences and 14 producing gas fields with commercial reserves of 356 bcf and current production of approximately 200 mmscfd. The area accounts for approximately 31% of the Group's reserves and 50% of its production.

The Thames-Hewett Area, in the south of the Southern Gas Basin, is a mature area where Tullow has a dominant position in the offshore Thames infrastructure and is the operator of the offshore Hewett complex and the onshore Bacton terminal which processes gas from these fields. In this area, Tullow has established itself as a low-cost and efficient operator, successfully extending the life of mature fields, developing marginal fields and attracting third party business to generate tariff income.

Tullow operates over 60% of its UK gas production, giving the Group greater autonomy in managing its interests

The CMS Area, in the north of the Southern Gas Basin, is a less mature region, where Tullow has a large concentration of acreage and produces from eight fields, including the operated Schooner and Ketch fields. The region has significant opportunities for further exploration and development growth. A near-field exploration programme has resulted in four discoveries in the last two years which are being developed through the CMS infrastructure. This programme has reduced the exploration risk on a number of prospects in the area that will be drilled over the coming years.

Operating over 60% of its UK production, Tullow has significant control and influence over its production strategy and the management of its assets. This strong position continues to be enhanced through asset acquisitions and organic growth resulting from active development, exploration drilling, participation in licensing rounds and third party business.

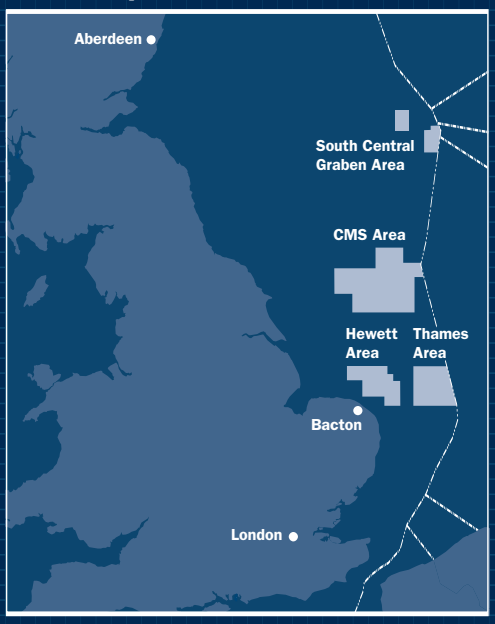
In recent years, the UK has become a net importer of gas, particularly during the high-demand winter period. While a number of gas import initiatives are planned to increase the UK's supply capability, the recent extreme volatility in European gas markets provides further evidence that the prospects for independent producers in the UK gas market remain very favourable. Tullow, with a rising production profile, is ideally placed as a flexible source of gas supply and can benefit from periods when gas prices are elevated for seasonal or structural reasons.

2005 Review

The Group's UK operations had a number of notable successes in 2005 including:

- **EHS** – the UK operations maintained an excellent safety performance and full ISO 14001 environmental accreditation;
- **Schooner and Ketch** – significantly improved uptime, reversed production decline and commenced a redevelopment programme;
- **Horne & Wren** – achieved first gas in June with current flow rates at maximum pipeline capacity of 110 mmscfd;
- **Munro** – development came on stream in August 2005;
- **CMS infill and sidetrack drilling** – MD04 (Murdoch) and McAdam (CMS III) wells drilled and brought on stream;
- **Exploration** – K3 and Opal gas discoveries, followed by the Humphrey gas discovery in early 2006.

NW Europe



Key Producing Assets/ Assets Under Development

Country area	Producing fields/ *fields under development*	Tullow %
UK		
CMS Area E D P	**Boulton**	**9.50**
	CMS III[1]	**14.10**
	Ketch	**100.00**
	Munro	**15.00**
	Murdoch	**34.00**
	Schooner	**90.35**
Thames-Hewett Area E D P	**Gawain**	**50.00**
	Hewett[2]	**51.69**[3]
	Horne & Wren	**50.00**
	Orwell	**100.00**
	Thames[4]	**66.67**
	Thurne[5]	*66.67*

Exploration Activities only:

Northern North Sea[6], Central North Sea[6], South Central Graben

E – Exploration D – Development P – Production

Notes:
1 CMS III includes Boulton H, Hawksley, McAdam, Murdoch K and Watt.
2 Hewett includes Hewett, Deborah, Delilah, Della.
3 Tullow interest on completion of deal with Centrica.
4 Thames includes Thames, Bure, Wensum and Yare.
5 First gas scheduled for early 2007.
6 These areas are not shown on map.

Thames-Hewett Area

Since its first entry into the Thames-Hewett Area in 2001, Tullow has steadily increased its ownership and influence throughout the area. In parallel, Tullow has continued to prove itself as an effective operator of the Hewett offshore fields and the Bacton terminal with an excellent safety record.

Tullow further consolidated its position in the Hewett-Bacton infrastructure through the acquisition of a 12.87% interest from Centrica. The deal increases Tullow's interest in the asset to 51.69% and is expected to complete in April 2006.

The Hewett complex has a large inventory of wells and infrastructure and Tullow has made it a priority as operator to focus on projects and initiatives with the potential to enhance production, reduce costs and extend the life of the Hewett Area. Planning and procurement activities are well advanced to enhance the production performance of a number of Hewett wells. The Delilah 48/30-16 subsea well, which failed in mid 2003, was horizontally sidetracked and put on stream in March 2006 at approximately 30 mmscfd, contributing to the long-term viability of the Hewett-Bacton infrastructure.

Rising gas prices and advances in technology have allowed Tullow to progress the development of previously marginal discoveries through the Thames and Hewett complexes. The operated Horne & Wren field development came on stream in June 2005 at an initial rate of 90 mmscfd. Subsequent optimisation of the dedicated compression plant at Thames has permitted sustained flow rates of 110 mmscfd over the winter. The Horne & Wren development employs a reusable minimal-facilities platform, the first occasion where such an approach has been employed in the UK Southern Gas Basin.

Tullow has taken an innovative approach in preparing a development plan for the 49/28-14 Thurne discovery, which minimises project costs by re-using existing, but redundant, infrastructure. The project, which will be submitted for partner sanction in the second half of 2006, entails drilling a long-reach horizontal sidetrack from the depleted Deben subsea production well into the Thurne reservoir. Studies on the potential developments on the Blythe and Fizzy discoveries have continued, in each case with the application of new technologies to maximise value from these reservoirs.

The third party Arthur field was brought on stream from one well in January 2005 via the Thames and Bacton infrastructure and production from a second well increased the throughput from Arthur to in excess of 100 mmscfd.

CMS Area

Tullow has had a significant non-operated production position in the CMS Area since 2001, however, this changed significantly with the acquisition of the operated Schooner and Ketch fields in March 2005. These large gas fields, which produce via the CMS infrastructure, have been in production for a number of years but with limited recent investment they were declining. Tullow's extensive knowledge of the CMS area, and the appointment of a dedicated technical team, allowed it to move quickly to add value in two key areas:

1 **Facilities maintenance and well optimisation** – a concentrated campaign has resulted in a material improvement in production performance and reliability within the first few months of assuming operatorship.

2 **Redevelopment programme** – in parallel with the basic remedial work, Tullow is working to exploit the significant reserve base. In November, the Ensco 101 rig commenced a concurrent drilling and well optimisation programme across the two fields to substantially increase existing production levels and achieve ultimate recovery in excess of 50% of the estimated 1.5 tcf gas initially in place.

The drilling programme includes three new production wells to access previously undrained compartments and sidetracks of two further wells. The well optimisation programme comprises nine well workovers and stimulations. The first well, Schooner-10, encountered the reservoir and is being prepared for production in April 2006. This is to be followed by a sidetrack of the Schooner-7 well and the plan thereafter is to move to the Ketch field in mid 2006.

The Schooner and Ketch area also contains a number of appraisal opportunities and a second rig, the Borgsten Dolphin, has been contracted to drill an appraisal well on a NW extension to the Schooner field during the second quarter of 2006. This opportunity has been accelerated to allow the project, in the event of success, to come on stream earlier, to capture the benefit of the 2007/08 winter gas market and to minimise weather downtime by drilling in the summer months. If the well is successful, it could be tied back and on stream by late summer 2007.

The non-operated CMS area fields continued to perform well throughout 2005. Infill drilling on existing CMS fields and the rapid development of recent gas discoveries are a key part of the long-term CMS growth strategy:

- **Murdoch D4 sidetrack** – shut in since 1998, this well was sidetracked in 2005 and put on production in January 2006 at a gross rate in excess of 30 mmscfd;
- **McAdam infill well** – to accelerate production from the McAdam field, this well was drilled in 2005 and brought on stream in October at a rate in excess of 50 mmscfd;
- **Munro development** – following the success of the exploration well in 2004, this fast-track development achieved first gas in August 2005, six weeks ahead of schedule at a rate of 80 mmscfd.

Schooner and Ketch

Tullow acquired the Schooner and Ketch fields in March 2005 and now operates both fields. The combined field size has been mapped at 1.5 tcf Gas Initially in Place, of which only 380 bcf has so far been recovered.

At the time of acquisition production rates were approximately 50 mmscfd and were expected to decline to below 28 mmscfd within 12 months. Tullow's facilities optimisation and well management programme has achieved a sustained production rate of around 50 mmscfd and raised facilities uptime to over 95%.

Through the application of innovative 3D reservoir modelling, well optimisation and drilling technologies, Tullow is focused on accelerating production from existing wells and accessing undrained areas of the field with new wells. Concurrent drilling and the use of coiled tubing has limited disruption to ongoing production and minimised costs.

Tullow's redevelopment programme aims to improve production stability, double reserves recovery and more than double existing production rates by mid 2007.

In 2006, three further infill opportunities will be evaluated on the Munro, Murdoch and Boulton fields. Similarly, evaluation of development concepts for the 2005 gas discoveries K3 and Opal are ongoing and will be considered in conjunction with the results of the 2006 exploration programme in this region, which has already yielded the Humphrey discovery.

The CMS infrastructure provides opportunities for attracting third party business and Tullow is continuing to capitalise on this position. During 2005, a new third party satellite, the Hunter field, was tied in to the CMS with first gas in early January 2006. Tullow is currently in active negotiations with a number of other third party field owners on potential future CMS tariff business.

UK Exploration

In 2005, Tullow drilled three exploration wells in the Southern Gas Basin, of which two were gas discoveries.

The first discovery was on the West Boulton prospect (subsequently renamed Opal) in block 43/25a and found gas in the targeted Lower Ketch reservoir sands. The second discovery was on the K3 prospect (subsequently renamed Kelvin), located northeast of the Murdoch field and found gas in the Lower Ketch reservoir sands. This discovery has reduced the exploration risk on six prospects in adjacent blocks, two of which will be drilled as part of the 2006 exploration programme. The Oval prospect in Block 54/1a was drilled in July but failed to find hydrocarbons and was plugged and abandoned.

Seven wells are planned for the 2006 exploration drilling campaign, which commenced in January with the Humphrey exploration well, to the west of Tullow's 2004 Munro gas discovery in the CMS area. This well encountered gas-bearing sands in the targeted Lower Ketch interval and has been plugged and abandoned pending review of development options. The second well in the programme, targeting the Cygnus prospect, which lies to the north of Humphrey, was spudded in February and is scheduled to reach its target depth in early April. A further three wells are planned in the CMS area.

In the Central North Sea, Tullow plans to participate in the drilling of two exploration wells during 2006. The Acer prospect lies in the South Viking Graben, and an exploration well is scheduled for September. Tullow also hopes to participate in a well in the Central Graben, the terms of which are currently being finalised. Subject to completion of this deal, the well is likely to spud in the third quarter 2006.

Tullow applied for six blocks in the 23rd Licence Round in 2005, all in the greater CMS/Schooner/Ketch core area. All six blocks were subsequently awarded, two with Tullow as operator with 100% equity.

UK Portfolio Management

In April 2005, Tullow sold its non-core minority interests in the Alba and Caledonia fields to Itochu Corporation for a total headline consideration of US$112 million.

Romania Exploration

In Romania, the Costisa-1 well intersected some potentially gas-bearing intervals but not of sufficient materiality to merit continued Tullow participation in the licence.

2006 Operational Outlook

The Group has a full and active programme for its UK assets in 2006, primarily those operated by Tullow:

- **Schooner and Ketch** – drilling and completion of four wells and commencement of the nine-well optimisation programme;
- **Delilah well** – completion and tie-in of the development well;
- **Thurne development** – completion of the single-well project at the Thames Complex;
- **Exploration** – participation in seven exploration wells;
- **Bacton-Hewett gas infrastructure** – continued cost reduction programmes including the demanning of offshore platforms;
- **Development projects** – progress with the Blythe and Fizzy developments and the development of the CMS discoveries;
- **Licensing** – participation in the 24th licensing round.

Africa Tullow has an extensive portfolio and detailed knowledge of the petroleum provinces and basins of Africa developed over 20 years activity and exploration.

In Africa Tullow has oil and gas production, development and exploration interests across 11 countries. The Group's assets in Gabon, Equatorial Guinea, Congo (Brazzaville) and Côte d'Ivoire produce over 35,000 bopd, accounting for approximately 50% of the Group's total production. Tullow has an active programme of development and infill drilling in each of these countries, which has contributed to African reserve replacement of over 174% in 2005. Current Commercial Reserves for the region are 117 million barrels, accounting for approximately 61% of the Group's total.

Key growth projects undertaken in 2005 will add materially to production in 2006. These projects include the Okume Complex development in Equatorial Guinea, the West Espoir development in Côte d'Ivoire and further development drilling on the M'Boundi field in Congo (Brazzaville).

An important longer-term project for Tullow in Africa is the development of the Kudu gas field, offshore Namibia. The development of approximately 1 tcf to supply an 800 MW power station is expected to be sanctioned in 2006 and two wells to appraise the multi-tcf upside potential are planned for early 2007.

Africa accounts for approximately half of the Group's production and in 2005 reserve replacement was over 174%

Tullow has an active exploration programme in Africa, participating in six wells in 2005 and plans to drill a further 13 wells in 2006. In the last 12 months, wells have been drilled with encouraging results in two previously underexplored regions in Mauritania and Uganda. These have proven the existence of working petroleum systems in both regions and provide significant encouragement for the potential of both basins.

With the benefit of 20 years of experience in Africa, Tullow is viewed as a good partner and has an extensive knowledge and a detailed database of the African petroleum provinces as well as access to a large range of opportunities on the continent. In 2005 Tullow signed two new licences in Angola. The Group has recently announced an additional new licence in Madagascar and is looking at further opportunities. Entry into new licences, including a new country entry, are in the process of being negotiated and are expected to be announced later in 2006.

2005 Review

Gabon

Gabon is a mature oil and gas province and in recent years the Government has increasingly focused on promoting the involvement of independent operators to extend the lives of existing fields, manage costs and develop new exploration plays. Tullow has been an active participant in this process and, through highly successful infill drilling and exploration programmes, has increased its net reserves by 31% in 2005 while maintaining production at rates in excess of 17,000 boepd. In 2005, Tullow's net production averaged 17,480 bopd, 30% of the Group's total.

Tullow's portfolio comprises eight producing fields, three operated and two non-operated exploration licences and two undeveloped fields. The Group has back-in rights on two licences, allowing entry into the Avouma - South Tchibala field, which is currently being developed, and two further discoveries that are being considered for development. In each case, these rights may be exercised at the time of first production.

On the onshore Niungo field, eight appraisal and development wells were drilled and brought on stream during 2005, contributing to a 77% upgrade in net field reserves. In addition, one exploration well was drilled, proving up a northern extension to the field. This area will be tested during 2006 with a series of up to five step-out and six infill wells within the main body of the field.

Offshore, a development well on the Etame field, ET-6H, was brought on stream in July allowing gross production to be maintained at 2004 levels of approximately 19,000 bopd.

Africa

Key Producing Assets/ Assets Under Development

Country	Producing fields/ *fields under development*	Tullow %
Congo (Brazzaville) D P	**M'Boundi**	**11.00**
Côte d'Ivoire E D P	**Espoir**	**21.33**
Equatorial Guinea E D P	**Ceiba**	**14.25**
	Okume Complex[1]	*14.25*
Gabon E D P	**Echira**	**40.00**
	Etame	**7.50**
	Limande	**40.00**
	Niungo	**40.00**
	Tchatamba Marin	**25.00**
	Tchatamba South	**25.00**
	Tchatamba West	**25.00**
	Avouma - South Tchibala[2]	*7.50*
	Turnix	**27.50**
Namibia D	*Kudu*[3]	*90.00*

Exploration Activities only:

Angola, Cameroon, Madagascar, Mauritania, Senegal, Uganda

E – Exploration D – Development P – Production

Notes:
1 Okume Complex includes the Elon, Okume, Ebano and Oveng fields and is due on stream in late 2006.
2 Tullow has back-in rights to this field which is due on stream in late 2006.
3 Final project sanction not due till end 2006/early 2007.

In the same licence, development approval was received for the Avouma - North Tchibala discovery. These fields are expected to be on stream before the end of 2006 through the existing Etame facilities.

On the Tchatamba field, daily gross production averaged approximately 32,000 boepd for a second year, a contrast to the production decline seen in previous years. In addition, 5,000 boepd of sour crude has been shut in to preserve the premium price paid for Tchatamba crude; Tullow, in conjunction with the operator is actively investigating options for restoring this production.

Exploration in Gabon is tax-efficient for Tullow, as the Group benefits from favourable licence terms whereby it can offset exploration costs in one licence against profits from another. In developing its exploration programme in Gabon, Tullow has continued to focus on targets close to existing infrastructure and on enhancing previously sub-economic undeveloped discoveries.

Since the end of 2005, exploration wells on the Equata prospect in the Kiarsseny permit, the Dogbolter prospect in the Gryphon Block, and the Akoum West and Soulandaka prospects in the Akoum licence yielded negative results.

In November, Tullow took over operatorship of the Azobe exploration licence and is negotiating an extension of the licence for a further two exploration periods. This block contains a number of undeveloped fields discovered in the early 1990s, which are only 10 km from the main crude export terminal at Cap Lopez. Subject to the availability of rigs, further exploration wells may be drilled in Azobe, Kiarsseny and Akoum in 2006 and 2007, as well as on the onshore Nziembou licence adjacent to the Niungo field.

In addition to these activities, numerous other exploration, development and production opportunities have been examined, with a view to enhancing and adding value to Tullow's portfolio in Gabon. In 2006 the Group will continue to pursue such opportunities, aiming to become a significant operator in the country over the coming years.

Congo (Brazzaville)
In Congo (Brazzaville), Tullow is a partner in the M'Boundi field, one of the most significant onshore discoveries in Africa in the last 10 years. Since the discovery, ongoing development drilling has resulted in regular increases in reserves and production. Since the beginning of 2005, gross production has increased from approximately 35,000 bopd to over 60,000 bopd and reserves net to Tullow have been increased by 22%.

The number of rigs drilling has increased from three to four and 23 new wells were drilled during the year. Following the facility upgrades reported last year and the success of the 2005 drilling programme, a further facility upgrade from 60,000 bfpd to 90,000 bfpd was approved. Installation of these facilities is currently in progress.

An additional 3D seismic survey has been completed and interpreted. In conjunction with drilling results the new data has helped to better define further extensions to the field. Additionally, new wells in the northeast area have found higher productivity reservoir, contributing to the production increases.

Up to 30 wells are planned for 2006, mainly in the north and south of the licence, to further delineate the field. A pilot water-injection project will commence in 2006, with a view to extending it to full field scale, enhancing oil recovery and with the potential to further increase reserves.

Engineering work at the export terminal has facilitated the blending and export of M'Boundi crude with the higher quality N'Kossa blend, adding value by significantly reducing the discount of M'Boundi oil to Brent from 1 January 2006.

Tullow sold its 4% minority stake in the offshore Haute Mer permit, which included the non-core N'Kossa field, for a consideration of £39 million (US$71 million) with an effective date of January 2005.

Equatorial Guinea
Tullow's interests in Equatorial Guinea are centred on the Ceiba field, which has been on production since 2000, and the US$1.1 billion Okume Complex development, which together represent over 20% of Tullow's worldwide commercial reserves.

Equatorial Guinea has become one of the important new provinces in African exploration and production

In recent years, the careful reservoir management of the Ceiba field has enabled production to reach its highest level since 2002. In 2005, a programme of four infill wells enabled daily gross production to average 42,500 bopd and resulted in a field reserves upgrade at year end. At the end of 2005, 13 production wells and seven water injection wells were active in the field, with three additional injection wells temporarily shut in as part of an ongoing and successful water management plan to optimise recovery. Furthermore, sub-sea infrastructure upgrades in the northern area of the field were approved, allowing for four further productions wells and two injection wells to be drilled in 2006. These operations are expected to maintain field production at the current levels throughout the year.

Okume

Following discovery of the Ceiba field in September 1999 in Equatorial Guinea, a number of further exploration wells were drilled in the north of the same block, yielding a total of seven further discoveries.

In July 2004 the Government approved the development of five of these discoveries as part of a US$1.1 billion development known as Okume Complex. These lie in water depths from 50 m to 550 m and are of a similar geological nature to Ceiba.

The Okume Complex development is situated 20 km northeast of the Ceiba field and comprises four fields, Elon, Okume, Ebano and Oveng. First oil is scheduled for late 2006 and is expected to reach 60,000 bopd at full production, more than doubling Tullow's existing production from Equatorial Guinea. Subject to the performance of this first phase of development two further fields, Abang and Akom North, may be tied in at a later date. Tullow has a 14.25% interest in the Okume Complex development.

The Okume Complex development comprises four oil fields, which will be developed using two tension leg platforms (TLPs), four fixed platforms and the drilling of over 40 wells. During 2005 the two TLPs were constructed in Korea and the Central Processing Facility and other shallow water facilities were constructed in the US Gulf Coast. The development remains on budget and on schedule for first oil by the end of 2006, with production building to a plateau of 60,000 bopd gross. Oil will be blended with the Ceiba crude and exported via the Ceiba FPSO, located 24 km south of the Okume Complex Central Processing Facility.

Tullow also participates in exploration activities in Equatorial Guinea. Current activities are focused on the Block L permit where, following a recent farmout, the farminee will substantially carry Tullow through a deepwater well on the high-risk Banyan prospect planned for the second quarter of 2006. The final phases of the Block F and Block G exploration permits expired in 2005 and both licences were relinquished.

Côte d'Ivoire

In Côte d'Ivoire Tullow has production, development and exploration interests in three offshore blocks. Block CI-26 comprises the producing East Espoir oil field, the West Espoir field, which is currently under development, and the Acajou discovery, which is expected to be developed as a subsea tie-back. Current exploration focus is on Blocks CI-107 and CI-108 where the Group plans a seismic survey to identify prospects for drilling in 2007. Tullow is also negotiating terms to acquire further offshore licences.

East Espoir production averaged 18,960 boepd in 2005, including gas sales of 5.4 mmscfd. Average production was impacted by natural decline and a platform shut-in to accommodate the installation of a tender-assisted drilling rig for the infill drilling programme. Despite only two of the four planned infill wells being put on stream by the end of the year, production rates increased to 26,000 boepd. The infill programme is still in progress and two further wells will be put on production in the second quarter of 2006.

The West Espoir development plan was approved in May 2004 and the principal West Espoir facilities, comprising a 12-slot tripod wellhead tower, were successfully installed in November 2005. All of the pipeline and facility tie-backs have been completed to enable the oil and gas production to be exported 5 km to the Espoir FPSO for processing and export, along with the East Espoir production. The drilling of five production and two water injection wells at West Espoir is scheduled to follow the infill drilling campaign at East Espoir. The West Espoir project is progressing within budget and first oil is scheduled in the third quarter of 2006.

Namibia

Tullow has a 90% interest in the Kudu gas field offshore Namibia, which has potential for up to 9 tcf of gas reserves (1.5 billion barrels of oil equivalent). Tullow operates the offshore component of the Kudu development, a joint project supported by Tullow, the Namibia Power Corporation (NamPower) and the South African electric utility, Eskom. The project is focused on developing the gas field, as part of a gas-to-power project.

The giant Kudu gas field has the potential to transform Namibia's energy future; 2006 is an important year for this project

Kudu is a high profile project for Tullow and represents an important part of Namibia's Energy Strategy and regional economic development over the coming years. The Southern African Development Community (SADC), of which Namibia is a member, is experiencing a steady increase in power demand, which is not being matched by a corresponding growth in generation capacity. Historically Namibia has been dependent on the importation of electricity from South Africa, however rising demand will limit this potential source of supply over the coming years. Namibia is therefore seeking to identify and access new sources of supply, of which Kudu represents an important option. In addition to addressing growing indigenous power demand, the Kudu project will have wider economic benefits to Namibia, allowing the country to make the transition from a net importer of power to an exporter of surplus power.

Under the current project structure, NamPower will develop an 800 MW power station near Oranjemund in south west Namibia. The station will be fuelled by gas from the Tullow-operated Kudu gas field, with the electricity being sold in both Namibia and South Africa. The Kudu power station will be based on combined cycle gas turbine technology and will be the first power plant in Southern Africa to use this technology.

During 2005, Tullow has made good progress on the upstream phase of the gas-to-power development; the Front End Engineering Design (FEED) study for a four well subsea development and onshore gas conditioning plant was completed and invitations to bid for the various construction activities are expected to be issued during 2006. In parallel with these technical preparations, significant progress has been made on commercial and regulatory arrangements. The Gas Sales Agreement negotiations are nearing completion, in parallel with the Power Purchase Agreement negotiations between NamPower and Eskom, and an agreement in principle has been reached on a pipeline route.

In addition to the ongoing gas-to-power development, which will utilise approximately 1 tcf of gas over its life, Tullow has identified significant additional reserve potential in the greater Kudu area. Should additional reserves be proved, development possibilities include a further gas-to–power project, export to regional gas markets or a floating LNG project. Tullow has contracted a rig to drill two important appraisal wells in early 2007. These will increase the understanding of the ultimate reserve potential of Kudu and allow refinement of potential future development options.

High Impact Exploration in Africa

In Africa Tullow's exploration strategy aims to have a balance between exploration in lower risk areas close to infrastructure where Tullow has a competitive advantage, such as Gabon, and to expose the Group to high impact frontier exploration in countries such as Uganda, Mauritania, Angola and Equatorial Guinea, where success is likely to yield significant discoveries. Six high impact wells have been drilled over the last year: one in Mauritania, two in Uganda and three in Angola.

Niungo

Tullow has a 40% interest in the Niungo field, onshore Gabon. Since 2004, 15 appraisal and development wells and one exploration well have been drilled, increasing reserves from 2.8 mmbbls at the time of acquisition to 7.9 mmbbls at the end of 2005 and raising gross production from 6,500 boepd to over 14,000 boepd.

An active drilling campaign is planned for 2006/07, designed to sustain current production rates and to test the northern extent of the field. A play of similar type will be tested during 2006 in the surrounding Nziembou exploration block, in which Tullow also has a 40% interest.

Niungo typifies the type of project in which Tullow is endeavouring to be involved in Gabon, namely low-cost near-field appraisal and exploration leading to early incremental production with operational synergies, at a low cost per barrel and with rapid payback at current oil prices.

In Block 1 Mauritania, the Faucon prospect yielded a gas discovery, proving that there is a working petroleum system in the region, and hence reducing the risk of the prospects on the block and in the neighbouring St Louis block in Senegal, in which Tullow has a 60% interest.

In Blocks 2 and 3A in Uganda, Tullow conducted onshore and offshore 2D seismic surveys in the Lake Albert Graben in 2005. This led to the definition of several onshore structures in Block 2, two of which have resulted in oil discoveries from the Mputa-1 and Waraga-1 wells in early 2006, proving this to be a potentially prolific petroleum basin. Both discoveries will be production tested in the second quarter of 2006, followed by more detailed seismic to improve the resolution across the discoveries and the region. Plans are now under way for exploratory drilling to start on the Kingfisher prospect in mid 2006, followed by further onshore and offshore exploration wells. At least two appraisal wells will be drilled on the Mputa and Waraga discoveries to assess reserve size and determine the ultimate commercial potential of the region.

Our exploration objectives are to replace production, increase reserves and acquire additional assets

Late in 2005, Tullow farmed in to a 15% interest in Blocks 10 and 24 in Angola on the basis of a very large structure favourably located to receive an oil charge. However, the Ngueve prospect proved to be dry and two other wells (Henda and Kabetula) were also unsuccessful.

In 2005, substantial 2D surveys were conducted in Blocks CI-107 and CI-108 in Côte d'Ivoire. These surveys identified prospective structures analogous to those in the Espoir and Baobab fields, which provide most of Côte d'Ivoire's oil production. These structures will be delineated with 3D surveys in 2006. In Cameroon a major 3D survey commenced early in 2006 in the Ngosso Permit, which contains several oil and gas discoveries.

2006 Operational Outlook

In 2006, in Africa, the Group has ongoing development projects in Gabon, Congo (Brazzaville), Equatorial Guinea, Côte d'Ivoire and Namibia and a comprehensive exploration programme in these and other countries. Key milestones for 2006 include:

- **Niungo** – 11 appraisal and development wells planned to enhance production and delineate the extent of the field;
- **Okume Complex Development** – first oil expected in December 2006, building to a plateau of 60,000 bopd;
- **M'Boundi Development** – 30 development wells planned, along with a facility upgrade to 90,000 bfpd and the initiation of water injection;
- **West Espoir Development** – first oil scheduled for the third quarter of 2006, building to a plateau of 12,000 bopd;
- **Uganda** – a further five exploration wells in Uganda including the Kingfisher prospect in Block 3A and additional onshore exploration and appraisal wells in Block 2;
- **Equatorial Guinea** – a high impact deep water exploration well is to be drilled in the second quarter of 2006 on the Banyan prospect in Block L.

South Asia Tullow has an attractive and growing portfolio of potentially high impact exploration acreage in three countries with developing energy markets.

In South Asia, Tullow has interests in Pakistan, India and Bangladesh where demand for oil and gas for regional power generation and industrial development is steadily growing. Tullow's strategy in the region is to discover and develop oil and gas reserves to help satisfy this demand.

Tullow's production from the region in 2005 was from the declining Suri gas field in Pakistan, which averaged around 400 boepd (2.5 mmscfd), contributing less than 1% to total Group production. While this is modest, two development projects, Chachar in Pakistan and Bangora in Bangladesh, are due to start production in 2006, significantly enhancing production and hence revenue for reinvestment in the region. Tullow is currently conducting a number of seismic surveys to identify prospects for drilling in 2006 and 2007.

Pakistan

In 2005, government approval for the development of the Chachar field was received and development planning is now in the final stages with the drilling of the first of two wells expected to commence in May 2006. First gas from the field is scheduled for the third quarter of 2006 at a rate of 20 mmscfd. The gas will be sold for use in regional power generation, where significant incremental gas demand exists. The cash generated from Chachar will fund an exploration programme in Pakistan over the coming years.

Our objective is to actively participate in this region through the discovery and development of reserves for local markets

Production from Pakistan declined gradually through the year, with the Suri gas field producing 4 mmscfd by year end. Various options for maximising the return from this asset are under review.

In 2004, Tullow made a strategic decision to expand its Pakistan exploration portfolio and activities. The primary objective was to build an exploration portfolio in higher-risk but high-potential areas which has recently delivered some very large oil and gas discoveries. In April 2005, Tullow was awarded the Kohat and Bannu West exploration blocks, and also agreed to acquire interests in the Kalchas and Kohlu blocks. Tullow now holds a significant working interest in 10 licences, eight of which it operates. Seismic operations have commenced in the Kohat Block and drilling is planned for early 2007. Negotiations to commence work in four other blocks are ongoing.

Elsewhere in Pakistan, Tullow conducted 2D and 3D seismic surveys on the Nawabshah licence and identified multiple potential targets. A well to test the Shahpur prospect, was spudded in February 2006 and is expected to reach total depth in early April. The prospect is close to recent gas discoveries in the adjacent block and a discovery here could be quickly brought into production.

Bangladesh

In early 2005, Tullow obtained approval from the Bangladeshi authorities for its appraisal programme for the Bangora and Lalmai discoveries in Block 9. The programme involves a long-term test of the Bangora-1 well, acquisition of 3D seismic data and the drilling of at least two appraisal wells.

During 2005, significant progress was made on the pipeline tie-in for the long-term test, which will supply much needed gas into the local market and provide valuable information on the size of the reservoir and potential gas volumes in place. The bulk of the civil engineering work is complete and facilities equipment has been delivered, with first gas due to commence in the second quarter of 2006 at a rate of approximately 50 mmscfd.

A 620 sq km 3D seismic survey was completed in February 2006 over the whole of the Bangora-Lalmai structure and initial data are currently being processed. The survey will allow detailed re-mapping of the field and will serve to better define the expected volumes and reservoir connectivity and help to identify future appraisal and development well drilling locations. The two-well appraisal drilling programme is scheduled to commence in the second quarter of 2006 with two further appraisal wells contingent on results.

If results of the appraisal programme are positive, it is likely that commerciality will be declared and a development plan for Bangora-Lalmai will be submitted by the end of 2006.

While Block 9 has been the focus of much activity in recent years, there has been limited work on the offshore

South Asia

Key Producing Assets/ Assets Under Development

Country	Producing fields/ *fields under development/ appraisal*	Tullow %
Bangladesh E D	*Bangora[1]/ Lalmai*	*30.00*
Pakistan E D P	*Chachar[2]*	*75.00*
	Sara/Suri	**38.18**

Exploration Activities only:

India

E – Exploration D – Development P – Production

Notes:
1 Bangora discovery on long-term test from second quarter of 2006.
2 Chachar Field due on stream in second half of 2006.

Bangora

In 2001, Tullow signed the Block 9 licence in Bangladesh as operator. Following two gas discoveries on the same structure, Bangora and Lalmai, Tullow has started an extensive appraisal programme to determine the ultimate reserve potential of the structure. The programme comprises two appraisal wells, seismic, and a long-term test of the Bangora-1 discovery well, which will supply much needed gas into the local market. First gas is targeted for the second quarter of 2006 at an anticipated rate of 50 mmscfd.

Blocks 17&18 in the Bay of Bengal since the drilling of the Reju-1 well some years ago. During 2005, however, a number of large discoveries have been made in the region, which provide important additional information in relation to overall prospectivity, with potentially significant implications for Blocks 17&18. In December 2005, Total signed a farm-in agreement to acquire a 60% interest in the blocks. The new joint venture partnership is currently undertaking a 2D seismic survey in the block and is planning to carry out an extensive 3D offshore survey in late 2006 before making a decision on any future drilling.

India

Block CB-ON/1 in the Cambay basin is Tullow's principal Indian asset. This block in which Tullow has a 50% interest, is advantageously situated in a region that has a number of existing producing fields to the south and where, to the north, very sizeable new discoveries have been made in recent years. Following the award of the Petroleum Exploration Licence in September 2004, extensive seismic reprocessing was completed during the year and in November 2005 a survey to acquire over 1,000 km of 2D seismic commenced, almost double the commitment for the block. The information gained from the survey will be integrated with Tullow's existing regional knowledge to select prospects for what is likely to be a multi-well drilling programme in 2007.

2006 Operational Outlook

2006 is a significant year for Tullow's interests in South Asia both for development projects and exploration:

- **Chachar Development** – due to come on stream in the third quarter of 2006;
- **Pakistan Exploration** – completion of extensive seismic programme across potentially high impact exploration acreage and planning for exploration drilling in early 2007;
- **Bangora Long-term Test** – due to come on stream in the second quarter of 2006;
- **Bangora Appraisal** – an integrated programme of new 3D seismic and appraisal drilling leading to declaration of field commerciality;
- **India Exploration** – completion of ongoing seismic acquisition and interpretation on the CB-ON/1 block in preparation for a multi-well exploration programme.

Corporate Social Responsibility Social and environmental issues are integrated into all our activities and we aim to conduct our business in a way that is safe, sustainable and responsible.

The Group had a very positive Environment, Health and Safety (EHS) performance in 2005. It was a particularly busy year for our operations, with several major projects and much higher levels of activity in the enlarged Group. In the UK, projects included the transition of the Schooner and Ketch fields and completion of Tullow's first offshore operated development at Horne & Wren in the Southern North Sea. In South Asia we conducted seismic programmes in Pakistan and Bangladesh, where at peak activity 3,000 people were working on Block 9. The Group also undertook a significant drilling programme during the year with 50 development wells and 10 exploration wells. In total, 3.7 million man hours were worked in 2005 compared to just under 2 million man hours in 2004.

Excellent EHS Performance in 2005

Despite these record levels of activity, there were no significant environmental incidents at any Tullow operations and no occupational health, safety or security related issues. A total of three Lost Time Incidents (LTI) were reported during the year compared to four incidents in 2004. All incidents were relatively minor in nature, as was the case in 2004. The Lost Time Incident Frequency Ratio (LTIFR), representing the number of lost time incidents per million man hours worked, was 0.82, compared to 1.96 in 2004. This achieved our performance target of a LTIFR below 1.00. These safety statistics have consistently improved over the past four years, moving us closer to our goal of being in the top quartile of companies in our industry for safety performance.

To enhance our reporting in this area our first Group CSR Report will be published this year

Strong EHS Culture and Systems

Our overall EHS performance is supported by Tullow's EHS policy which is reviewed annually and implemented across the Group. Through this policy our goal is to protect people and minimise the impact of our operations on communities and the environment. This policy is implemented through appropriate training for staff and contractors and by visits to potentially higher risk activities by the Head of EHS and his team.

Tullow's EHS team was expanded in 2005 and now includes EHS advisors in the Group's London and Cape Town offices, field supervisors in Pakistan and Bangladesh and additional EHS resources for specific major projects such as seismic acquisition or drilling. There is an annual internal EHS audit programme and in 2005 six full audits were conducted plus several additional audits of drilling rigs and seismic crews across our operations.

External Benchmarking

We manage our EHS performance through the Group's Integrated Management System (IMS), which is a disciplined framework for the management of the environment, health, safety and security throughout the Group. Under the IMS we also track and record our experiences, allowing us to continually work to improve our performance. This system fully meets the requirements of the International Standards Organisation (ISO) 14001 benchmark and is based on a series of integrated elements with established performance standards and clearly defined expectations that every operation must fulfil.

Tullow plans to achieve ISO 14001 certification for all its operations and in 2005 suitability evaluations were completed for the Kudu project in Namibia and operations in Pakistan. While Kudu is not yet a fully approved development, the project plan has been drafted in anticipation of achieving ISO 14001 approval. The Pakistan evaluation was successful and we have established a three year programme to achieve full certification. In 2006, we expect Tullow Oil plc and all its corporate standards to be ISO 14001 approved.

Enhanced Crisis Management Systems

The oil and gas industry operates with inherent EHS risks and at Tullow the enlarged Group has brought challenges but also created opportunities. The Group operates a 365 day on-call system for crisis management, supplemented by regular training and simulation exercises. With our new offices we improved the facilities including a specialised high tech crisis management room. Our goal is to ensure that in the event of a serious incident at any Tullow activity we will be proactive, prompt and effective in our response.

Addressing Climate Change

In the past decade there has been growing concern and debate over the impact of "greenhouse" gases on global climate change. Many industrialised countries agreed to set specified reduction limits on their emissions of such gases and this has become formalised in Europe under the European Union Emissions Trading Scheme. The most significant impact of these regulations for Tullow concerns carbon dioxide (CO_2), a by-product of fuel combustion in turbines, compressors and generators utilised as part of the gas refining process.

For Tullow, the Bacton and Hewett installations have been assigned allowances under this scheme capping the amount of CO_2 discharged into the atmosphere. The Hewett field and the Bacton terminal have a combined allowance in Phase 1 of the scheme, which runs from 2005 to 2007, of 1.28 million tonnes and during 2005 investment was made to minimise and reduce CO_2 emissions. Both facilities achieved improvements and their total emissions were 40% lower than their combined allowance, with particular success at Bacton. We continue to work to identify opportunities to improve the Group's performance and incorporate emissions control in the design phase of all major developments.

Social and Community Involvement

Our involvement and sponsorship of local communities is guided by the Group's CSR policy and CSR committee. Aidan Heavey, our Chief Executive, is the nominated Director with CSR and EHS responsibility and he is a strong advocate for Tullow's commitment to its corporate, environmental and social responsibilities. In 2005, Tullow spent £0.8 million on a wide range of social and community projects. This amount was marginally lower than 2004 as a result of some projects moving into 2006. This year we are committed to significantly increasing our overall contribution.

In Bangladesh we support the Gulshan Literacy Programme. In 2005 the school catered for 180 children, operating two shifts as many of the children need to go to work during normal school hours. One cooked meal per day is provided and once a student is admitted to the programme the school covers the majority of fees and ancillary costs, including the provision of an electric lamp to assist study. Support is also provided in aspects of health, nutrition and child development.

We support and contribute to improved health, education and economic conditions in our local communities

In 2005, we signed a farm-in agreement in Angola, where there are three million cases of malaria every year. Children are most at risk and the World Health Organisation estimates that every day 2,500 die from the disease throughout Africa. Through our representative there we have become involved in the Angola Mosquito Nets Project, which seeks to reduce the incidence of malaria in the community through the provision of insecticide-treated mosquito nets to those too poor to afford one. An aid organisation employs local women to make the nets, which are then distributed to local communities.

There were major natural disasters in Asia during the year with the Asian tsunami and the Pakistan earthquake. While the Group formally contributed US$350,000 emergency support through recognised charities, there was also an immediate, generous and pragmatic response at a local level by Tullow personnel. This action demonstrates the true meaning and effectiveness of local community commitment in the Group.

Our first Group CSR Report

CSR is particularly relevant in the context of the oil and gas industry and is a significant priority for Tullow management. To enhance our transparency and reporting in this area our first Group CSR Report will be published this year. It will be available on our website www.tullowoil.com and in paper, electronic and digital formats. We hope it will extend our communication and engagement with stakeholders in this area and we welcome any feedback.

Finance Review Tullow had a very strong 2005, achieving record profits, earnings and cash flow from operations.

Tom Hickey
Chief Financial Officer

The results for 2005 have been prepared in accordance with the Group's policies under IFRS. Tullow adopted IFRS with effect from 1 January 2004, with the exception of IAS 39 in respect of derivative financial instruments, which has been adopted with effect from 1 January 2005.

The 2004 financial statements have been restated under IFRS and were published on 22 August 2005, with full details of the accounting policies adopted. This is available on the Group's website at www.tullowoil.com.

Excellent Operating Performance

Working interest production averaged 58,450 boepd, while sales volumes averaged 53,350 boepd. These production figures are 44% ahead of 2004, principally as a result of a full year contribution from the Energy Africa assets and a nine-month contribution from the Schooner and Ketch acquisition, completed in March.

During the year the Group disposed of the Alba and Caledonia assets in June and the offshore Congo (Brazzaville) interests in August.

Average prices realised during the year were significantly higher than in 2004. Oil was US$43.05/bbl (2004: US$34.13/bbl) and UK gas was 33.85p/therm (2004: 22.89p/therm). Tullow's oil production sold at an average discount of 13% to Brent during the year. This discount is expected to reduce to between 8% and 9% during 2006. The Group also received tariff income of £14.7 million (2004: £9.4 million) from use of its UK infrastructure.

The combination of the higher prices and increased volumes meant that sales revenue increased 98% to £445.2 million (2004: £225.3 million).

Key Performance Indicators

	2005	2004	Change
Lost Time Incident Frequency Rate[1]	**0.82**	1.96	Down 58%
Production (boepd)	**58,450**	40,600	Up 44%
Operating Cash flow before working capital per boe (£)	**13.50**	9.45	Up 43%
Cash Operating Costs per boe (£)[2]	**4.84**	4.40	Up 10%
Gearing (%)[3]	**36%**	17%	Up 19%
Reserves Replacement (%)	**118%**	83%	Up 35%
Realised Oil Price per bbl ($)	**43.05**	34.13	Up 26%
Realised Gas Price (pence per therm)	**33.85**	22.89	Up 47%

[1] Lost Time Incidents per million man hours worked [2] Cash operating costs are cost of sales excluding depletion and amortisation and under/over lift movements
[3] Gearing is net debt divided by net assets

Operating profit before exploration activities amounted to £224.4 million (2004: £74.7 million), up 200%, reflecting the strong growth in Group production, profit on disposals and realised oil and gas prices.

Our financial performance was complemented by strong results across key performance indicators for the Group

Underlying cash operating costs, which exclude depletion and amortisation and movements on under or over lift, amounted to £102.2 million (£4.84/boe). These costs were marginally above expectations and reflected, in particular, oil price linked royalty payments on Gabon production.

Reported operating costs before depletion and amortisation for the year of £123.5 million (2004: £60.1 million) are also impacted by the inclusion at market value of £8.2 million associated with overlifted volumes at 31 December, £5.5 million of overlift associated with the disposal of Alba and Caledonia and £7.6 million of overlift associated with the sale of the Group's offshore Congo interests, completed in August 2005.

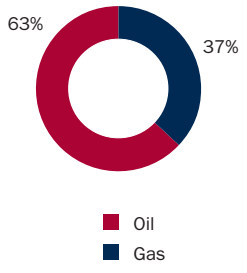
Depreciation, depletion and amortisation for the year amounted to £119.7 million (£5.67/boe). Depreciation includes a total of £2.4 million of impairment costs associated with Tullow's producing interests in Pakistan.

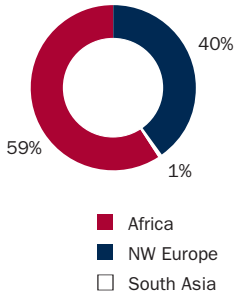
Higher Exploration Write-off reflecting Increased Activity

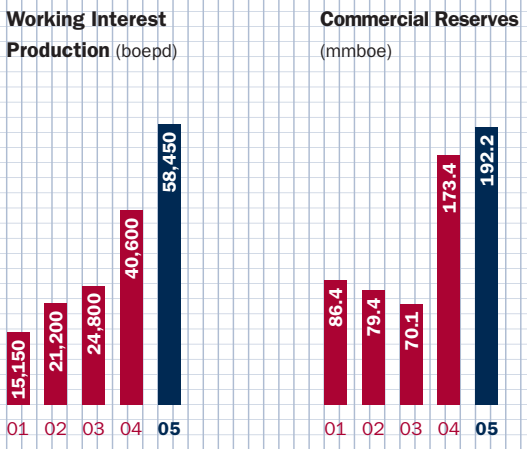
Exploration costs written off were £25.8 million (2004: £18.0 million), in accordance with the Group's 'successful efforts' accounting policy, which requires that all costs associated with unsuccessful exploration are written off to the Income Statement. The Group drilled 10 exploration wells in 2005, achieved four discoveries, and is planning to drill 20 wells in 2006.

Analysis of Sales Revenue

	Oil £ millions	Gas £ millions	Total £ millions
NW Europe (UK)	17.6	161.9	179.5
Africa	264.9	–	264.9
South Asia	–	0.8	0.8
Total	282.5	162.7	445.2







Hedging reflected in Income Statement under IFRS

At 31 December 2005 the Group's derivative instruments had a negative mark to market value of £147.8 million. Of this amount, £97.2 million (66%) relates to contracts acquired as part of the acquisition of Energy Africa in 2004. While the bulk of these arrangements qualify for hedge accounting and will consequently be largely reflected in the Income Statement as the related contracts mature, the variations in crude oil discounts and gas sales patterns for Tullow inevitably led to a degree of hedge ineffectiveness which is accordingly included in the charge of £0.2 million recognised in the Income Statement for the year. The charge also reflects the effect of time value on the mark to market value of the Group's derivative instruments. The Group's hedge position as at 22 March 2006 can be summarised as follows:

Oil hedges

Hedge position	1H 2006	2H 2006	2007
Volume – bopd	10,242	11,217	7,000
Current Price Hedge – US$/bbl	39.99	42.90	45.06

Gas hedges

Hedge position	1H 2006	2H 2006	2007
Volume – mmscfd	91.67	50.00	15.00
Current Price Hedge – p/therm	58.70	42.61	58.68

Healthy Interest Cover

The net interest charge for the year was £19.8 million (2004: £10.0 million). The increase reflects higher levels of net debt arising from acquisitions and a one-off non-cash charge of £4.1 million representing accelerated amortisation of financing fees associated with facilities cancelled during the year as part of the Group's refinancing. Excluding these items, and eliminating gains from asset disposals, interest was covered over 15.5 times (2004: 15.9 times).

Taxation

The tax charge of £65.4 million (2004: £15.5 million) relates to the Group's enlarged North Sea and Gabonese activities and represents 37% of the Group's profit before tax (2004: 33%). After adjusting for exploration costs and non-recurring items associated with the profit on asset disposals, the Group's underlying effective tax rate for the year is 35% (2004: 25%).

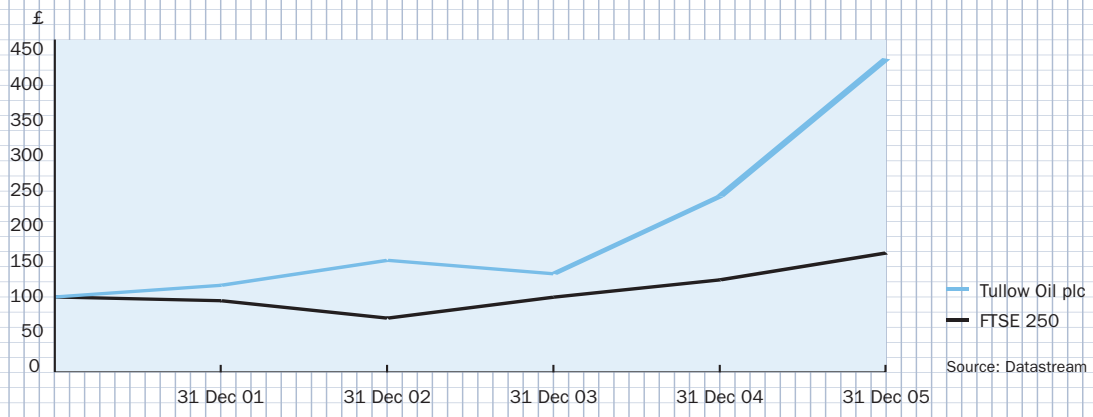
While Tullow's UK business has prospered, the Government's decision to raise the supplemental corporation tax rate for the industry is difficult to understand at a time when the UK, as a net importer of gas, is seeking to promote investment in exploration and maximise recovery of indigenous reserves.

Acquisitions and Portfolio Management

During the year, Tullow completed the acquisition of the Schooner and Ketch assets for a net cash payment on completion of £189.3 million. A purchase price allocation exercise has been undertaken on these assets incorporating the fair value of all reserves, costs and contractual arrangements acquired, resulting in a total allocation to oil and gas assets of £218.0 million. A creditor of £31.3 million in respect of the gas contracts that were out-of-the-money as at 31 March 2005 has also been recognised; the majority of these contracts expire in late 2007.

The Group completed the disposal of the Alba and Caledonia offshore assets in the UK and the offshore Congo (Brazzaville) assets in June and August 2005 respectively. In addition, final income has been recognised in relation to incremental consideration received based on reserves and performance of the Horne & Wren fields. The profit on disposals amounts to £36.1 million (inclusive of the £5.5 million of overlift outlined above).

Total Shareholder Return



Record Operating Cash Flow and Strong Balance Sheet
The strong pricing environment, allied to increasing production and effective control of underlying operating costs, led to record operating cash flow before working capital movements of £288.1 million, 106% ahead of 2004. This cash flow enabled the Group to maintain modest gearing of 36% at year end, to increase dividends to shareholders in respect of the period by 129% and to invest £193.0 million in exploration and development activities in the year.

Over 80% of Group capital expenditure was associated with ongoing development and production enhancement projects in the UK, Gabon, Congo (Brazzaville), Equatorial Guinea and Côte d'Ivoire. The programmes associated with this expenditure have allowed Tullow to achieve organic reserve replacement of 118% over the period. Tullow has approved total 2006 capital expenditure of £280 million across all assets, driving group production to a target of over 75,000 boepd by year end.

Our strong operating cash flow enabled us to maintain modest gearing, increase dividends and invest £193 million in the business

Net assets at 31 December 2005 amounted to £389.0 million (2004: £375.5 million). Net assets were reduced by £120.4 million in the year due to the recognition of a hedge reserve in accordance with IAS 39 (adopted 1 January 2005). An increase in net assets (foreign currency translation reserve) of £32.4 million resulted from the strengthening of the US Dollar against Sterling from US$1.93 to US$1.72 in the year.

Successful Major Refinancing
Over the last five years Tullow has undertaken a range of acquisitions and field developments, all of which have been wholly or partly debt financed. During 2005 the Group completed a US$850 million refinancing, the largest such facility ever negotiated by a UK independent oil company. This has allowed Tullow to consolidate existing borrowings into a single facility, to halve its collateralisation obligations and to maintain financial flexibility for future growth.

The Group has over US$400 million of debt capacity and cash balances to fund future growth

Targeting Superior Returns
Tullow aims to deliver superior returns to shareholders through production led exploration and reserve enhancement, operational innovation and focused acquisitions. The Total Shareholder Return graph above shows the value, by the end of 2005, of £100 invested in Tullow Oil plc on 31 December 2000, with the value of £100 invested in the FTSE 250 Index. It shows that in the last five years Tullow has delivered Total Shareholder Return of 325% compared to 60% for the FTSE 250 Index.

Board of Directors











1 2 3 4

5 6 7 8

9 10 11

1. Pat Plunkett
Chairman
Aged 55. Pat Plunkett joined the Board as a non-executive Director in 1998 and was appointed non-executive Chairman in 2000. He is also Chairman of the Nominations and Remuneration Committees. Mr Plunkett is an accountant with over 30 years' experience in the financial services sector and is a former director of the Irish Stock Exchange. He managed the stockbroking and corporate finance businesses of ABN AMRO Bank in Ireland from 1993 to 1998. Since then he has been providing strategic advice and non-executive director services to a number of private companies.

2. Aidan Heavey
Chief Executive Officer
Aged 53. A founding Director and shareholder of the Company, Aidan Heavey has played a key role in the development of Tullow from its formation in 1985, to its current international status as a leading independent oil and gas exploration and production group. A Chartered Accountant, he previously held roles in the airline and engineering sectors in Ireland. He is a member of the Nominations Committee.

3. Tom Hickey
Chief Financial Officer
Aged 37. A Chartered Accountant, Tom Hickey was appointed Chief Financial Officer and to the Board in 2000. Prior to joining Tullow he was an Associate Director of ABN AMRO Corporate Finance (Ireland) Limited, which he joined in 1995. In this role, he advised public and private companies in a wide range of industry sectors in the areas of fundraising, stock exchange requirements, mergers and acquisitions, flotations and related transactions. He is a non-executive director of Ikon Science Limited, a specialist geological software company in which Tullow has a minority equity stake and of Petroneft Resources Plc, an Irish oil and gas company with development interests, principally in Russia.

4. Paul McDade
Chief Operating Officer
Aged 42. 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.

5. Graham Martin
General Counsel
Aged 52. A solicitor, Graham Martin joined Tullow as Legal and Commercial Director in 1997 from Vinson & Elkins, a leading international law practice, where he was a partner. Prior to that, he was a partner in Dickson Minto WS, a UK corporate law firm. He has over 25 years' experience of UK and international corporate and energy transactions. He has been the principal legal adviser to Tullow since its formation in 1985 and was appointed to his current position as General Counsel in 2004.

6. Matthew O'Donoghue
General Manager Projects
Aged 61. Matthew O'Donoghue was appointed to the Board as Operations Director in 1998 having joined Tullow in 1987 as General Manager in Senegal. An engineer, he has over 35 years' experience in the oil and gas exploration sector and held a number of senior roles with Schlumberger Wireline, working in Europe, Africa and the Middle East. A core member of the original team that has developed the Group's business and international operating capability, he was appointed to his current position in 2004.

7. Adrian Nel
Exploration Director
Aged 63. Adrian Nel was appointed to the Board as Exploration Director in September 2004. He was Technical Director of Energy Africa from its formation in 1996 and Chief Operating Officer from 2001 until the company was acquired by Tullow in May 2004. Prior to his appointment with Energy Africa, Mr Nel held senior management positions in the oil and gas division of Gencor Limited and in the oil and gas business of Engen Limited in Africa. He has been active in exploration in both technical and managerial roles for over 30 years and holds degrees in geology and geochemistry.

8. Rohan Courtney
Senior Independent Director
Aged 58. Rohan Courtney has been a non-executive Director since 1993 and Senior Independent Director since 2000. He is Chairman of the Audit Committee and a member of the Nominations and Remuneration Committees. Mr Courtney was a career banker for 27 years and held senior positions in London and Hong Kong, including that of Chief Executive Europe of the State Bank of New South Wales from 1982 to 1990. Between 1991 and 1996, he advised and represented major shareholders on the boards of several private and public companies. From 1996 to 2001, he was Executive Chairman of West 175 Media Group Inc. He is currently Director and Partner in the UCG Partnership, a trade association established to promote underground coal gasification around the world.

9. Clare Spottiswoode CBE
Non-Executive Director
Aged 53. Clare Spottiswoode was appointed as a non-executive Director in 2002. She is a member of the Audit, Nominations and Remuneration Committees. 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 currently Deputy Chairman of British Energy Group plc and Chairman of Economatters Limited. She is also a non-executive Director of Biofuels Corporation plc, Bergesen ASA and Petroleum Geo-Services ASA. In January 2006, she became the nominated Policyholder Advocate for Aviva plc.

10. Steven McTiernan
Non-Executive Director
Aged 55. Steven McTiernan was appointed as a non-executive Director in 2002. He is a member of the Audit, Nominations and Remuneration Committees. Mr McTiernan began his career as a petroleum engineer, working with BP, Amoco and Mesa in the Middle East and the UK. In 1979, he joined Chase Manhattan Bank, where he became Senior Vice-President and head of the bank's energy group based in New York. From 1996 to 2001 he held senior energy related positions at NatWest Markets and then CIBC World Markets. He is currently principal of Sandown Energy Consultants Limited, a natural resources advisory firm based in London.

11. David Bamford
Non-Executive Director
Aged 59. David Bamford was appointed as a non-executive Director in July 2004. Mr Bamford is a member of the Audit, Nominations and Remuneration Committees. With a PhD in Geological Sciences from the University of Birmingham, he has had over 23 years' exploration experience with BP where he was Chief Geophysicist from 1990 to 1995, General Manager for West Africa from 1995 to 1998, and acted as Vice President, Exploration, directing BP's global exploration programme, from 2001 to 2003. He is a non-executive Director of Paras Limited, a specialist oil and gas industry consulting firm and Visiting Professor of Geophysics at the University of Leicester.

This Annual Report and Accounts has been prepared in accordance with the Group's policies under IFRS.

Contents to the accounts

Corporate Governance

year ended 31 December 2005

The Tullow Board is committed to business integrity and high ethical values across the Group's activities. As an essential part of this commitment, the Board supports high standards of corporate governance.

Compliance with FRC Combined Code on Corporate Governance

This report describes how the Company has applied the principles set out in Section 1 of the Combined Code on Corporate Governance (the Code) published by the Financial Reporting Council. It also discloses the extent to which the Company has complied with the provisions of the Code.

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

- Throughout 2005, the Board comprised a non-executive Chairman, five Executive Directors and four independent non-executive Directors. As independent non-executive Directors therefore comprise less than half of the Board, the Board's composition is not as recommended by the Code.

  On 16 February 2006, it was announced that Adrian Nel would be retiring as Exploration Director with effect from the conclusion of the AGM to be held on 31 May 2006. The appointment of Paul McDade, Chief Operating Officer, to the Board was made with effect from 29 March 2006. Separately, in 2005, the Nominations Committee commenced the process to recruit an additional independent non-executive Director.

  Following the retirement of Adrian Nel, and once the appointment of a new independent non-executive director has been made, half of the Board will then consist of independent non-executive Directors.

- Throughout 2005, Pat Plunkett (the Company Chairman) continued as Chairman of the Remuneration Committee. Consequently, that Committee is not made up solely of independent non-executive Directors. The Board remains of the view that Pat Plunkett should continue in this role since he brings considerable knowledge of the management roles and responsibilities within the Group which enables him to discharge his duties in an informed and properly independent manner. The Board also considers that as he and Rohan Courtney have been members of the Committee throughout the period of major growth enjoyed by the Company in the last five years, they bring a long term perspective and continuity to the Committee.

Details of how Tullow has applied the principles of the Code in relation to Directors' remuneration are contained in the Directors' Remuneration Report on page 35.

Board of Directors

Composition Following the appointment of Paul McDade as an Executive Director, the Board will comprise a non-executive Chairman, six Executive Directors and four non-executive Directors. Each of the Executive Directors has extensive knowledge of the oil and gas industry. The majority of the non-executive Directors either have held, or currently hold, senior appointments in oil and gas companies or companies with energy interests and, together, the non-executive Directors bring a broad range of business and commercial experience to the Board. Biographies of the Board members are set out on page 27.

Role of the Board The Board 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. It sets the Group's strategic aims, ensuring that the necessary resources are in place to achieve those aims, and reviews management and financial performance. 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.

Chairman and Chief Executive There is a clear separation of the roles of the Chairman and the Chief Executive. The division of responsibilities has been agreed and set out in writing by the Board.

The Chairman's key responsibilities are 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 of the Board's decision-making process.

The key responsibilities of the Chief Executive are 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 major shareholders as part of the Company's overall investor relations programme.

Non-Executive Directors

Appointment Non-executive Directors are appointed for an initial term of three years. Thereafter, they may serve one or more three year terms subject to satisfactory performance. The letters of appointment of each non-executive Director are available for inspection.

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 2005 without executive management present. The non-executive Directors examine and review the performance of the executive management; this review process is in part dealt with by the Board Committees referred to below. Separately, the Chairman and Chief Executive held informal meetings with the non-executive Directors to discuss issues affecting the Group such as target objectives, remuneration matters etc.

Senior Independent Director The Senior Independent Director is Rohan Courtney. In this role he is available to shareholders who have concerns that cannot be resolved through discussion with the Chief Executive or Chairman.

Independence The Board considers each of the current non-executive Directors to be independent of management and free from any business or other relationships that could materially interfere with the exercise of their independent judgement. The Board recognises that Rohan Courtney's independence may be called into question, given that he has served on the Board for more than nine years. Nevertheless, the Board considers that Mr Courtney's independence is not prejudiced or compromised by his length of service; when taken with his experience and knowledge of the Group's business, he remains an independent, challenging and valuable contributor to the Board. Rohan Courtney will be proposed for re-election at this year's Annual General Meeting (AGM).

Election and re-election All Directors are required by the Company's articles of association to be elected by shareholders at the first AGM after their appointment. Subsequently, Directors are subject to re-election by shareholders at least every three years.

How the Board operates

Board meetings The Board meets regularly during the year and on an ad hoc basis as required. The attendance record of each Director is shown in the table on page 31. During 2005 the Board met on ten occasions including a formal strategy review held with senior management in November. In addition to the formal meetings of the Board, the Chairman and Chief Executive maintain frequent contact with the other Directors to discuss any issues of concern they may have relating to the Group or as regards their area of responsibility and to keep them fully briefed on ongoing matters relating to the Group's operations.

Information flow Directors have access to a regular supply of financial, operational and strategic information to assist them in the discharge of their duties. Such information is provided as part of the normal management reporting cycle undertaken by senior management. Board papers are generally circulated seven days in advance of Board meetings. In addition, each Board meeting includes a review of the history, performance and future potential of an individual asset or business unit designed to ensure that all material assets are considered on a cyclical basis and to enable Board members to familiarise themselves with the key assets and operations of the Group.

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

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

Matters reserved and delegations A formal schedule of matters reserved for Board approval is in place and is reviewed annually. The matters reserved include: the Group's overall strategy, approval of annual and interim results, material acquisitions and disposals, material contracts and major capital expenditure projects and budgets. Subject to those reserved matters, the Board delegates authority for the management of the business primarily to the Chief Executive and a senior executive committee. Certain other matters are delegated to the Audit, Remuneration and Nominations Committees, each of which is described in more detail below.

Attendance at meetings The attendance of Directors at Board meetings and Committee members at Committee meetings during 2005 was as follows:

No. of Meetings	Board (10)	Audit (6)	Remuneration (6)	Nominations (3)
Pat Plunkett	10	–	6	3
Aidan Heavey	10	–	–	2
David Bamford	10	6	6	3
Rohan Courtney	10	6	6	3
Tom Hickey	9	–	–	–
Steven McTiernan	10	6	6	3
Graham Martin	9	–	–	–
Adrian Nel	10	–	–	–
Matthew O'Donoghue	10	–	–	–
Clare Spottiswoode	8	6	6	3

Performance evaluation In 2004, the Board conducted a detailed evaluation of its own performance and its Committees and of individual directors with the assistance of an independent facilitator. This review focused on such matters as Board composition and strategic capability, ongoing development, external and internal relationships, risk management, and conduct of Board and Committee meetings. In December 2005, the Board commissioned a follow-up to the evaluation conducted in 2004. Overall, it was concluded that the Board continues to operate in an effective manner and that there were no items arising from the follow-up review which, in the Board's view, gave rise to material concern. The Board is also satisfied that no individual or group of individuals dominates the Board's decision making. Certain matters for improvement were identified from the evaluation and these are being addressed. The Board intends to continue to conduct evaluations on an annual basis, although the scope and format may be varied as deemed appropriate.

The Chairman has had conversations with each of the directors on their individual performance. Separately, the non-executive Directors have reviewed the performance of the Chairman in his absence.

Induction Detailed training and briefing is provided to Directors on appointment, taking into account their individual background and experience. This includes a visit to the key offices of the Group to meet line management from each functional discipline and business unit. The Company Secretary also provides new Directors with an overview of their duties as Directors, corporate governance policies and established Board procedures as part of the induction process.

Continuing Professional Development All members of the Board have access to appropriate training in respect of their obligations and duties as Directors. During the year, briefings on particular subject matters were given, including corporate governance, the introduction of International Financial Reporting Standards and the new Listing and Disclosure Rules.

Committees

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

Audit Committee

This Committee currently comprises Rohan Courtney (Chairman), David Bamford, Steven McTiernan and Clare Spottiswoode.

Rohan Courtney and Steven McTiernan both have extensive banking and financial experience, whilst Clare Spottiswoode has had experience as a member of the audit committees of three other public companies. Based upon this, the Board is satisfied that, in aggregate, the Audit Committee members have the appropriate level of recent and relevant financial experience.

The main responsibilities of the Committee are:

- 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;
- Reviewing the company's whistle-blowing procedures;
- Making recommendations to the Board as to the appointment or re-appointment of the Group's external auditors; and
- Overseeing the selection of new auditors and overseeing the relationship with the external auditor.

The Group's auditors, Deloitte & Touche LLP, were re-appointed in 2004 following a tender process. The Committee monitors the level of audit and non-audit services provided by the Company's auditors. Non-audit services are normally limited to assignments that are closely related to the annual audit or where the work is of such a nature that a detailed understanding of the Group is necessary. A breakdown of the fees paid to the external auditors in respect of audit and non-audit work is included in note 3 of the accounts on page 52. In addition to processes put in place to ensure segregation of audit and non-audit roles, as part of the assurance process in relation to the audit, Deloitte are required to confirm to the Committee that they have both the appropriate independence and objectivity to allow them to continue to serve the members of the Company. No matters of concern were identified by the Committee.

The Chief Financial Officer and a representative 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 2005 the Audit Committee met on a total of six occasions. The key work undertaken by the Committee was as follows:-

Transition to IFRS

Tullow adopted IFRS with effect from 1 January 2004 (with the exception of IAS39 which was adopted with effect from 1 January 2005). The Committee was closely involved along with Group senior management and representatives from the external Auditors in the selection and approval of appropriate accounting policies and also in the review and approval of the 2004 IFRS results statement published on 23 August 2005. This exercise was undertaken to ensure that Tullow's IFRS accounting policies and disclosures, most notably in relation to Oil and Gas Interests (IFRS 6), Acquisition and Business Combinations (IAS 12) and Financial Derivatives (IAS 39) are appropriate to the nature of Tullow's business and its stage of development.

Review of Annual and Interim Results

The Committee held a number of meetings to review both the 2004 annual and the 2005 interim results, the latter representing Tullow's first IFRS Reports. During 2005, Tullow completed the Schooner and Ketch acquisition and also divested certain and UK and African oil and gas interests. Consequently, the Committee gave detailed consideration to the fair values attributed to the acquired assets and accounting for and disclosure of the relevant profit or loss on disposals.

Establishment of a Group Internal Audit Function

During 2005, the Committee approved the recruitment of a Group Internal Audit Manager with a view to establishing an internal audit function within Tullow. The Chairman of the Audit Committee assisted Executive Management in the recruitment process. The Internal Audit Manager, who has extensive oil industry experience will have direct access and responsibility to the Audit Committee.

Nominations Committee

The current members of the Nominations Committee, are Pat Plunkett (Chairman), Aidan Heavey, Rohan Courtney, Steven McTiernan, Clare Spottiswoode and David Bamford.

The main responsibilities of the Committee are:

- 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;
- 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 met three times in 2005, primarily to review board appointment and succession issues. Towards the end of the year the Committee drew up a specification and commenced the search for a new non-executive director. A firm of external search consultants was appointed to identify suitable candidates for this role. The Committee is expected to make a recommendation to the Board for the appointment of a new independent non-executive director in the near future.

Separately, in view of the impending retirement of Adrian Nel as Exploration Director, the Committee agreed in conjunction with senior management on the specification for a new senior exploration executive to assume responsibility for the Company's exploration activities upon Mr Nel's retirement. External search consultants were appointed for this appointment and, on the Committee's recommendation the Board, in February 2006, approved the appointment of Angus McCoss as General Manager Exploration. Mr McCoss will join Tullow in April 2006.

In March 2006, the Board endorsed the Committee's recommendation that Paul McDade, Chief Operating Officer be appointed to the Board.

Remuneration Committee

The Directors Remuneration Report on pages 35 to 41 contains details of the Remuneration Committee.

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. The Board receives regular investor relations reports covering key investor meetings and activities, as well as shareholder and investor feedback. The Group issues its results promptly to individual shareholders and also publishes them on the Investor Relations section of the Company's website. The Company's website address is www.tullowoil.com. Regular updates to record news in relation to the Company 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 e-mail by registering online on the website.

The Chairman is available to meet with institutional shareholders to discuss any issues and gain an understanding of any concerns in relation to the Company's governance and strategy. Non-executive Directors have the opportunity to attend meetings with major shareholders and are available to attend if requested to do so.

At the AGM, a business presentation is provided for shareholders' benefit and individual shareholders are given the opportunity to put questions to the Chairman, the chairmen of the principal Board 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 Ireland following the AGM, to allow these shareholders similar access to the directors. 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 abstentions, are made available after the vote has been dealt with on a show of hands.

Internal Controls

In September 1999, the Turnbull Guidance (Internal Control: Guidance for Directors on the Combined Code) was published.

The Directors acknowledge their responsibility for the Group's and the Company's systems of internal control, which are designed to safeguard the assets of the Group and to ensure the reliability of financial information for both internal use and external publication. The Group's internal control procedures require Board, technical and financial 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.

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 Directors, having reviewed the effectiveness of the system of internal financial, operational and compliance controls and risk management, consider that the system of internal control operated effectively throughout the financial year and up to the date on which the financial statements were signed.

During 2005, the Audit Committee (in conjunction with executive management) approved the establishment of an internal audit function for the first time and in March 2006 an internal audit manager was recruited to join Tullow. He reports to the Audit Committee and has responsibility for 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, will operate under a Charter approved by the Committee and will have regular access to the Committee without reference to executive management.

Going Concern

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

Directors' Report

year ended 31 December 2005

The Directors submit their Report together with the audited consolidated financial statements for the year ended 31 December 2005.

Business Review and Future Developments

The principal activities of the Company and its subsidiary undertakings (the 'Group') during the year continued to be oil & gas exploration and production and the provision of technical services to its joint venture partners. Information on the Company's principal subsidiary undertakings appears in Note 11 to the financial statements.

A full review of the Group's activities during the year, recent events and future developments in the Group's business is contained in the Chairman's Statement on pages 2 and 3, the Chief Executive's Review on pages 4 and 5, the Operations Review on pages 6 to 19 and the Finance Review on pages 22 to 25.

Results and Dividends

The profit on ordinary activities after taxation amounted to £113,136,000 (2004 restated – £31,335,000).

An interim dividend of 1.0p (2004: 0.5p) per share was paid on 9 November 2005. The Directors recommend a final dividend of 3.0p (2004: 1.25p) per share which, if approved at the 2006 AGM, will be paid on 7 June 2006 to shareholders whose names are on the Register of Members on 12 May 2006.

Subsequent Events

The Group has announced the results of a number of wells that have been completed after the balance sheet date. These are described in note 29 to the financial statements.

Directors

The Directors of the Company at the date of this report, and their biographical details including those for Paul McDade, Chief Operating Officer, whose appointment to the Board was made with effect from 29 March 2006, are given on page 27. Directors appointed by the Board are required to retire at the first AGM following their appointment and accordingly a resolution proposing Paul McDade's election will be proposed at the 2006 AGM.

In accordance with the Company's Articles of Association, Tom Hickey and Matthew O'Donoghue retire at this year's AGM. Being eligible, they offer themselves for re-election. In addition, as Rohan Courtney has been a Director for more than nine years he retires annually and a resolution for his re-election will be proposed at this year's AGM. Details of Directors' service contracts and letters of appointment are set out on page 38.

Details of the Directors' interests in the ordinary shares of the Company and in share options are set out on pages 39 to 41 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 1985, 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.

Share Capital

As at the date of this report 647,609,428 ordinary shares are issued and fully paid. Details of the changes in the share capital during 2005 are set out in Note 21 to the financial statements.

Substantial Shareholdings

At the date of this report the Company had been notified of the following interests of 3% or more in its issued share capital:

	Number of shares	% of issued capital
Merrill Lynch Investment Managers	92,459,104	14.27%
Prudential	65,127,864	10.05%
IFG International Trust Company Limited	44,785,366	6.91%
Columbia Wanger Asset Management	27,319,900	4.21%
Drew Finance Limited	21,331,401	3.29%
Legal & General Group	19,917,612	3.07%
Standard Life Group	19,500,692	3.01%

Charitable and Political Donations

An outline of the Group's involvement in the community appears in the Corporate Social Responsibility Statement on pages 20 and 21. In line with Group policy, no donations were made for political purposes.

Corporate Responsibility

The Group is fully committed to high standards of environment, health and safety management. A review is set out on pages 20 and 21. In addition, during 2006 Tullow has also published a separate Corporate Social Responsibility Statement 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 2005.

Auditors

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

Annual General Meeting

Your attention is drawn to the Notice of Meeting enclosed with this Annual Report which sets out the resolutions to be proposed at the forthcoming AGM. The meeting will be held at Haberdashers Hall, 18 West Smithfield, London EC1 on 31 May 2006 at 12 noon.

By order of the Board

Tom Hickey
Company Secretary
28 March 2006

Directors' Remuneration Report

year ended 31 December 2005

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 Remuneration Report and to state whether, in their opinion, that 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.

A resolution to approve the entire report will be proposed at the AGM of the Company.

Unaudited Information

Remuneration Committee

The members of the Remuneration Committee are Pat Plunkett (Chairman), David Bamford, Rohan Courtney, Steven McTiernan and Clare Spottiswoode. 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, Executive Directors and senior executives;
- Approving the design of, and determining targets for, an annual performance-related pay scheme for the Executive Directors and senior executives;
- Reviewing the design of share incentive plans for approval by the Board and shareholders and determining the annual award policy to Executive Directors and senior executives under existing plans; and
- Within the terms of the agreed policy, determining the remainder of the remuneration packages (principally comprising salary and pension) for each Executive Director and senior executive.

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

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

Remuneration Policy

The 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, benefits, pension payments and participation in the Company's share based incentive arrangements. A significant element of the potential remuneration package is performance-linked.

When determining the total remuneration of the Executive Directors and senior management, the Committee takes into account the remuneration practices adopted both by Oil & Gas companies and in the market generally (while also having regard to pay practices elsewhere in the Group).

A thorough review of the remuneration policy was undertaken by the Committee in 2005. This resulted in a new incentive structure being introduced from 2005 including a revised annual bonus plan and, following approval by shareholders at the 2005 AGM, new long term share incentive arrangements for Executive Directors and senior management. The top ten institutional shareholders were consulted on the proposals, as were the Association of British Insurers and the National Association of Pension Funds.

Executive Directors' Remuneration

Base salary

The base salaries of the Executive Directors are reviewed annually with regard given to personal performance, Company performance, changes in responsibilities and competitive market practices. Following the most recent review, the base salary of each Executive Director with effect from January 2006 is:

Aidan Heavey	£510,000
Tom Hickey	£325,000
Graham Martin	£300,000
Matthew O'Donoghue	£250,000
Adrian Nel	£275,000
Paul McDade*	£275,000

* Appointment to the Board effective 29 March 2006

When making the most recent base salary increases, the Committee took account of remuneration practices in both oil & gas companies of a similar size and of a group of FTSE 250 companies with a median market capitalisation somewhat less than that of the Company whilst also taking into account the excellent performance of the Company over the last few years and the contribution of the Directors towards that success. The Committee's aim when setting base salaries was to ensure that the aggregate value of the fixed remuneration of each Executive Director (i.e. the aggregate of base salary, benefits and pension payments) was broadly based around the market median.

Annual bonus

Each Executive Director is entitled to participate in the Executive Annual Bonus Scheme in respect of each financial year of the Company. As previously mentioned, the Executive Annual Bonus Scheme was restructured as part of the overall changes to the incentive structure with effect from 2005.

Under the revised Scheme, target performance will trigger a bonus of up to 40% of salary for all Executive Directors. For exceptional performance Executive Directors will be able to earn a bonus of up to 100% of salary.

For 2005 the bonus arrangements for Aidan Heavey, Tom Hickey and Graham Martin were structured as follows:

- Up to 33.33% of salary could be earned subject to the achievement of relative Total Shareholder Return (TSR) performance targets against a comparator group, with upper quartile performance required for this part of the bonus to be earned in full.
- A further 33.33% of salary could be earned for the achievement of absolute TSR targets, with a 15% improvement in TSR objective required for this part of the bonus to be earned in full.
- The final 33.34% of salary could be earned based on how the Committee considered that the Company had performed over the year as against certain Company key specific performance indicators (such as production performance, reserve replacement, exploration success, health & safety and overall financial stability).

The bonus arrangements of Matthew O'Donoghue and Adrian Nel were structured as follows:

- 25% of salary could be earned based on how the Committee considered that the Company had performed over the year as against the key performance indicators noted above.
- 75% of salary could be earned based upon the achievement of individual financial and non-financial targets relating to their specific discipline or field of responsibility, with this element of the bonus only payable in full for exceptional performance against these targets.

Based upon performance in 2005 against the targets explained above, and in particular reflecting the Company's excellent performance in the year, Aidan Heavey, Tom Hickey and Graham Martin received bonus amounts for 2005 equating to 77% of base salary. In the cases of Matt O'Donoghue and Adrian Nel, where a greater proportion of bonus entitlement relates to individual targets, the Committee determined their respective bonus awards for 2005 as 80% and 55% of salary respectively.

To align the interests of Executive Directors and shareholders, the portion of any bonus amount above 60% of base salary is required to be deferred into shares under the terms of the related Deferred Share Bonus Plan adopted by the Board in 2005. The first awards under this Plan in respect of the bonus award for 2005 will be made in the period following the announcement of the Company's 2005 results on 29 March 2006. Shares awarded under this Plan will normally vest following the end of the period of three financial years commencing with that in which the award is granted.

For 2006, the bonus arrangements for Aidan Heavey, Tom Hickey and Graham Martin remain structured as in 2005 although the specific key performance indicators referred to above have been slightly modified. For Matthew O'Donoghue and Paul McDade, the maximum percentage of salary that can be earned for each of the two measures (i.e. key performance indicators and individual achievement) have been adjusted to 50% each. As Adrian Nel is retiring at the conclusion of the Annual General Meeting on 31 May 2006 he will not be participating in the Scheme for 2006.

Pension and other benefits

The Executive Directors do not participate in the Company pension plan. Each Executive Director is entitled to receive a payment of 10% of his base salary into his private pension scheme which increases to 15% at age 50, as well as 30 days annual leave, permanent health insurance, private medical insurance and life assurance benefits. Aidan Heavey is provided with a car. 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 Plans

As mentioned above, as part of its overall review of remuneration policy, the Committee reviewed the structure of the Company's long-term incentive arrangements for senior executives and, in June 2005, shareholders approved the adoption of the Tullow Oil 2005 Performance Share Plan (the "PSP").

Under the PSP, senior executives can be granted conditional awards of rights over whole shares worth up to 150% of salary each year (200% in exceptional circumstances). Awards will vest under the PSP subject to a TSR based performance condition under which the Company's TSR performance will be measured over a fixed three year period (i.e. with no opportunity to re-test). Half of the award is subject to performance against the constituents of the FTSE 250 Index excluding Investment Trusts (as at the start of the performance period) and the other half is subject to performance against a comparator group of international Oil & Gas companies. The Oil & Gas comparator group for awards made under the PSP in 2005 consisted of twelve companies. To recognise that two companies in the 2005 Oil & Gas comparator group ceased to be separately listed entities during the year, the Committee has reviewed and expanded the composition of the group to fifteen companies for awards to be made in 2006 as follows:

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

*New companies added for 2006

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 will be as follows:

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

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

The Committee believes that this 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.

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 (after selling sufficient shares to pay tax liabilities) until they have built up a shareholding worth at least 100% of base salary (with existing holdings taken into account).

Before the introduction of the PSP, 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 other than those senior executives who were granted awards under the PSP. The performance conditions applying to options granted under the 2000 Scheme since May 2005 no longer contain any "re-testing" facility.

Executive Directors may also participate, on the same terms as other employees, in the Tullow Oil UK and Irish Share Incentive Plans, which were launched at the beginning of 2004. These are all-employee plans that have been set up in both the UK and Ireland which enable employees to make contributions out of salary up to prescribed limits each month, which each quarter are used by the Plan trustees to acquire Tullow Oil shares ('Partnership shares'). The Company makes a matching contribution to the trustees to acquire a matching number of shares ('Matching shares') on a one-for-one basis.

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 the persons with the necessary experience and ability to make a significant contribution to the Company's activities, while also reflecting the time commitment and responsibility of the role. Each non-executive Director currently receives an annual fee of £40,000 and, other than the Chairman of the Company, an allowance of £7,000 for acting as Chairman of any committee. Each non-executive Director is also entitled to reimbursement of necessary travel and other expenses.

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

A Committee of the Board comprising all the directors (except the Chairman), sets the remuneration of the Chairman, whose annual fee is currently £125,000.

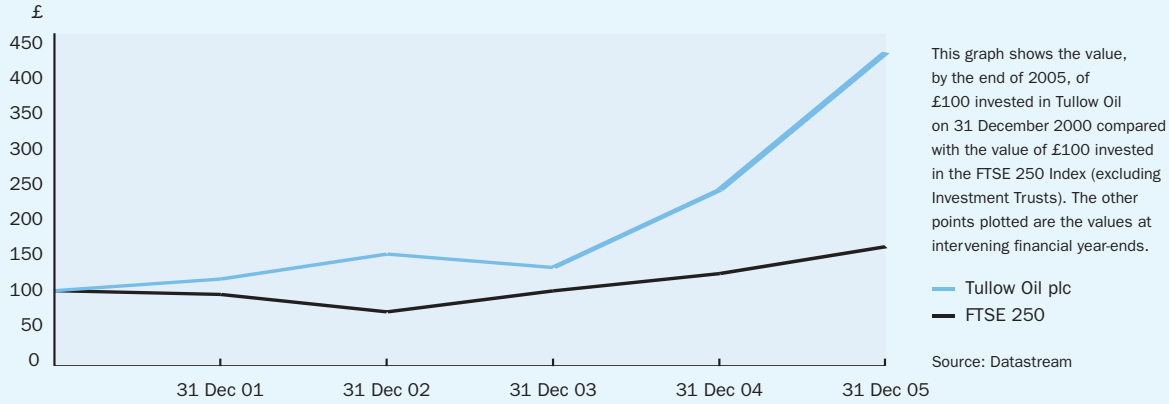
Performance Graph

The Directors Remuneration Report Regulations 2002 require the presentation of a graph of TSR compared to an appropriate comparator index over a five-year period. For Tullow, TSR is primarily represented by share price performance as, up to November 2003, no dividends had been declared or paid. Tullow has been a member of the FTSE 250 Index (excluding Investment Trusts) since September 2001 and, as this index is also used as a comparator for certain share plans, the Directors believe it represents the most appropriate benchmark.

Directors' Remuneration Report

continued

Total Shareholder Return



The graph above shows Tullow's TSR over the five-year period from 1 January 2001 to 31 December 2005. The relevant indices are set to 100 at the beginning of the period.

Service Contracts and Letters of Appointment

Each of the Executive Directors, (other than Adrian Nel) entered into a service agreement with the Company on 2 September 2002. Each service agreement is on similar terms. Aidan Heavey and Matthew O'Donoghue also entered into a service agreement with Tullow Oil International Limited on 16 September 2002 on similar terms to their service agreements with the Company. Adrian Nel, who is retiring at the conclusion of the Annual General Meeting on 31 May 2006, entered into a service agreement with the Company on 21 April 2005 (effective from 13 September 2004) on similar terms to the other Executive Directors. Paul McDade will enter into a service agreement on similar terms to the other executive directors.

The terms of each of these service contracts is not fixed, although each Executive Director is required under his service agreement to retire from service upon attaining the age of 65. Each agreement is terminable by the Director on six months' notice and by the Company on twelve 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 termination of his employment.

The above reflects the Committee's policy that service contracts should be structured to reflect the interests of the Company and the individuals concerned, while also reflecting market and best practice. Furthermore, it is also 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.

Each of the non-executive Directors is engaged by the Company under the terms of a letter of appointment (dated 8 December 2005 in the case of Pat Plunkett and Rohan Courtney; dated 17 June 2004 in the case of David Bamford and dated 28 February 2005 in the case of Clare Spottiswoode and Steven McTiernan). Subject to retirement, for example by rotation under the Articles of Association, the appointments are for the period to 31 December 2008 in respect of Pat Plunkett and Rohan Courtney, to 7 July 2007 in the case of David Bamford and to 29 February 2008 in the case of Clare Spottiswoode and Steven McTiernan. In each case, the appointment is renewable thereafter if agreed by the Director and the Board. The appointments for Pat Plunkett, Rohan Courtney, Clare Spottiswoode and Steven McTiernan may be terminated by either party on three months notice. There are no notice provisions for David Bamford. 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 external directorships is Tom Hickey. Tom has been nominated by Tullow as its representative on the board of Ikon Science Limited, a company in which Tullow has a small equity stake. Any fees payable for his services have been waived by Tullow. In addition, on 21 November 2005, Tom was appointed as a non-executive director of Petroneft Resources Plc for which he receives an annual fee of €20,000.

Audited Information

Directors' Remuneration

The remuneration of the Directors for the year ended 31 December 2005 payable by Group companies was as follows:

	Salary/ Fees £	Bonuses Cash £	Bonuses Shares[1] £	Pension £	Taxable Benefits £	**2005 Total £**	2004 Total £
Executive Directors							
Aidan Heavey	426,000	255,600	73,144	63,900	37,186	**855,830**	872,806
Tom Hickey	262,000	157,200	44,985	26,200	695	**491,080**	504,522
Graham Martin	262,000	157,200	44,985	39,300	2,876	**506,361**	556,259
Matthew O'Donoghue	231,000	138,600	45,923	34,650	2,068	**452,241**	337,942
Adrian Nel[2]	231,000	126,773	–	34,650	539	**392,962**	147,278
Subtotal	1,412,000	835,373	209,037	198,700	43,364	**2,698,474**	2,418,807
Non-Executive Directors							
Pat Plunkett	110,000	–	–	–	–	**110,000**	90,000
Rohan Courtney	41,000	–	–	–	–	**41,000**	36,000
Clare Spottiswoode	35,000	–	–	–	–	**35,000**	30,000
Steven McTiernan	35,000	–	–	–	–	**35,000**	30,000
David Bamford[3]	35,000	–	–	–	–	**35,000**	14,429
Subtotal	256,000	–	–	–	–	**256,000**	200,429
Total	1,668,000	835,373	209,037	198,700	43,364	**2,954,474**	2,619,236

Notes:

1 These figures represent that part of the bonus required to be deferred into shares as explained on page 36.

2 Adrian Nel was appointed on 13 September 2004.

3 David Bamford was appointed on 8 July 2004.

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 2005 were:

Ordinary 10p Shares	Shares 31 December 2005	Shares 1 January 2005
Aidan Heavey	6,000,000	6,000,000
Tom Hickey	100,000	100,000
Graham Martin	436,005	436,005
Adrian Nel	–	–
Matthew O'Donoghue	1,590,857	1,590,857
Pat Plunkett	1,229,326	1,229,326
Rohan Courtney	–	–
David Bamford	9,588	4,004
Steven McTiernan	–	–
Clare Spottiswoode	–	–

Note:

Other than as set out in the table below there have been no other changes in the interests of any Director between 1 January 2006 and the date of this report.

Directors' Remuneration Report

continued

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

Details of shares purchased and awarded to Executive Directors in accordance with the terms of the Irish SIP and the UK SIP. A brief description of the SIPs is set out on page 37.

Director	Plan	Shares held 1 Jan 2005	Partnership shares acquired in year	Matching shares awarded in year	Shares held 31 Dec 2005	Shares held 28 March 2006
Tom Hickey	Irish SIP	3,120	950	950	5,020	5,020
Graham Martin	UK SIP	2,348	917	917	4,182	4,470

Note: Graham Martin acquired 144 Partnership shares and was awarded 144 Matching shares on 3 January 2006.

Performance Share Plan 2005 ('PSP')

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

	Date Granted	As at 01.01.05	Granted in year	Vested in year	As at 31.12,05	Vesting Date
Aidan Heavey	29.06.05	–	347,755	–	347,755	29.06.08
Tom Hickey	29.06.05	–	213,877	–	213,877	29.06.08
Graham Martin	29.06.05	–	213,877	–	213,877	29.06.08
Matthew O'Donoghue	29.06.05	–	188,571	–	188,571	29.06.08
Adrian Nel	29.06.05	–	188,571	–	188,571	29.06.08

Notes:

1 The share price on the date of grant of the conditional award of shares made in 2005 under the PSP was 187.5p. The award equated to shares worth 150% of salary for each Executive Director based on the average share price for the 5 dealing days preceding the date of grant.

2 Under the PSP, 50% of awards are subject to a TSR condition compared to the constituents of the FTSE 250 Index (excluding Investment Trusts) and the other 50% of the award is subject to a TSR condition compared to a specific comparator group. Full details are set out on pages 36 and 37.

Share Options

Details of share options granted to Directors

	Scheme	Grant Date	As at 01.01.05	Granted during year	Exercised during year	As at 31.12.05	Exercise Price	Date from which Exercisable	Last Date Exercisable
Aidan Heavey	1998	30.04.99	1,230,230	–	–	1,230,230	€0.84	30.04.02	29.04.09
	2000	10.10.01	550,000	–	–	550,000	80p	10.10.04	09.10.11
	2000	06.10.03	600,000	–	–	600,000	85p	06.10.06	05.10.13
	2000	20.09.04	450,000	–	–	450,000	131p	20.09.07	19.09.14
			2,830,230	–	–	2,830,230			
Tom Hickey	2000	02.05.00	220,000	–	–	220,000	61p	02.05.03	01.05.10
	2000	10.10.01	450,000	–	–	450,000	80p	10.10.04	09.10.11
	2000	06.10.03	290,000	–	–	290,000	85p	06.10.06	05.10.13
	2000	20.09.04	350,000	–	–	350,000	131p	20.09.07	19.09.14
			1,310,000	–	–	1,310,000			
Graham Martin	1988	13.11.96	916,000	–	–	916,000	€0.91	13.11.99	12.11.06
	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
			2,874,426	–	–	2,874,426			
Adrian Nel	2000	28.05.04	205,000	–	–	205,000	103p	28.05.07	27.05.14
Matthew	1988	11.04.96	490,360	–	–	490,360	€1.00	11.04.99	10.04.06
O'Donoghue	1988	05.07.96	98,072	–	–	98,072	€0.99	05.07.99	04.07.06
	1998	30.04.99	699,958	–	–	699,958	€0.84	30.04.02	29.04.09
	2000	10.10.01	250,000	–	–	250,000	80p	10.10.04	09.10.11
	2000	06.10.03	330,000	–	–	330,000	85p	06.10.06	05.10.13
			1,868,390	–	–	1,868,390			
Pat Plunkett	1998[1]	04.09.00	200,000	–	–	200,000	63p	24.08.01	03.09.10
Total			9,288,046	–	–	9,288,046			

Notes:

1 The Schemes under which these options were granted are:
- 1988 – Options granted under the Tullow Oil 1988 Executive Share Option Scheme ("1988 Scheme")
- 1998 – Options granted under the Tullow Oil 1998 Executive Share Option Scheme ("1998 Scheme")
- 2000 – Options granted under the Tullow Oil 2000 Executive Share Option Scheme ("2000 Scheme")
- 1998[1] – Options granted pursuant to consultancy arrangements entered into with Tullow Oil Limited, the Company's wholly owned Irish subsidiary exercisable on similar terms and conditions as 1998 Scheme options

2 No performance conditions attach to 1988 Scheme Options or 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 a three year period during the option's life.

3 Options shown with an exercise price denominated in Euro were granted on or before 30 April 1999 with an exercise price in IR£. On conversion of IR£ to Euro effective 1 January 2002, the exercise price for each such option was converted from IR£ into Euro by dividing the original IR£ exercise price per share by the fixed Irish Pound/Euro conversion rate. All options granted after 30 April 1999 were granted with an exercise price denominated in sterling. Options are granted for nil consideration. Options must be exercised in the currency in which the grants were made.

4 During 2005, the highest mid market price of the Company's shares was 275.75p and the lowest was 152.25p. The year-end price was 270p.

Pat Plunkett
Chairman of the Remuneration Committee
28 March 2006

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements. The Directors have chosen to prepare accounts for the Group in accordance with International Financial Reporting Standards (IFRS) and for the Company in accordance with United Kingdom Generally Accepted Accounting Practice.

In the case of UK GAAP accounts, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In the case of IFRS accounts, 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.

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;
- provide additional disclosures when compliance with the specific requirements in International Financial Reporting Standards 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; and
- prepare the accounts on a going concern basis unless, having assessed the ability of the Group to continue as a going concern, management either intends to liquidate the entity or to cease trading, or have no realistic alternative but to do so.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and Company, for safeguarding the assets, for taking reasonable steps for the prevention and detection of fraud and other irregularities and for the preparation of a Directors' Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 1985.

Approved by the Board on 28 March 2006

Aidan Heavey
Chief Executive Officer

Tom Hickey
Chief Financial Officer

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 2005 which comprise the Group Income Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Recognised Income and Expenses and the related notes 1 to 31. 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 individual Company financial statements of Tullow Oil plc for the year ended 31 December 2005.

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 for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements and the part of the Directors' Remuneration Report described as having been audited in accordance with relevant United Kingdom 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 in accordance with the relevant financial reporting framework and whether the Group financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We report to you if, in our opinion, the Directors' Report is not consistent with the Group financial statements. We also report to you if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' transactions with the Company and other members of the Group is not disclosed.

We also report to you if, in our opinion, the Company has not complied with any of the four Directors' remuneration disclosure requirements specified for our review by the Listing Rules of the Financial Services Authority. These comprise the amount of each element in the remuneration package and information on share options, details of long term incentive schemes, and money purchase and defined benefit schemes. We give a statement, to the extent possible, of details of any non-compliance.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC 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 statement on internal control covers 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 Directors' Report and the other information contained in the Annual Report for the above year as described in the contents section including the unaudited part of the Directors' Remuneration Report and we consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements.

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 described as having been 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 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 Group financial statements and the part of the Directors' Remuneration Report described as having been 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 described as having been audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended; and
- the Group financial statements and the part of the Directors' Remuneration Report described as having been audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRS

As explained in note 31 of the Group financial statements, the Group, in addition to complying with its legal obligation to comply with IFRS as adopted for use in the European Union, has also complied with the IFRS as issued by the International Accounting Standards Board. Accordingly, in our opinion the financial statements give a true and fair view, in accordance with IFRS, of the state of the Group's affairs as at 31 December 2005 and of its profit for the year then ended.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
28 March 2006

Group Income Statement

year ended 31 December 2005

	Notes	2005 £'000	2004 Restated[1] £'000
Sales Revenue	2	**445,232**	225,256
Cost of Sales		**(243,149)**	(141,228)
Gross Profit		**202,083**	84,028
Administrative Expenses		**(13,793)**	(11,573)
Disposal of Subsidiaries	24	**30,537**	–
Profit on Sale of Oil and Gas Assets		**5,524**	2,292
Exploration Costs Written Off	9	**(25,783)**	(17,961)
Operating Profit	3	**198,568**	56,786
Loss on Hedging Instruments	17	**(159)**	–
Finance Revenue	2	**4,367**	3,458
Finance Costs	5	**(24,197)**	(13,449)
Profit from Continuing Activities Before Tax		**178,579**	46,795
Income Tax Expense	6	**(65,443)**	(15,460)
Profit for the Year from Continuing Activities		**113,136**	31,335
Earnings per Ordinary Share	8	**Stg p**	Stg p
– Basic		**17.50**	5.88
– Diluted		**17.15**	5.81

1 Restated for the effect of adopting IFRS (see note 31).

Group Statement of Recognised Income and Expense

year ended 31 December 2005

	2005 £'000	2004 Restated[1] £'000
Profit for the Financial Year	**113,136**	31,335
Currency Translation Adjustments	**32,447**	(19,338)
Hedge Movement	**(120,449)**	–
Total Recognised Income and Expense for the Year	**25,134**	11,997

1 Restated for the effect of adopting IFRS (see note 31).

Group Balance Sheet

as at 31 December 2005

	Notes	2005 £'000	2004 Restated[1] £'000
ASSETS			
Non-Current Assets			
Intangible Exploration and Evaluation Assets	9	**160,543**	103,944
Property, Plant and Equipment	10	**736,563**	545,527
Investments	11	**496**	496
		897,602	649,967
Current Assets			
Inventories	12	**5,141**	3,392
Trade Receivables		**66,441**	37,156
Other Current Assets	13	**26,851**	17,051
Cash and Cash Equivalents	14	**65,386**	85,070
		163,819	142,669
Total Assets		**1,061,421**	792,636
LIABILITIES			
Current Liabilities			
Trade and Other Payables	15	**(139,415)**	(102,614)
Other Financial Liabilities	16	**–**	(5,302)
Income Tax Payable		**(25,038)**	(13,359)
Derivative Financial Instruments	17	**(70,639)**	–
		(235,092)	(121,275)
Non-Current Liabilities			
Trade and Other Payables	15	**(19,118)**	(13,014)
Other Financial Liabilities	16	**(198,372)**	(143,398)
Deferred Tax Liabilities	19	**(51,473)**	(68,803)
Provisions	19	**(91,139)**	(70,679)
Derivative Financial Instruments	17	**(77,208)**	–
		(437,310)	(295,894)
Total Liabilities		**(672,402)**	(417,169)
Net Assets		**389,019**	375,467
EQUITY			
Equity Attributable to Equity Holders of the Parent			
Called Up Share Capital	21	**64,744**	64,537
Share Premium	21	**123,019**	121,656
Other Reserves	22	**60,589**	148,591
Retained Earnings	20	**140,667**	40,683
Total Equity		**389,019**	375,467

1 Restated for the effect of adopting IFRS (see note 31).

Approved by the Board on 28 March 2006

Aidan Heavey
Chief Executive Officer

Tom Hickey
Chief Financial Officer

Group Cash Flow Statement

year ended 31 December 2005

	Notes	2005 £'000	2004 Restated[1] £'000
Cash Flows from Operating Activities			
Cash Generated from Operations	23	**273,840**	154,307
Income Taxes Paid		**(25,360)**	(14,497)
Net Cash from Operating Activities		**248,480**	139,810
Cash Flows from Investing Activities			
Acquisition of Subsidiary, Energy Africa, net of Cash Acquired		**–**	(166,055)
Disposal of Subsidiaries	24	**57,227**	–
Disposal of Oil and Gas Assets		**31,769**	4,730
Purchase of Intangible Exploration and Evaluation Assets		**(69,766)**	(23,912)
Purchase of Property, Plant and Equipment		**(298,320)**	(71,193)
Interest Received		**4,359**	3,436
Net Cash used in Investing Activities		**(274,731)**	(252,994)
Cash Flows from Financing Activities			
Net Proceeds from Issue of Share Capital		**1,570**	120,913
Debt Arrangement Fees		**(10,481)**	(3,050)
Repayment of Bank Loans		**(351,637)**	(67,261)
Drawdown of Bank Loan		**390,515**	98,620
Interest Paid		**(21,483)**	(9,494)
Dividends Paid		**(14,555)**	(6,995)
Net Cash used in Financing Activities		**(6,071)**	132,733
Net (Decrease)/Increase in Cash and Cash Equivalents		**(32,322)**	19,549
Cash and Cash Equivalents at Beginning of Period		**85,070**	65,631
Translation Difference		**12,638**	(110)
Cash and Cash Equivalents at End of Period	14	**65,386**	85,070

1 Restated for the effect of adopting IFRS (see note 31).

Accounting Policies

year ended 31 December 2005

(a) Basis of Preparation

This is the first year in which the Group has prepared its financial statements under International Financial Reporting Standards (IFRS) and the comparatives have been restated from UK Generally Accepted Accounting Practice (UK GAAP) to comply with IFRS. The Group issued a press release in August 2005 incorporating its preliminary IFRS financial statements for 2004, which are unchanged in these financial statements, and the reconciliations to IFRS from the previously published UK GAAP financial statements are summarised in note 31.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2005. The financial information has been prepared under the historical cost convention and using accounting policies consistent with IFRS.

(b) Basis of Consolidation

The consolidated financial statements consist of the financial statements of the Company and all its subsidiary undertakings. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue and results of subsidiary undertakings are consolidated in the Group Income Statement from the dates on which control over the operating and financial decisions is obtained.

Acquisitions

On an acquisition that qualifies as a business combination, the assets and liabilities of a subsidiary are measured at their fair value as at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the Income Statement in the period of acquisition.

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 consolidated Balance Sheet.

(c) Sales 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.

(d) 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 is accounted for at the lower of cost and net realisable value.

(e) Foreign Currencies

The Pound Sterling is the presentation currency of the Group. Financial statements of foreign currency denominated subsidiaries are translated into Sterling whereby the results of the overseas operations are generally translated at the average rate of exchange for the year and their balance sheets at rates of exchange ruling at the Balance Sheet date. 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 long-term foreign currency borrowings, which are a hedge against the Group's overseas investments, are dealt with in reserves.

(f) 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 exploration and development activities. Pre-licence costs are expensed in the period in which they are incurred.

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

Accounting Policies

continued

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.

(g) 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% 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% statistical probability that it will be less.

(h) 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, 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. 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.

(i) 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.

(j) Property, Plant and Equipment

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

(k) 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.

(l) Share Issue Expenses and Share Premium Account

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

(m) 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 taxation 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.

(n) Pensions

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

(o) 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 designed.

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.

(p) 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.

(q) Share Based Payments

The Company 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.

Notes to the Financial Statements

year ended 31 December 2005

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 operates within four geographical markets, the UK, Gabon, Rest of Africa and Asia.

The following tables present revenue, profit and certain asset and liability information regarding the Group's business segments for the years ended 31 December 2005 and 2004.

	UK £'000	Gabon £'000	Rest of Africa £'000	Asia £'000	Unallocated £'000	Total £'000
2005						
Sales Revenue by Origin	**179,501**	**136,906**	**128,033**	**792**	**–**	**445,232**
Segment Result	**54,066**	**74,482**	**50,946**	**(3,194)**	**–**	**176,300**
Disposal of Subsidiary						**30,537**
Profit on Sale of Oil and Gas Assets						**5,524**
Unallocated Corporate Expenses						**(13,793)**
Operating Profit						**198,568**
Loss on Hedging Instruments						**(159)**
Finance Revenue						**4,367**
Finance Costs						**(24,197)**
Profit before Tax						**178,579**
Income Tax Expense						**(65,443)**
Profit After Tax						**113,136**
Total Assets	**429,928**	**140,966**	**444,557**	**40,630**	**5,340**	**1,061,421**
Total Liabilities	**(146,788)**	**(52,412)**	**(183,217)**	**(10,142)**	**(279,843)**	**(672,402)**
Other Segment Information						
Capital Expenditure:						
Property, Plant and Equipment	**262,743**	**14,782**	**89,186**	**1,417**	**3,701**	**371,829**
Intangible Fixed Assets	**38,862**	**6,608**	**28,700**	**3,910**	**–**	**78,080**
Depletion, Depreciation and Amortisation	**(56,716)**	**(19,378)**	**(40,380)**	**(2,238)**	**(985)**	**(119,697)**

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.

	UK £'000	Gabon £'000	Rest of Africa £'000	Asia £'000	Unallocated £'000	Total £'000
2004						
Sales Revenue by Origin	116,322	50,762	56,746	1,426	–	225,256
Segment Result	24,946	36,326	11,239	(6,444)	–	66,067
Profit on Sale of Oil and Gas Assets						2,292
Unallocated Corporate Expenses						(11,573)
Operating Profit						56,786
Finance Revenue						3,458
Finance Costs						(13,449)
Profit before Tax						46,795
Income Tax Expense						(15,460)
Profit After Tax						31,335
Total Assets	250,928	127,238	366,902	31,603	15,965	792,636
Total Liabilities	(100,933)	(21,639)	(50,168)	(8,767)	(235,662)	(417,169)
Other Segment Information						
Capital Expenditure:						
Property, Plant and Equipment	85,612	98,495	299,792	231	1,414	485,544
Intangible Fixed Assets	15,394	7,415	66,877	5,872	–	95,558
Depletion, Depreciation and Amortisation	(38,387)	(21,926)	(16,010)	(4,127)	(647)	(81,097)

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. Revenue

	2005 £'000	2004 £'000
Sales Revenue		
Oil and Gas Revenue from the Sale of Goods	**430,542**	215,815
Tariff Income	**14,690**	9,441
Total Operating Revenue	**445,232**	225,256
Finance Revenue	**4,367**	3,458
Total Revenue	**449,599**	228,714

Notes to the Financial Statements

continued

Note 3. Operating profit

	2005 £'000	2004 £'000
Profit from operations is stated after charging/(crediting):		
Staff Costs (see Note 4 below)	**16,001**	12,200
Depletion and Amortisation	**118,712**	80,450
Depreciation of Other Fixed Assets	**985**	647
Operating Lease Rentals for Land and Buildings	**1,465**	1,065
Other Operating Lease Rentals	**–**	133
Net Foreign Exchange Gains	**(1,220)**	(432)
Auditors' Remuneration (see below)	**585**	780

	2005 £'000	2004 £'000
Audit services:		
Statutory Audit	**350**	295
Audit Related Regulatory Reporting	**–**	329
IFRS Opening Balance Sheet and Related Audit Work	**160**	–
	510	624
Tax Services:		
Compliance Services	**27**	46
Advisory Services	**5**	71
	32	117
Other Non Audit Services:		
Internal Audit	**13**	11
Other Services not Covered Above	**30**	28
	43	39
Total	**585**	780

Note 4. Staff Costs

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

	2005 Number	2004 Number
Administration	**104**	74
Technical	**70**	73
Total	**174**	147

Staff Costs in respect of those employees was as follows:

	2005 £'000	2004 £'000
Salaries	**14,448**	10,951
Social Security Costs	**821**	730
Pension Costs	**732**	519
	16,001	12,200

Note 4. Staff Costs (continued)

A proportion of the Group's staff costs shown above are recharged to the 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 wages and salaries is an expense in respect of share based payments of £1,403,000 (2004: £556,000).

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

	2005 £'000	2004 £'000
Interest on Bank Overdrafts and Loans	**18,118**	9,018
Interest on Obligations under Finance Leases	**444**	489
Total Borrowing Costs	**18,562**	9,507
Less Amounts Included in the Cost of Qualifying Assets	**(5,140)**	(1,755)
	13,422	7,752
Finance and Arrangement Fees	**5,610**	1,982
Unwinding of Discount on Decommissioning Provision (Note 19)	**5,157**	3,653
Amounts Payable in Respect of Interest Rate Swaps	**8**	62
	24,197	13,449

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 5.44% (2004: 3.83%) to cumulative expenditure on such assets.

Note 6. Taxation on Profit on Ordinary Activities

a) Analysis of charge in period

The tax charge comprises:

	2005 £'000	2004 £'000
Current Tax		
UK Corporation Tax	**2,843**	3,465
Foreign Taxation	**26,173**	6,398
Total Corporate Tax	**29,016**	9,863
UK Petroleum Revenue Tax (PRT)	**9,319**	5,918
Total Current Tax	**38,335**	15,781
Deferred Tax		
UK Corporation Tax	**16,002**	3,104
Foreign Taxation	**11,496**	(2,975)
Total Corporate Tax	**27,498**	129
UK Petroleum Revenue Tax	**(390)**	(450)
Total Deferred Tax (Note 19)	**27,108**	(321)
Total Tax Charge	**65,443**	15,460

Note 6. Taxation on Profit on Ordinary Activities (continued)

b) Factors affecting tax charge for period

The difference between the total current tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax (30%) plus the rate of the supplementary charge in respect of UK upstream profits (SCT) (10%) to the profit before tax is as follows.

The Group earns a significant portion of its profits in the UK. Therefore the tax rates applied to profit on ordinary activities in preparing the reconciliation below is the standard rate of UK corporation tax plus the rate of SCT.

	2005 £'000	2004 £'000
Group Profit on Ordinary Activities before Tax	**178,579**	46,795
Tax on Profit at a Combined Standard UK Corporation Tax and SCT Rate of 40% (2003: 40%)	**71,432**	18,718
Effects of:		
Expenses not Deductible for Tax Purposes	**1,176**	1,423
Utilisation of Tax Losses not Previously Recognised	**(589)**	(4,832)
Net Losses not Recognised	**41,087**	8,393
PRT	**8,929**	5,468
UK Corporation Tax Deductions for Current PRT	**(3,728)**	(1,665)
Adjustments Relating to Prior Years	**354**	(2,340)
Income Taxed at a Different Rate	**(53,218)**	(9,705)
Group Total Tax Charge for the Year	**65,443**	15,460

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 £130 million (2004: £89.1 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

	2005 £'000	2004 £'000
Declared and Paid during Year		
Final Dividend for 2004: Stg1.25p (2003: Stg1p) per Ordinary Share	**8,083**	3,782
Interim Dividend for 2005: Stg1p (2004: Stg0.5p) per Ordinary Share	**6,472**	3,213
Dividends Paid	**14,555**	6,995
Proposed for Approval by Shareholders at the AGM		
Final Dividend for 2005: Stg 3p (2004: Stg1.25p)	**19,423**	8,083

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.

	2005 £'000	2004 £'000
Earnings		
Net Profit Attributable to Equity Shareholders	**113,136**	31,335
Effect of Dilutive Potential Ordinary Shares	**–**	–
Diluted Net Profit Attributable to Equity Shareholders	**113,136**	31,335

	2005	2004
Number of Shares		
Basic Weighted Average Number of Shares	**646,637,815**	532,980,261
Dilutive Potential Ordinary Shares	**13,214,424**	6,042,545
Diluted Weighted Average Number of Shares	**659,852,239**	539,022,806

Note 9. Intangible Exploration and Evaluation Fixed Assets

	2005 £'000	2004 £'000
At 1 January	**103,944**	48,434
Acquisition of Subsidiaries	**–**	55,326
Additions	**78,080**	40,232
Disposals/Farmout	**(6,470)**	(9,234)
Amounts Written Off	**(25,783)**	(17,961)
Transfer to Property, Plant and Equipment (Note 10)	**(48)**	(4,926)
Transfer to Stock	**–**	(1,234)
Currency Translation Adjustments	**10,820**	(6,693)
At 31 December	**160,543**	103,944

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

Note 10. Property, Plant and Equipment

	Oil and Gas Assets £'000	Other Fixed Assets £'000	Total £'000
Cost			
At 1 January 2004	271,729	2,477	274,206
Acquisition of Subsidiaries	400,843	1,212	402,055
Additions	83,287	202	83,489
Disposals	(5,454)	(26)	(5,480)
Transfer from Intangible Exploration and Evaluation Fixed Assets (Note 9)	4,926	–	4,926
Currency Translation Adjustments	(22,894)	(18)	(22,912)
At 1 January 2005	**732,437**	**3,847**	**736,284**
Additions	**368,128**	**3,701**	**371,829**
Disposals	**(112,319)**	**(367)**	**(112,686)**
Transfer from Intangible Exploration and Evaluation Fixed Assets (Note 9)	**48**	**–**	**48**
Currency Translation Adjustments	**46,741**	**93**	**46,834**
At 31 December 2005	**1,035,035**	**7,274**	**1,042,309**
Depletion and Amortisation			
At 1 January 2004	115,992	1,712	117,704
Charge for the Year	80,450	647	81,097
Disposals	(5,454)	(7)	(5,461)
Currency Translation Adjustments	(2,579)	(4)	(2,583)
At 1 January 2005	**188,409**	**2,348**	**190,757**
Charge for the Year	**118,712**	**985**	**119,697**
Disposals	**(10,742)**	**(334)**	**(11,076)**
Currency Translation Adjustments	**6,366**	**2**	**6,368**
At 31 December 2005	**302,745**	**3,001**	**305,746**
Net Book Value			
At 31 December 2005	**732,290**	**4,273**	**736,563**
At 31 December 2004	544,028	1,499	545,527

Additions include capitalised interest of £5,140,000 (2004: £1,755,000).

The carrying amount of the Group's oil and gas assets includes an amount of £14,184,000 (2004: £14,784,000) in respect of assets held under finance lease.

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

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, 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

	2005 £'000	2004 £'000
Unlisted Investments	**447**	447
Government Gilts	**49**	49
	496	496

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

At 31 December 2005 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 Limited	100	Ireland	Ireland
Tullow Oil UK Limited	100	United Kingdom	Scotland
Tullow Oil SK Limited	100	United Kingdom	England & Wales
Tullow Oil SNS Limited	100	United Kingdom	England & Wales
Tullow Oil SPE Limited	100	United Kingdom	England & Wales
Energy Africa (Pty) Limited	100	South Africa	South Africa
Energy Africa Gabon Holdings Limited	50	Gabon	Isle of Man
Indirectly Held			
Energy Africa 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 Romania Limited	100	Romania	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	90	India	Jersey
Tullow Cameroon Limited	100	Cameroon	Jersey
Tullow Gabon Operations Limited	100	Gabon	Jersey
Tullow Angola Limited	100	Angola	Jersey
Tullow Madagascar Limited	100	Madagascar	Jersey
Energy Africa Congo Limited	100	Congo	Isle of Man
Energy Africa Equatorial Guinea Limited	100	Equatorial Guinea	Isle of Man
Energy Africa Equatorial Guinea Exploration Limited	100	Equatorial Guinea	Isle of Man
Energy Africa Kudu Limited	100	Namibia	Isle of Man
Energy Africa Mauritania Limited	100	Mauritania	Isle of Man
Energy Africa Senegal Limited	100	Senegal	Isle of Man
Energy Africa Uganda Limited	100	Uganda	Isle of Man
Energy Africa UK Limited	100	England	England & Wales
Unitrust Holdings Limited	100	England	England & Wales
Energy Africa Gabon Holdings Limited	50	Gabon	Isle of Man
Energy Africa Gabon Limited	100	Isle of Man	Isle of Man
Energy Africa Gabon SA	100	Gabon	Gabon

Energy Africa Gabon Holdings Limited (EAGHL) is wholly owned by the Group, 50% is held directly by the Company and 50% by Energy Africa Limited (Energy Africa).

On 28 May 2004, the Company acquired 100% of the issued share capital of Energy Africa and the 50% of EAGHL not owned by Energy Africa.

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

Notes to the Financial Statements

continued

Note 12. Inventories

	2005 £'000	2004 £'000
Oil Stocks	**5,141**	3,392

Note 13. Other Current Assets

	2005 £'000	2004 £'000
Other Debtors	**24,334**	14,318
Prepayments	**1,991**	2,381
VAT Recoverable	**526**	352
	26,851	17,051

Note 14. Cash and Cash Equivalents

	2005 £'000	2004 £'000
Cash at Bank and in Hand	**46,596**	26,521
Short Term Deposits	**18,790**	58,549
	65,386	85,070

Cash and Cash Equivalents includes an amount of £20,000,000 (2004: £36,236,000) which is a decommissioning reserve held on fixed term deposit held in support of a Letter of Credit facility which relates to the Group's share of certain decommissioning costs.

Note 15. Trade and Other Payables

Current Liabilities

	2005 £'000	2004 £'000
Trade Payables	**18,370**	11,533
Other Payables	**48,747**	48,684
Deferred Income (Take or Pay)	**653**	74
Accruals	**63,912**	35,055
PAYE & Social Security	**516**	509
VAT & Other Similar Taxes	**4,957**	4,800
Current Portion of Finance Lease (Note 18)	**2,260**	1,959
	139,415	102,614

Non Current Liabilities

	2005 £'000	2004 £'000
Other Payables	**6,812**	–
Non Current Portion of Finance Lease (Note 18)	**12,306**	13,014
	19,118	13,014

Note 16. Financial Liabilities

	2005 £'000	2004 £'000
Current		
Short Term Borrowings	**–**	1,552
Current Portion of Long Term Borrowings	**–**	3,750
	–	5,302
Non Current		
Term Loans Repayable		
– After One Year but within Two Years	**8,719**	129,895
– After Two Years but within Five Years	**154,341**	13,503
– After Five Years	**35,312**	–
	198,372	143,398

Group bank loans are stated net of unamortised arrangement fees of £7,218,783 (2004: £3,521,511).

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

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. Balances are held in other currencies to meet immediate operating or administrative expenses or to comply with local currency regulations. At 31 December 2005 the only material monetary assets or liabilities of the Group that were not denominated in the functional currency of the respective subsidiaries involved were $177 million (£102.9 million) cash drawings under the US$850 million Borrowing Base Facility, a $15million (£8.7 million) Revolving Loan taken out in Ireland and funds in Pakistan of 364 million Pakistani Rupees (£3.5 million) in respect of sales income held awaiting the necessary approval for repatriation. The US$177 million drawn under the Borrowing Base Facility at 31 December 2005 continues to be held as a hedge against US$ denominated net assets in subsidiaries.

Interest Rate Risk

The interest rate profile of the Group's financial assets and liabilities at 31 December 2005 was as follows:

	Stg £'000	Euro £'000	US$ £'000	Other £'000	Total £'000
Cash at Bank at Floating Interest Rate	**36,102**	**–**	**20,228**	**359**	**56,689**
Cash at Bank on which no Interest is Received	**194**	**50**	**5,330**	**3,123**	**8,697**
Fixed Rate Debt	**(42,500)**	**–**	**(34,286)**	**–**	**(76,786)**
Floating Rate Debt	**(51,516)**	**–**	**(77,289)**	**–**	**(128,805)**
Net (Debt)/Cash	**(57,720)**	**50**	**(86,017)**	**3,482**	**(140,205)**

The profile at 31 December 2004 for comparison purposes was as follows:

	Stg £'000	Euro £'000	US$ £'000	Other £'000	Total £'000
Cash at Bank at Floating Interest Rate	74,207	242	7,148	265	81,862
Cash at Bank on which no Interest is Received	11	2	1,510	1,685	3,208
Fixed Rate Debt	(4,375)	–	–	–	(4,375)
Floating Rate Debt	(47,675)	–	(100,172)	–	(147,847)
Net Cash/(Debt)	22,168	244	(91,514)	1,950	(67,152)

Cash at Bank at Floating Interest Rate consisted of deposits which earn interest at rates set in advance from periods ranging from overnight to one month by reference to Sterling or US Dollar LIBOR.

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

Note 16. Financial Liabilities (continued)

Interest Rate Risk (continued)

In September 2005 the Group completed an $850 million refinancing exercise which consolidated existing borrowings into a single Borrowing Base Facility, which has created a more efficient Group financing structure and materially reduced the cash collaterisation of decommissioning Letters of Credit.

The Borrowing Base Facility incurs interest on outstanding debt at Sterling LIBOR plus a margin ranging from 110 basis points to 225 basis points depending on utilisation and concentration of non-OECD Assets and US Dollar LIBOR plus a margin ranging from 110 basis points to 225 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 other 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 from time to time, net of relevant cash balances.

In the table for 2005, £76.8 million of the gross debt has been shown as fixed rate debt as the particular bank borrowings were fixed in November 2005 for a six month duration.

In December 2005, the Group executed an interest rate hedging programme (effective February 2006), whereby 50% of the projected interest rate exposure to Sterling LIBOR and US Dollar LIBOR was hedged through the application of a series of interest rate swaps, options and zero cost collars. The effect of these derivatives limits the interest rate exposure to Sterling LIBOR at 5.7% and US Dollar LIBOR at 5.8%. The interest rate swaps, options and zero cost collars extend for a three year period for US Dollar and for an eighteen month period for Sterling LIBOR at varying notional principal amounts. The interest rate swaps, options and zero cost collars do not give rise to material differences between book and fair values. The hedged amounts are included in Floating Rate Debt in the above 2005 table as the interest rate hedging programme has an effective date of 24 February 2006.

Note 17. Derivative Financial Instruments

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 derivatives. The Group's policy is to mitigate its exposure to oil and gas price fluctuation for a portion of its production, using a range of derivative financial instruments such as fixed price swaps, participating swaps, zero cost collars and other option structures. The Group's policy is also to mitigate its exposure to fluctuations in US Dollar and Sterling interest rates through the use of similar derivative financial instruments.

Fair Values of Derivative Instruments

Under IAS 39 all derivatives must be recognised at fair value on the Balance Sheet with changes in fair value between accounting periods recognised in the Income Statement unless cash flow hedge accounting is applied. The fair value is the amount for which the assets or liability could be exchanged in an arm's length transaction at the relevant date. Fair values are determined using quoted market prices 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 fair value of derivative instruments are recorded on the Balance Sheet under the caption "Derivative Financial Instruments" under Current Liabilities and Non Current Liabilities.

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

	31 Dec 2005 £'000	1 Jan 2005 £'000
Derivative Instruments		
Gas Derivatives	**(31,520)**	1,148
Oil Derivatives	**(116,344)**	(40,658)
Interest Rate Derivatives	**17**	(11)
	(147,847)	(39,521)
Analysed as follows:		
Amounts Falling Due within One Year	**(70,639)**	(12,645)
Amounts Falling Due after One Year	**(77,208)**	(26,876)
	(147,847)	(39,521)

A large portion of the derivative liabilities at 1 January 2005 and 31 December 2005 relate to contracts acquired as part of the acquisition of Energy Africa in May 2004; these contracts cover 4,000 bopd at a maximum Brent Dated price of $29.30/barrel extending to 31 December 2009. These derivative liabilities are substantially offset by an increase in the economic value of the underlying hedged future oil production.

Cash Flow Hedges

From 1 January 2005, the Group's commodity and interest rate derivatives were classified as cash flow hedges under IAS 39. As a result, the effective portion of hedging gains or losses as a result of changes in the fair values of designated hedging instruments is deferred in a separate component of reserves subject to the establishment of a "highly effective" correlation (defined in IAS 39 as hedge effectiveness within a range of 80 -125%) between the commodity hedge and the underlying physical commodity's pricing and sale characteristics. Such effective gains or losses are deferred to reserves and are recorded on the Balance Sheet under the caption "Hedge Reserve" (see note 22). Any change in the time value component of the hedge instrument is immediately recognised in the Income Statement under the caption "Loss on Hedging Instruments". The testing of hedge effectiveness is measured on an intrinsic basis. Similar hedge effectiveness testing is carried out in relation to the Group's interest rate derivatives.

Hedge ineffectiveness arises when the hedge correlation results are within the range of 80-125% but not 100% precisely. Hedge ineffectiveness is recognised directly in the income statement in the period, and such hedge ineffectiveness for the oil and gas commodity hedges is described below. Hedge ineffectiveness is recorded in the income statement under the caption "Loss on Hedging Instruments" and the associated tax effect is recorded under the caption "Income Tax Expense".

Oil Hedges

The Group uses a number of derivative instruments to mitigate the commodity price risk associated with its underlying oil revenues. These derivative instruments include fixed price swaps, participating swaps, zero cost collars and other option structures. Such oil derivatives will tend to be priced using pricing benchmarks, such as Brent Dated, which correlate as far as possible to the underlying oil revenues. The Group hedges its estimated oil revenues on a portfolio basis, aggregating its revenues from substantially all of its West African oil interests.

At 31 December 2005 the Group's oil hedge position was summarised as follows:

Oil Hedges	H1 2006	H2 2006	2007	2008	2009
Volume – bopd	10,242	10,217	5,500	4,500	4,000
Average Price[1] – $/bbl	39.63	40.04	38.25	32.74	29.20

1 Average hedge prices are based on market prices as at 31 December 2005 and represent the current value of hedged volumes.

The Group's oil hedges have been assessed to be "highly effective" within the range prescribed under IAS39 using a regression analysis. 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 West African crude relative to Brent and the timing of oil liftings relative to the hedges.

On this basis an unrealised loss of £100.1 million has been taken directly to equity, with an associated deferred tax credit of £5.6 million also being recorded on the Balance Sheet. The element of hedge ineffectiveness and change in time value in relation to the oil hedges amounting to a loss of £2.6 million, with an associated tax charge of £0.7 million, have been recognised in the Income Statement in the current period. A proportion of the oil cash flow hedges do not generate an offsetting tax charge or credit.

Gas Hedges

The Group uses a number of derivative instruments to mitigate the commodity price risk associated with its underlying gas revenues. These derivative instruments include fixed price swaps, participating swaps, zero costs collars and other option structures. Such gas derivatives will tend to be priced using pricing benchmarks which correlate as far as possible to the underlying gas revenues. The Group hedges its estimated gas revenues on a portfolio basis, aggregating its revenues from substantially all of its UK gas interests.

At 31 December 2005 the Group's gas hedge position was summarised as follows:

Gas Hedges	H1 2006	H2 2006	2007	2008	2009
Volume – mmscfd	77	41	10	9	–
Average Price[1] – p/therm	59.54	39.26	59.22	57.40	–

1 Average hedge prices are based on market prices as at 31 December 2005 and represent the current value of hedged volumes.

Note 17. Derivative Financial Investments (continued)

Gas Hedges (continued)

The Group's gas hedges have been assessed to be "highly effective" within the range prescribed under IAS39 using "ratio analysis". There is however a degree of ineffectiveness inherent in the Group's gas hedges arising from, among other factors, field production performance on any day.

On this basis an unrealised loss of £20.3 million has been taken directly to equity, with an associated deferred tax credit of £12.6 million also being recorded on the Balance Sheet. A change in time value in relation to the gas hedges has resulted in a gain of £2.4 million, with an associated tax charge of £1.0 million, which have been recognised in the Income Statement in the current period.

Income Statement Hedge Summary

The following table summarises the Income Statement impact of hedge ineffectiveness for the period:

Loss on Hedging Instruments:	Net Gains/ (Loss) £'000
Gas Derivatives Net	**2,407**
Oil Derivatives Net	**(2,566)**
Interest Rate Derivatives Net	**–**
Total for the year	**(159)**

Income Tax Expense:	Net Credits/ (Charge) £'000
Gas Derivatives Net	**(963)**
Oil Derivatives Net	**(729)**
Interest Rate Derivatives Net	**–**
Total for the year	**(1,692)**

Unrealised Hedge Gains/(Losses) in Equity

The following table summarises the unrealised gains/(losses) net of deferred tax effects transferred to equity for the period:

Unrealised Gain/(Loss) in Equity on Derivative Instruments:	Net Gain/(Loss) £'000
At 1 January 2005	**–**
Amounts Recognised During Year	**1,851**
Unrecognised Amounts Arising During Year	**(122,300)**
At 31 December 2005	**(120,449)**

Note 18. Obligations under Finance Leases

	2005 £'000	2004 £'000
Amounts Payable under Finance Leases:		
– Within One Year	**2,662**	2,379
– Within Two to Five Years	**10,651**	9,515
– After Five Years	**2,662**	4,757
	15,975	16,651
Less Future Finance Charges	**(1,409)**	(1,678)
Present Value of Lease Obligations	**14,566**	14,973
Amount Due for Settlement within 12 Months (Note 15) (shown under Current Liabilities)	**2,260**	1,959
Amount Due for Settlement after 12 Months (Note 15)	**12,306**	13,014

Note 19. Provisions

(i) Decommissioning Costs

	2005 £'000	2004 £'000
At 1 January	**70,679**	47,524
Acquisition of Subsidiaries	**–**	16,744
New Provisions and Changes in Estimates	**20,337**	3,764
Disposal of Oil and Gas Assets	**(6,854)**	–
Decommissioning Payments	**(91)**	(263)
Unwinding of Discount (Note 5)	**5,157**	3,653
Currency Translation Adjustment	**1,911**	(743)
At 31 December	**91,139**	70,679

The decommissioning provision represents the present value of decommissioning costs relating to the UK, West Africa and Pakistan oil and gas interests, which are expected to be incurred between 2006 and 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 believes 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

	Total £'000	UK and Overseas Corporate Taxation £'000	PRT £'000
At 1 January 2004	(898)	(2,416)	1,518
Charged to Income Statement	(321)	128	(449)
Acquisition of Subsidiaries	71,574	59,068	12,506
Cash Acquisition of Tax Benefits	(1,423)	(1,423)	–
Currency Translation Adjustment	(129)	(129)	–
At 1 January 2005	**68,803**	**55,228**	**13,575**
Adoption of IAS 39 relating to hedges	**(19,896)**	**(19,896)**	**–**
Charged to Income Statement	**27,108**	**27,498**	**(390)**
Disposal of Subsidiary	**(26,339)**	**(13,873)**	**(12,466)**
Currency Translation Adjustment	**1,797**	**161**	**1,636**
At 31 December 2005	**51,473**	**49,118**	**2,355**

Deferred UK and overseas corporation tax is provided as follows:

	2005 £'000	2004 £'000
Accelerated Capital Allowances	**96,188**	29,658
Decommissioning Charges	**(19,014)**	(18,056)
Other Timing Differences	**(28,217)**	43,833
Currency Translation Adjustment	**161**	(207)
Provision	**49,118**	55,228

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.

Although the UK Government has raised the rate of Supplemental Corporation tax rate with effect from 1 January 2006, the deferred tax balances in the UK ring fence have been calculated at the rate of 40% which is the rate ruling at the balance sheet date.

Notes to the Financial Statements

continued

Note 20. Statement of Changes in Equity

2005	Share capital £'000	Share premium £'000	Other reserves (Note 22) £'000	Retained earnings £'000	Total £'000
Opening Equity	**64,537**	**121,656**	**148,591**	**40,683**	**375,467**
Total Recognised Income and Expense for the Year	**–**	**–**	**(88,002)**	**113,136**	**25,134**
New Shares Issued in Respect of Employee Share Options	**207**	**1,363**	**–**	**–**	**1,570**
Share Based Payments Charges	**–**	**–**	**–**	**1,403**	**1,403**
Dividends Paid	**–**	**–**	**–**	**(14,555)**	**(14,555)**
Closing Equity Attributable to the Company's Equity Holders	**64,744**	**123,019**	**60,589**	**140,667**	**389,019**

2004	Share capital £'000	Share premium £'000	Other reserves (Note 22) £'000	Retained earnings £'000	Total £'000
Opening Equity	37,784	14,198	45,593	15,787	113,362
Total Recognised Income and Expense for the Year	–	–	(19,338)	31,335	11,997
Merger Reserve Movement – due to Energy Africa Acquisition	–	–	122,336	–	122,336
New Shares Issued for Cash	26,299	104,913	–	–	131,212
New Shares Issued in Respect of Employee Share Options	454	2,545	–	–	2,999
Share Based Payments Charges	–	–	–	556	556
Dividends Paid	–	–	–	(6,995)	(6,995)
Closing Equity Attributable to the Company's Equity Holders	64,537	121,656	148,591	40,683	375,467

Note 21. Called Up Equity Share Capital and Share Premium Account

	2005 £'000	2004 £'000
(a) Authorised		
1,000,000,000 Ordinary Shares of Stg10p each	**100,000**	100,000

(b) Allotted Equity Share Capital and Share Premium

	Equity Share Capital Allotted and Fully Paid Number	£'000	Share Premium £'000
Ordinary Shares of Stg10p each			
At 1 January 2004	377,841,915	37,784	14,198
Issues During the Year			
– Exercise of Share Options	4,553,474	454	2,545
– Acquisition of Energy Africa and EAGHL	132,973,351	13,299	–
– Placing in Connection with Acquisition	130,000,000	13,000	104,913
At 1 January 2005	**645,368,740**	**64,537**	**121,656**
Issues During the Year			
– Exercise of Share Options	**2,068,983**	**207**	**1,363**
At 31 December 2005	**647,437,723**	**64,744**	**123,019**

During 2004 the Company issued 132,987,422 ordinary shares relating to the acquisition of Energy Africa and Energy Africa Gabon Holdings. 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 £122,335,483, using the market value at the date of the acquisition, to the Merger Reserve.

Note 22. Other Reserves

	Merger Reserve £'000	Foreign Currency Translation Reserve £'000	Hedge Reserve £'000	Total £'000
At 1 January 2004	56,617	(11,024)	–	45,593
Acquisition of Energy Africa and EAGHL	122,336	–	–	122,336
Currency Translation Adjustment	–	(19,338)	–	(19,338)
At 1 January 2005	**178,953**	**(30,362)**	**–**	**148,591**
Hedge movement	**–**	**–**	**(120,449)**	**(120,449)**
Currency Translation Adjustment	**–**	**32,447**	**–**	**32,447**
At 31 December 2005	**178,953**	**2,085**	**(120,449)**	**60,589**

Merger reserve

During 2004 the Company issued 132,987,422 ordinary shares relating to the acquisition of Energy Africa and Energy Africa Gabon Holdings. 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 £122,335,483, using the market value at the date of the acquisition, to the Merger Reserve.

Note 23. Cashflows from Operating Activities

	2005 £'0s00	2004 £'000
Profit Before Taxation	**178,579**	46,795
Adjustments for:		
Depletion, Depreciation and Amortisation	**119,697**	81,097
Foreign Exchange Profit/(Loss)	**72**	(4,044)
Exploration Costs Written Off	**25,783**	17,961
Disposal of Subsidiaries	**(30,537)**	–
Profit on Sale of Oil and Gas Assets	**(5,524)**	(2,292)
Operating Cashflow Prior to Working Capital	**288,070**	139,517
Increase in Trade and Other Receivables	**(38,538)**	(34,215)
Increase in Inventories	**(1,749)**	(1,721)
Increase in Trade Payables	**4,665**	40,179
Share Based Payment Charge	**1,403**	556
Hedge Ineffectiveness	**159**	–
Finance Revenue	**(4,367)**	(3,458)
Finance Costs	**24,197**	13,449
Cash Generated from Operations	**273,840**	154,307

Note 24. Disposal of Subsidiaries

On 8 April 2005 the Group entered into a sale and purchase agreement to dispose of its interests in Unilon Oil Explorations Limited and Baytrust Oil Explorations Limited. The disposal was completed on 8 June 2005.

The net assets of Unilon Oil Explorations Limited and Baytrust Oil Explorations Limited at the date of disposal and at 31 December 2004 were as follows:

	8 Jun 2005 £'000	31 Dec 2004 £'000
Property, Plant and Equipment	**47,008**	46,601
Inventories	**–**	81
Trade Receivables	**6,001**	41,212
Bank Balances and Cash	**4,431**	2,584
Trade Payables	**(3,612)**	(38,273)
Provisions	**(22,707)**	(22,566)
	31,121	29,639
Gain on Disposal	**30,537**	
Total Consideration	**61,658**	
Satisfied by:		
Cash	**61,658**	
Net Cash Inflow Arising on Disposal		
Cash Consideration	**61,658**	
Cash and Cash Equivalents Disposed of	**(4,431)**	
	57,227	

Note 25. Share Based Payments

Performance Share Plan (PSP)

Under the PSP senior executives can receive conditional awards of rights over whole shares worth up to 150% of salary per annum. (200% in exceptional circumstances). Awards will vest under the PSP subject to a Total Shareholder Return (TSR) based performance condition under which the Company's TSR performance will be measured over the fixed three year period against both the constituents of the FTSE 250 Index (excluding investment trusts) (the 'Index') and a comparator group of oil and gas companies. Half of an award will be tested against the Index and the other half against the comparator group. The test is over a three year period starting on the 1st January prior to grant, and an individual must normally remain in employment for three years from 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 Remuneration Report.

The shares outstanding under the PSP are as follows:

	PSP Shares	Share price at grant
Outstanding at 1 January 2005	–	–
Granted	1,784,417	187.5
Outstanding at 31 December 2005	1,784,417	187.5

The inputs of the option valuation model were:	
Risk free interest rate	4.1% p.a.
Expected volatility	33%
Dividend yield	0.93% p.a.

The expected life is the period from grant to vesting date. The weighted average fair value of the awards granted in 2005 was 112.8p per award.

The Company recognised a total expense of £311,000 (2004: nil) in respect of the PSP.

2000 Executive Share Option Scheme (ESOS)

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

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

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

	2005 number	**2005 WAEP**	2004 number	2004 WAEP
Outstanding as at 1 January	**20,683,036**	**82.01**	21,403,239	83.29
Granted During the Year	**3,808,600**	**169.03**	3,924,000	111.23
Exercised During the Year	**(1,563,626)**	**79.43**	(4,539,403)	113.22
Expired During the Year	**(938,450)**	**96.37**	(104,800)	85.37
Outstanding at 31 December	**21,989,560**	**96.65**	20,683,036	82.01
Exercisable at 31 December	**9,299,210**	**68.59**	9,675,226	68.41

The weighted average share price at exercise for options exercised in 2005 was 79.43p.

Options outstanding at 31st December 2005 had exercise prices of 61p to 265p and remaining contractual life of one to ten years.

The principal inputs to the options valuation model were:

Risk free interest rate	3.6-5.2% p.a.
Expected volatility	33-55% p.a.
Dividend yield	0.0-2.0% p.a.
Employee turnover	From 0% – 10% p.a. depending on seniority
Early exercise	At rates dependent upon seniority and potential gain from exercise

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

Award year	Weighted Average Exercise Price p	Weighted Average Fair value p	Weighted Average expected life from grant date years
2003	84.4	37.5	5.9
2004	112.6	52.8	4.6
2005	169.3	53.0	4.8

The Company recognised a total expense of £1,057,000 (2004: £545,000) 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 £31,000 (2004: £11,000) for the matching shares and £4,000 (2004: nil) for the partnership shares.

Note 26. Operating Lease Arrangements

The Group as lessee

	2005 £'000	2004 £'000
Minimum Lease Payments Under Operating Leases Recognised in Income for the Year	**1,465**	1,065

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:

	2005 £'000	2004 £'000
Minimum Lease payments Under Operating Leases		
Due within One Year	**1,430**	1,647
After One Year but within Two Years	**1,430**	702
After Two Years but within Five Years	**4,290**	2,106
Due After Five Years	**4,527**	1,557
	11,677	6,012

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for an average of seven years and rentals are fixed for an average of seven years.

Note 27. Contingent Liabilities

At 31 December 2005 there existed contingent liabilities amounting to £2.3 million (2004: £14.9 million) in respect of performance guarantees for committed work programmes.

Note 28. Related Party Transactions

Transactions with the Directors of Tullow Oil plc are disclosed in the Remuneration Report on pages 35 to 41.

There are no other related party transactions.

Note 29. Subsequent Events

Since the balance sheet date, Tullow has continued to develop its exploration, development and business growth strategies and has made a number of announcements in respect of drilling activity in Gabon, Uganda, Mauritania and the United Kingdom. These included three unsuccessful wells, two wells that encountered hydrocarbons that require further analysis and a successful well in the CMS area. The expected 2006 income statement impact of the unsuccessful wells is an exploration write off of £7 million.

Note 30. 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 £732,000 (2004: £519,000). At 31 December 2005, there was a liability of £61,000 (2004: £47,000) for contributions payable included in other payables.

Note 31. Transition to IFRS

For all periods up to and including the year ended 31 December 2004, the Group prepared its financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). These financial statements, for the year ended 31 December 2005, are the first the Group is required to prepare in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the International Accounting Standards Board.

Accordingly, the Group has prepared financial statements which comply with IFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies adopted are shown above. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 January 2004, the Group's date of transition to IFRS, and made those changes in accounting policies and other restatements required by IFRS 1 for the first time adoption of IFRS. This note explains the principal adjustments made by the Group in restating its UK GAAP Balance Sheet as at 1 January 2004 and its previously published UK GAAP financial statements for the year ended 31 December 2004. The restatement of the Group's 2004 results under IFRS were published on the Tullow website (www.tullowoil.com) on 23 August 2005.

Exemptions applied

IFRS 1 allows exemptions from the application of certain IFRS to assist companies with the transition process. Accordingly the Group has made the following first time accounting policy choices:

- IFRS 2 – Share-Based Payments is applied to all share-based rewards made after 7 November 2002 that did not vest before 1 January 2005

- IFRS 3 – Business Combinations prior to 1 January 2004 have not been restated

- IAS 32 – Financial Instruments: Disclosure and Presentation and IAS 39 – Financial Instruments: Recognition and Measurement will be applied prospectively from 1 January 2005 and as such the 2004 restated information presented excludes adjustments required on adoption of these Standards

The Group has availed of the early adoption of IFRS 6 – Exploration for and Evaluation of Mineral Resources with effect from 1 January 2004. The Standard does not impact on the Group's existing policy for exploration and evaluation expenditure.

The adjustments to the 2004 UK GAAP financial statements can be explained as follows:

IFRS 2 – Share-Based Payments

Tullow is committed to allowing employees the opportunity to participate in the ongoing growth and success of the Company and since 1988 has operated a variety of Share-based schemes including an Executive Share Option Scheme, a Performance Share Plan and Employee Share Incentive Plans. Under UK GAAP no adjustment was made to the financial statements when options were granted as under the 1988, 1998 and 2000 Executive Share Option Schemes the options were granted at market value. Adjustments were made to the financial statements only when the options were exercised.

IFRS 2 requires such share-based payments by the Group to employees to be fair valued at grant date using an option pricing model and charged through the income statement over the vesting period of the relevant awards. The accounting change has reduced profit by £0.33 million in the year ended 31 December 2004.

Note 31. Transition to IFRS (continued)

IAS 12 – Income Taxes

Business Combinations

IAS 12 requires that deferred tax is recognised on temporary differences arising on acquisitions that are categorised as business combinations. Business combinations are defined as the bringing together of separate entities or businesses into one reporting entity. Deferred tax is recognised at acquisition as part of the assessment of the fair value of assets and liabilities acquired and is provided on balances previously excluded from provision under UK GAAP such as fair value revaluations of intangible and tangible fixed assets.

The acquisition of Energy Africa in May 2004, which is considered a business combination under IFRS 3 – Business Combinations, gives rise to fair value adjustments. Accordingly, the Group has recognised an additional deferred tax liability of £49.3 million in respect of these temporary differences as at 31 December 2004. The fair values assigned to non-current assets were increased by a corresponding amount.

Any deferred tax provision will unwind through the consolidated income statement as the underlying temporary difference is reversed. The net impact from the recognition of additional temporary differences on acquisitions is to increase profit after tax by £0.02 million for the year ended 31 December 2004.

IFRS 1 allows exemptions from the application of certain IFRS, and accordingly business combinations prior to 1 January 2004 have not been restated. Similarly, the acquisition of the Schooner and Ketch fields completed in March 2005 is not classified as a business combination and accordingly there are no fair value adjustments to which this requirement of IAS 12 would apply.

Petroleum Revenue Tax (PRT)

Under UK GAAP there is no definitive guidance on the accounting treatment for PRT. Historically the Group has charged PRT due on chargeable field profits as a tax expense in the income statement. In addition, deferred PRT was charged as a tax expense so as to allocate the expected PRT cost over the remaining life of the related field on a unit of production basis using commercial reserves. The resulting asset or liability was included in the balance sheet under debtors or provisions as appropriate. Tullow's charges in respect of PRT arise from the Murdoch, Murdoch K and Orwell fields in the Southern North Sea.

Under IFRS, PRT is treated as an income tax under IAS 12 and deferred PRT accounted for on a temporary difference basis. The effect of this revision is to more closely correlate the charge to PRT in any period to field profitability. This has no impact on the economics of any asset or the total life of field PRT charge. The overall PRT charge, net of deferred corporation tax, for the year ended 31 December 2004 has decreased by £3.3 million.

IAS 16 – Property, Plant and Equipment

Under UK GAAP the Group applied the 'successful efforts' accounting policy which required all costs associated with unsuccessful exploration and pre-licence costs to be written off to the Profit and Loss Account. This is consistent with IFRS 6 – Exploration for and Evaluation of Mineral Resources and so no adjustments are required.

Under UK GAAP the Group's oil and gas properties were depreciated with reference to the aggregate production and reserves of the fields of which they are considered to form a part (the UOP method). A field was defined, in accordance with the UK Statement of Recommended Practice (SORP) as an area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

Under IAS 16 each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. Consequently certain fields and related infrastructure are required to be analysed into components and the related assets depreciated, using the UOP method over the reserves that the assets specifically serve. This has particular implications for the depreciation of satellite fields and facilities that have a useful life materially different to that of the infrastructure through which they are produced. Accordingly, an adjustment to depreciation has been made to reflect the useful life of the Gawain field and associated facilities on a standalone basis following a revised estimate of ultimate recoverable reserves during 2003. The overall effect of this adjustment is to increase the depreciation charge, net of deferred tax, by £4.6 million in the year ended 31 December 2004.

IAS 17 – Leases

All leasing arrangements have been reviewed against the criteria of IAS 17 to determine whether the leases are operating or finance in nature. Under UK GAAP a finance lease is a lease that transfers substantially all the risks and rewards of ownership of an asset to the lessee. A transfer of risks and rewards occurs if at the inception of a lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all (normally 90% or more) of the fair value of the leased asset.

In Cote d'Ivoire the Espoir Field partners, including Tullow, have entered into an agreement covering the use of the "Espoir Ivorienne" FPSO until 2011. While this arrangement did not fall to be treated as a finance lease under UK GAAP, IAS 17 imposes additional conditions which mean that the FPSO is classified as a finance lease by reference to the following specific criteria in IAS 17:

- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and,

- the leased assets are of a specialised nature such that only the lessee can use them without major modifications being made.

Tullow also utilises an FPSO as part of its participation in the Ceiba field in Equatorial Guinea. This vessel is not covered by either IAS 17 or SSAP 21 as it has been purchased by the Joint Venture partners.

Accordingly, at 31 December 2004, fixed assets with a net book value of £14.8 million have been recognised, together with £15.0 million of finance lease liabilities, of which £1.9 million has been classified as repayable within one year.

The income statement for the year has been restated as follows:

- a reduction in operating costs of £2.7 million as under UK GAAP operating lease payments were treated as a cost of sale;

- an increase in the depreciation charge of £2.2 million, reflecting the depreciation charge on the asset recognised under IFRS; and

- an increase in interest payable of £0.5 million, which reflects the interest element of the lease payments.

Note 31. Transition to IFRS (continued)

Group Reconciliation of Equity as at 1 January 2004

ASSETS	UK GAAP[1] 01.01.04 £'000	IFRS 2 £'000	IAS 12 £'000	IAS 16 £'000	IAS 17 £'000	IFRS 01.01.04 £'000
Non-current Assets						
Property, Plant and Equipment	**144,333**			(6,137)	18,306	**156,502**
Intangible Exploration and Evaluation Assets	**48,434**					**48,434**
Investments	**496**					**496**
	193,263	–	–	(6,137)	18,306	**205,432**
Current Assets						
Inventories	**437**					**437**
Trade Receivables	**14,092**					**14,092**
Other Current Assets	**12,024**			898		**12,922**
Cash and Cash Equivalents	**65,631**					**65,631**
	92,184	–	–	898	–	**93,082**
Total Assets	**285,447**	–	–	(5,239)	18,306	**298,514**
LIABILITIES						
Non Current Liabilities						
Obligations Under Finance Leases	–				(16,222)	**(16,222)**
Other Financial Liabilities	**(59,458)**					**(59,458)**
Deferred Tax	**(2,881)**	38	1,286	1,557		**–**
Provisions	**(47,524)**					**(47,524)**
	(109,863)	38	1,286	1,557	(16,222)	**(123,204)**
Current Liabilities						
Trade and Other Payables	**(29,121)**				(2,285)	**(31,406)**
Short-Term Borrowings	**(12,689)**					**(12,689)**
Current Portion of Long-Term Borrowings	**(13,800)**					**(13,800)**
Income Tax Payable	**(4,053)**					**(4,053)**
	(59,663)	–	–	–	(2,285)	**(61,948)**
Total Liabilities	**(169,526)**	38	1,286	1,557	(18,507)	**(185,152)**
Net Assets	**115,921**	38	1,286	(3,682)	(201)	**113,362**
EQUITY						
Equity Attributable to Equity Holders of the Parent						
Share Capital	**37,784**					**37,784**
Share Premium	**14,198**					**14,198**
Other Reserves	**45,593**					**45,593**
Retained Earnings	**18,346**	38	1,286	(3,682)	(201)	**15,787**
Total Equity	**115,921**	38	1,286	(3,682)	(201)	**113,362**

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

Group Reconciliation of the Income Statement for the year ended 31 December 2004

	UK GAAP[1] 2004 £'000	IFRS 2 £'000	IAS 12 £'000	IAS 16 £'000	IAS 17 £'000	IFRS 2004 £'000
Sales Revenue	**225,256**					**225,256**
Cost of Sales	**(131,071)**		(2,989)	(7,669)	501	**(141,228)**
Gross Profit	**94,185**	–	(2,989)	(7,669)	501	**84,028**
Administrative Expenses	**(11,017)**	(556)				**(11,573)**
Profit on Sale of Licence Interest	**2,292**					**2,292**
Exploration Costs Written Off	**(17,961)**					**(17,961)**
Operating Profit	**67,499**	(556)	(2,989)	(7,669)	501	**56,786**
Finance Revenue	**3,458**					**3,458**
Finance Costs	**(12,960)**				(489)	**(13,449)**
Profit Before Tax	**57,997**	(556)	(2,989)	(7,669)	12	**46,795**
Income Tax Expense	**(25,048)**	222	6,298	3,068		**(15,460)**
Profit for the Period	**32,949**	(334)	3,309	(4,601)	12	**31,335**
Dividend Paid	**(6,995)**					**(6,995)**
Retained Profit Attributable to Equity Holders	**25,954**	(334)	3,309	(4,601)	12	**24,340**
Earnings per Ordinary Share	**Stg p**	Stg p	Stg p	Stg p	Stg p	**Stg p**
– Basic	**6.18**	(0.06)	0.62	(0.86)	0.00	**5.88**
– Diluted	**6.11**	(0.06)	0.61	(0.85)	0.00	**5.81**

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

Note 31. Transition to IFRS (continued)

Group Reconciliation of Equity as at 31 December 2004

ASSETS	UK GAAP[1] 2004 £'000	IFRS 2 £'000	IAS 12 £'000	IAS 16 £'000	IAS 17 £'000	IFRS 2004 £'000
Non-Current Assets						
Property, Plant and Equipment	**495,920**		48,628	(13,805)	14,784	**545,527**
Intangible Exploration and Evaluation Assets	**103,312**		632			**103,944**
Investments	**496**					**496**
	599,728	–	49,260	(13,805)	14,784	**649,967**
Current Assets						
Inventories	**3,392**					**3,392**
Trade Receivables	**37,156**					**37,156**
Other Current Assets	**17,051**					**17,051**
Cash and Cash Equivalents	**85,070**					**85,070**
	142,669	–	–	–	–	**142,669**
Total Assets	**742,397**	–	49,260	(13,805)	14,784	**792,636**
LIABILITIES						
Non-Current Liabilities						
Obligations under Finance Leases	**–**				(13,014)	**(13,014)**
Other Financial Liabilities	**(143,398)**					**(143,398)**
Deferred Tax Liabilities	**(29,920)**	260	(44,665)	5,522		**(68,803)**
Long-term Provisions	**(70,679)**					**(70,679)**
	(243,997)	260	(44,665)	5,522	(13,014)	**(295,894)**
Current Liabilities						
Trade and Other Payables	**(100,655)**				(1,959)	**(102,614)**
Short-Term Borrowings	**(1,552)**					**(1,552)**
Current Portion of Long-Term Borrowings	**(3,750)**					**(3,750)**
Income Tax Payable	**(13,359)**					**(13,359)**
	(119,316)	–	–	–	(1,959)	**(121,275)**
Total Liabilities	**(363,313)**	260	(44,665)	5,522	(14,973)	**(417,169)**
Net Assets	**379,084**	260	4,595	(8,283)	(189)	**375,467**
EQUITY						
Equity Attributable to Equity Holders of the Parent						
Called up Share Capital	**64,537**					**64,537**
Share Premium	**121,656**					**121,656**
Other Reserves	**148,591**					**148,591**
Retained Earnings	**44,300**	260	4,595	(8,283)	(189)	**40,683**
Total Equity	**379,084**	260	4,595	(8,283)	(189)	**375,467**

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

Independent Auditors' Report to the Members of Tullow Oil plc

We have audited the individual Company financial statements of Tullow Oil plc for the year ended 31 December 2005, which comprise the Balance Sheet and the related notes 1 to 11. These individual Company financial statements have been prepared under the accounting policies set out therein.

The Corporate Governance Statement and the Directors' Remuneration Report are included in the Group Annual Report of Tullow Oil plc for the year ended 31 December 2005. We have reported separately on the Group financial statements of Tullow Oil plc for the year ended 31 December 2005 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 individual 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 individual Company financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the individual Company financial statements give a true and fair view in accordance with the relevant financial reporting framework and whether the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985. We report to you if, in our opinion, the Directors' report is not consistent with the individual Company financial statements. We also report to you if 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 Directors' Report and the other information contained in the annual report for the above year as described in the contents section and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the individual Company financial statements.

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 individual Company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the individual 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 individual 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 individual Company financial statements.

Opinion

In our opinion:

- the individual 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 2005; and
- the individual Company financial statements have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London
28 March 2006

Company Balance Sheet

as at 31 December 2005

	Notes	2005 £'000	2004 £'000
Fixed Assets			
Investments	1	**364,091**	363,549
Current Assets			
Debtors	3	**272,700**	57,876
Cash at Bank and in Hand		**26**	–
		272,726	57,876
Creditors – Amounts Falling Due Within One Year			
Trade and Other Creditors	4	**(2,157)**	(2,600)
Net Current Assets		**270,569**	55,276
Total Assets Less Current Liabilities		**634,660**	418,825
Creditors – Amounts Falling Due after more than One Year			
Bank Loans	5	**(190,038)**	(96,295)
Loans from Subsidiary Undertakings		**(126,715)**	–
Net Assets		**317,907**	322,530
Capital and Reserves			
Called Up Equity Share Capital	6	**64,744**	64,537
Share Premium Account	6	**123,019**	121,656
Merger Reserve	7	**122,336**	122,336
Profit and Loss Account	8	**7,808**	14,001
Equity Shareholders' Funds		**317,907**	322,530

Approved by the Board on 28 March 2006

Aidan Heavey
Chief Executive Officer

Tom Hickey
Chief Financial Officer

The notes on pages 78 to 83 form part of these financial statements.

The Profit and Loss Account of the Company has not been presented separately in these financial statements as permitted by the provisions of Section 230 of the Companies Act 1985.

Accounting policies

year ended 31 December 2004

(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 46.

(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 Cost 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. Arrangement fees and issue costs are deducted from the debt proceeds and are amortised and charged to the profit and loss account as finance costs over the term of the debt.

(d) 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.

(e) Share Issue Expenses and Share Premium Account
Costs of share issues are written off against the premium arising on the issues of share capital.

(f) 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.

(g) 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.

Notes to the Financial Statements

Note 1. Investments

	2005 £'000	2004 £'000
Shares at Cost in Subsidiary Undertakings	**363,595**	363,053
Unlisted Investments	**447**	447
Government Gilts	**49**	49
	364,091	363,549

At 31 December 2005 the Company's principal subsidiary undertakings were:

Name	%	Country of Operation	Country of Incorporation
Directly Held			
Tullow Oil Limited	100	Ireland	Ireland
Tullow Oil UK Limited	100	United Kingdom	Scotland
Tullow Oil SK Limited	100	United Kingdom	England & Wales
Tullow Oil SNS Limited	100	United Kingdom	England & Wales
Tullow Oil SPE Limited	100	United Kingdom	England & Wales
Energy Africa (Pty) Limited	100	South Africa	South Africa
Energy Africa Gabon Holdings Limited	50	Gabon	Isle of Man
Indirectly Held			
Energy Africa 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 Romania Limited	100	Romania	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	90	India	Jersey
Tullow Cameroon Limited	100	Cameroon	Jersey
Tullow Gabon Operations Limited	100	Gabon	Jersey
Tullow Angola Limited	100	Angola	Jersey
Tullow Madagascar Limited	100	Madagascar	Jersey
Energy Africa Congo Limited	100	Congo	Isle of Man
Energy Africa Equatorial Guinea Limited	100	Equatorial Guinea	Isle of Man
Energy Africa Equatorial Guinea Exploration Limited	100	Equatorial Guinea	Isle of Man
Energy Africa Kudu Limited	100	Namibia	Isle of Man
Energy Africa Mauritania Limited	100	Mauritania	Isle of Man
Energy Africa Senegal Limited	100	Senegal	Isle of Man
Energy Africa Uganda Limited	100	Uganda	Isle of Man
Energy Africa UK Limited	100	England	England & Wales
Unitrust Holdings Limited	100	England	England & Wales
Energy Africa Gabon Holdings Limited	50	Gabon	Isle of Man
Energy Africa Gabon Limited	100	Isle of Man	Isle of Man
Energy Africa Gabon SA	100	Gabon	Gabon

Energy Africa Gabon Holdings Limited (EAGHL) is wholly owned by the Company, 50% is held directly and 50% by Energy Africa Limited (Energy Africa).

On 28 May 2004, the Company acquired 100% of the issued share capital of Energy Africa and the 50% of EAGHL not owned by Energy Africa.

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

Note 2. Dividends

	2005 £'000	2004 £'000
Declared and Paid during Year		
Final Dividend for 2004: Stg1.25p (2004: Stg1p) per Ordinary Share	**8,083**	3,782
Interim Dividend for 2005: Stg1p (2004: Stg0.5p) per Ordinary Share	**6,472**	3,213
Dividends Paid	**14,555**	6,995
Proposed for Approval by Shareholders at the AGM		
Final Dividend for 2005: Stg 3p (2004: Stg1.25p)	**19,423**	8,083

Note 3. Debtors

Amounts falling due within one year

	2005 £'000	2004 £'000
Trade Debtors	**–**	351
Other Debtors	**6,926**	–
Prepayments	**548**	–
Due from Subsidiary Undertakings	**265,226**	57,525
	272,700	57,876

Note 4. Trade and Other Creditors

Amounts falling due within one year

	2005 £'000	2004 £'000
Other Creditors	**849**	1,181
Accruals	**1,210**	1,419
VAT	**98**	–
	2,157	2,600

Note 5. Bank Loans and Overdrafts

Amounts falling due after one year

	2005 £'000	2004 £'000
Term Loans Repayable		
– After One Year but within Two Years	**–**	96,295
– After Two Years but within Five Years	**154,726**	–
– After Five Years	**35,312**	–
	190,038	96,295

Company bank loans are stated net of unamortised arrangement fees of £6,836,671 (2004: £2,324,283).

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

Note 5. Bank Loans and Overdrafts (continued)

Wherever possible the Company conducts and manages its business in Sterling. At 31 December 2005 the only material monetary assets or liabilities of the Company that were not denominated in the functional currency were $177 million (£102.9 million) cash drawings under the US$850 million Borrowing Base Facility held as a hedge against US$ denominated net assets in subsidiaries in the Company's Group Accounts.

Interest Rate Risk

The interest rate profile of the Group's financial assets and liabilities at 31 December 2005 was as follows:

	Stg £'000	**US$ £'000**	**Total £'000**
Cash at Bank on which no Interest is Received	**26**	**–**	**26**
Fixed Rate Debt	**(42,500)**	**(34,286)**	**(76,786)**
Floating Rate Debt	**(51,516)**	**(68,573)**	**(120,089)**
Net Debt	**(93,990)**	**(102,859)**	**(196,849)**

The profile at 31 December 2004 for comparison purposes was as follows:

	Stg £'000	US$ £'000	Total £'000
Fixed Rate Debt	–	–	–
Floating Rate Debt	–	(98,619)	(98,619)
Net Debt	–	(98,619)	(98,619)

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 period greater than three months or bank borrowings where the interest rate has been fixed through interest rate hedging.

In September 2005 the Group completed an $850 million refinancing exercise which consolidated existing borrowings into a single Borrowing Base Facility, which has created a more efficient Group financing structure and materially reduced the cash collaterisation of decommissioning Letters of Credit.

The Borrowing Base Facility incurs interest on outstanding debt at Sterling LIBOR plus a margin ranging from 110 basis points to 225 basis points depending on utilisation and concentration of non-OECD Assets and US Dollar LIBOR plus a margin ranging from 110 basis points to 225 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 other 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 from time to time, net of relevant cash balances.

In the above table for 2005, £76.8 million of the gross debt has been shown as fixed rate debt as the particular bank borrowings were fixed in November 2005 for a six month duration.

In December 2005, the Company executed an interest rate hedging programme (effective February 2006), whereby 50% of the projected interest rate exposure to Sterling LIBOR and US Dollar LIBOR was hedged through the application of a series of interest rate swaps, options and zero cost collars. The effect of these derivatives limits the interest rate exposure to Sterling LIBOR at 5.7% and US Dollar LIBOR at 5.8%. The interest rate swaps, options and zero cost collars extend for a three year period for US Dollar and for an eighteen month period for Sterling LIBOR at varying notional principal amounts. The interest rate swaps, options and zero cost collars do not give rise to material differences between book and fair values. The hedged amounts are included in Floating Rate Debt in the above 2005 table as the interest rate hedging programme has an effective date of 24 February 2006.

Note 6. Called Up Equity Share Capital and Share Premium Account

	2005 £'000	2004 £'000
(a) Authorised		
1,000,000,000 Ordinary Shares of Stg10p each	**100,000**	100,000

(b) Allotted Equity Share Capital and Share Premium

	Equity Share Capital Allotted and Fully Paid Number	£'000	Share Premium £'000
Ordinary Shares of Stg10p each			
At 1 January 2004	377,841,915	37,784	14,198
Issues During the Year			
– Exercise of Share Options	4,553,474	454	2,545
– Acquisition of Energy Africa and EAGHL	132,973,351	13,299	–
– Placing in connection with Acquisition	130,000,000	13,000	104,913
At 1 January 2005	**645,368,740**	**64,537**	**121,656**
Issues during the year			
– Exercise of Share Options	**2,068,983**	**207**	**1,363**
At 31 December 2005	**647,437,723**	**64,744**	**123,019**

Note 7. Merger Reserve

During 2004 the Company issued 132,987,422 ordinary shares relating to the acquisition of Energy Africa Limited and Energy Africa Gabon Holdings Limited. 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 £122,335,483, using the market value at the date of the acquisition, to the Merger Reserve.

Note 8. Profit and Loss Account

	2005 £'000	2004 £'000
At 1 January	**14,001**	171
Retained Profit for Financial Year	**7,489**	13,274
Share Based Payments	**1,403**	556
Currency Translation Adjustments	**(15,085)**	–
At 31 December	**7,808**	14,001

The Company has tax losses of £32 million (2004: £7.7 million) that are available indefinitely for offset against future non ring fence taxable profits in the Company. A deferred tax assets has not been recognised in respect of these losses as the Company does not anticipate making non ring fence profits in the foreseeable future.

The profit and loss account of the Company has not been presented separately in these financial statements as permitted by the provisions of Section 230 of the Companies Act 1985.

Note 9. Share Based payments

2005 Performance Share Plan (PSP)

Under the PSP senior executives can receive conditional awards of rights over whole shares worth up to 150% of salary p.a. (200% in exceptional circumstances). Awards will vest under the PSP subject to a Total Shareholder Return (TSR) based performance condition under which the Company's TSR performance will be measured over the fixed three year period against both the constituents of the FTSE 250 Index (excluding investment trusts) (the 'Index') and a comparator group of Oil and Gas companies. Half of an award will be tested against the Index and the other half against the comparator group. The test is over a three year period starting on the 1 January prior to grant, and an individual must normally remain in employment for three years from 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 Remuneration Report.

The shares outstanding under the PSP are as follows:

	PSP Shares	Share price at grant
Outstanding at 1 January 2005	–	–
Granted	1,784,417	187.5
Outstanding at 31 December 2005	1,784,417	187.5

The inputs of the option valuation model were:	
Risk free interest rate	4.1% p.a.
Expected volatility	33%
Dividend yield	0.93% p.a.

The expected life is the period from grant to vesting date. The weighted average fair value of the awards granted in 2005 was 112.8p per award.

The Company recognised a total expense of £311,000 (2004: nil) in respect of the PSP.

2000 Executive Share Option Scheme (ESOS)

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

Options have previously been granted under the 1988 ESOS and the 1998 ESOS. Options granted under the 1988 ESOS and the 1998 ESOS are not subject to performance conditions. All awards under the 1988 ESOS and the 1998 ESOS were made prior to 7 November 2002 and therefore, under the 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 during the year.

	2005 number	**2005 WAEP**	2004 number	2004 WAEP
Outstanding as at 1 January	**20,683,036**	**82.01**	21,403,239	83.29
Granted during the year	**3,808,600**	**169.03**	3,924,000	111.23
Exercised during the year	**(1,563,626)**	**79.43**	(4,539,403)	113.22
Expired during the year	**(938,450)**	**96.37**	(104,800)	85.37
Outstanding at 31 December	**21,989,560**	**96.65**	20,683,036	82.01
Exercisable at 31 December	**9,299,210**	**68.59**	9,675,226	68.41

The weighted average share price at exercise for options exercised in 2005 was 79.43p.

Options outstanding at 31 December 2005 had exercise prices of 61p to 265p and remaining contractual life of one to ten years.

The principal inputs to the options valuation model were:

Risk free interest rate	3.6-5.2% p.a.
Expected volatility	33-55% p.a.
Dividend yield	0.0-2.0% p.a.
Employee turnover	From 0% – 10% pa depending on seniority
Early exercise:	At rates dependent upon seniority and potential gain from exercise

The fair values and expected lives of the options valued for FRS 20 were:

Award year	Weighted Average Exercise Price p	Weighted Average Fair value p	Weighted Average expected life from grant date years
2003	84.4	37.5	5.9
2004	112.6	52.8	4.6
2005	169.3	53.0	4.8

The Company recognised a total expense of £1,057,000 (2004: £545,000) in respect of the ESOS.

UK & Irish Share Incentive Plans (SIPs)

The SIP's 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 £31,000 (2004: £11,000) for the matching shares and £4,000 (2004: nil) for the partnership shares.

Note 10. Related Party Transactions

Transactions with the Directors of Tullow Oil plc are disclosed in the Remuneration Report on pages 35 to 41. 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 11. Subsequent Events

There have been no material events affecting the Company since the Balance Sheet date.

Licence Interests

Exploration, Development and Production Interests

NW Europe

Licence/ Unit Area	Blocks	Fields/ *Discoveries*	Tullow Interest	Operator	Other Partners
United Kingdom Offshore CMS Area					
P449	43/25a	*Opal Discovery*	30.00%[1]	GDF	EOG Resources
P450	44/21a	Boulton B & F	9.50%	ConocoPhillips	GDF
P451	44/22a 44/22b	Murdoch Boulton H[2], Watt[2]	34.00%	ConocoPhillips	GDF
P452	44/23a (part)	Murdoch K[2]	6.91%	ConocoPhillips	GDF
P453	44/28b	Ketch	100.00%	Tullow	
P516	44/26a	Schooner[3]	97.05%	Tullow	GDF
P517	44/27a	*Garnet Discovery*	31.67%	GDF	
P847	49/02b		15.00%	GDF	EOG Resources
P1006	44/17b	Munro[4]	20.00%	GDF	ConocoPhillips
P1013	49/02a	*Topaz Discovery*	25.00%	GDF	EOG Resources
P1055	44/11, 44/12		35.00%	GDF	E.ON
P1057	44/16	*Humphrey Discovery*	35.00%[5]	GDF	E.ON
P1058	44/18b, 44/23b	*Kelvin Discovery*	22.50%	ConocoPhillips	GDF
P1139	44/19b		22.50%	ConocoPhillips	GDF
P1184	44/21c, 44/26b		25.00%	Tullow	Endeavour, GDF, Premier
P1235	43/22b, 43/23a, 43/27b 43/28, 43/29		25.00%	Tullow	Endeavour, GDF, Premier
P1339	43/23b		50.00%		Endeavour
P1343	43/30b, 48/5a, 49/1b		33.33%	GDF	Endeavour
P1345	44/28a, 49/3a	*Arrol Discovery*	100.00%	Tullow	
CMS III Unit[6]	44/17a (part) 44/17c (part) 44/21a (part) 44/22a (part) 44/22b (part) 44/22c (part) 44/23a (part)	Boulton H, Hawksley, McAdam, Murdoch K, Watt	14.10%	ConocoPhillips	GDF
Munro Unit[6]	44/17b, 44/17a	Munro	15.00%	ConocoPhillips	GDF
Schooner Unit[6]	44/26a, 43/30a	Schooner	90.35%	Tullow	E.ON, GDF
Thames-Hewett Area					
P007	49/24F1 (Excl Gawain) 49/24F1 (Gawain)	 Gawain[7]	100.00% 50.00%	Tullow ExxonMobil	
P028	48/30a, 52/05a	Hewett[8]	53.24%[9]	Tullow	Eni
P037	49/28a 49/28b 48/28a, 48/29a	Thames, Yare, Bure, Deben, Wensum, Thurne[10] Hewett[8]	66.67% 49.84%[9]	ExxonMobil ExxonMobil	Centrica Eni
P039	53/04a 53/04d	Welland[11] Wissey	75.00% 50.00%	Tullow Tullow	First Oil First Oil, Shell
P060	50/26a	Orwell	100.00%	Tullow	
P063	54/01a		45.00%	Tullow	Talisman, Palace, Challenger

Thames-Hewett Area continued

Licence/ Unit Area	Blocks	Fields/ *Discoveries*	Tullow Interest	Operator	Other Partners
P105	49/29a (part)	Gawain[7]	50.00%	ExxonMobil	
P112	52/04a	Hewett[8]	52.39%[9]	Tullow	Eni, ExxonMobil
P133	53/03a rest 53/03a P4		45.00% 35.00%	BG BG	Dyon Dyon
P467	48/23a	*Blythe*[10]	100.00%	Tullow	
P697	48/22a	*Blythe*[10]	100.00%	Tullow	
P703	50/26b	*Fizzy*[10]	100.00%	Tullow	
P786	53/03c	Horne	50.00%	Tullow	Centrica
P852	53/04b	Horne & Wren	50.00%	Tullow	Centrica
P1149	49/30b	Fizzy[10]	50.00%	Tullow	ATP
Gawain Unit[6]	49/24F1 (part) 49/29a (part)	Gawain	50.00%	ExxonMobil	
Hewett Unit[6]	48/28a (part) 48/29a (part) 48/30a (part) 52/04a, 52/05a	Hewett, Deborah, Delilah, Della	51.69%[9]	Tullow	Eni, ExxonMobil
Welland Unit[6]	49/29b (part) 53/04a (part)	Welland[12]	33.73%	ExxonMobil	First Oil

Central North Sea/South Central Graben

P477	16/13c		12.50%	ConocoPhillips	Maersk, BG
P816	16/12b, 16/13d		20.00%	Maersk	
P1094	16/13b		37.50%	Maersk	Venture
P1127	38/05		45.00%	Tullow	Nexen, Dyon
P1152	39/02b, 39/07		30.00%	Tullow	Nexen, Premier, Dyon

Northern North Sea

P1198	210/25e, 211/21b		100.00%	Tullow	

Notes:

1 Tullow has 46% in the Opal discovery.
2 Refer to CMS III Unit for field interest.
3 Refer to Schooner Unit for field interest.
4 Refer to Munro Unit for field interest.
5 Tullow has 17.5% in the Humphrey discovery.
6 For the UK offshore area, fields that extend across more than one licence area with differing partner interests become part of a unitised area. The interest held in the Unitised Field Area is split amongst the holders of the relevant licences according to their proportional ownership of the field. The unitised areas in which Tullow is involved are listed in addition to the nominal licence holdings.
7 Refer to Gawain Unit for field interest.
8 Refer to Hewett Unit for field interest.
9 Tullow's Interest on completion of deal with Centrica.
10 Development plans under consideration.
11 Refer to Welland Unit for field interest.
12 Production from the Welland field ceased in November 2002.

Licence Interests *continued*

Exploration, Development and Production Interests

Africa

Licence	Fields	Area Sq Km	Tullow Interest	Operator	Other Partners
Angola					
Block 10		4,780	15.00%	Devon	Kerr McGee, Sonangol P & P
Block 24		4,763	15.00%	Devon	Sonangol P & P, Petronas
Cameroon					
Ngosso		474	40.00%	Addax	
Congo (Brazzaville)					
M'Boundi	M'Boundi	146	11.00%	Maurel & Prom	Burren, SNPC[13]
Côte d'Ivoire					
CI-26 Special Area "E"	Espoir	138	21.33%	CNR	PETROCI
CI-107		1,639	90.00%	Tullow	PETROCI
CI-108		1,854	90.00%	Tullow	PETROCI
Equatorial Guinea					
Block L		2,551	10.00%	Chevron	Petrobras, Amerada, Sasol
Ceiba Field	Ceiba	70	14.25%	Amerada	GEPetrol
Okume Complex	Okume, Oveng, Ebano, Elon & Akom North	192	14.25%	Amerada	GEPetrol
Gabon					
Ablette		43	30.77%	Perenco	
Akoum Marin[14]		2,948	100.00%	Tullow	
Azobe Marin[15]		1,747	60.00%	Tullow	Mitsubishi[15]
Echira	Echira	77	40.00%	Perenco	Gabon Government
Etame	Etame	49	7.50%	Vaalco	PanAfrican Energy, Sasol, Sojitz, PetroEnergy
Gryphon Marin		9,764	15.00%[16]	Forest	PetroSA, Talisman
Kiarsseny Marin		5,442	47.50%	Tullow	Addax, Sonangol P & P
Limande	Limande	10	40.00%	Perenco	
Mayonami Vera		72	25.00%	Perenco	Gabon Government
Niungo	Niungo	46	40.00%	Perenco	Gabon Government
Nziembou		1,027	40.00%	Perenco	
Tchatamba Marin	Tchatamba Marin	30	25.00%	Marathon	Devon
Tchatamba South	Tchatamba South	40	25.00%	Marathon	Devon
Tchatamba West	Tchatamba West	25	25.00%	Marathon	Devon
Turnix	Turnix	18	27.50%	Perenco	Gabon Government
Back-In Options[17]					
Etame Marin		2,972	7.50%	Vaalco	PanAfrican Energy, Sasol, Sojitz, PetroEnergy
Gryphon Marin[16]		9,764	10.00%	Forest	PetroSA, Talisman
Avouma – South Tchibala		52	7.50%	Vaalco	PanAfrican Energy, Sasol, Sojitz, PetroEnergy

Licence	Fields	Area Sq Km	Tullow Interest	Operator	Other Partners
Madagascar					
Block 3109		11,050	50.00%	Tullow	Madagascar Oil
Mauritania					
Block 1		3,936	20.00%	Dana	GDF, Hardman, Roc Oil
Block 2		4,898	20.00%	Woodside	Hardman, Dana, Roc Oil
Namibia					
Production Licence 001	Kudu	4,567	90.00%	Tullow	NAMCOR
Senegal					
St Louis		5,250	60.00%	Tullow	Dana, Petrosen
Uganda					
Block 1		4,285	50.00%	Heritage	
Block 2		3,735	50.00%	Hardman	
Block 3A		3,777	50.00%	Heritage	
South Asia					
Bangladesh					
Block 9	Bangora-Lalmai[18]	6,880	30.00%	Tullow	Niko, Bapex
Blocks 17&18		13,724	32.00%	Tullow	Total, Okland, Rexwood
India					
AA-ONJ/2		1,595	60.00%[19]	Tullow	ONGC
CB-ON/1		5,875	50.00%	Reliance	Okland
GK-OS-5		5,000	50.00%	Reliance	Okland
Pakistan					
Bannu West		1,230	40.00%	Tullow	OGDCL, MGCL, SEL
Block 28		6,200	95.00%	Tullow	OGDCL
Chachar D&PL	Chachar	34	75.00%	Tullow	Govt. Holdings
Kalchas		2,068	30.00%	OGDC	MGCL
Kohat		1,107	40.00%	Tullow	OGDCL, MGCL, SEL
Kohlu		2,459	30.00%	OGDCL	OGDCL, MGCL
Nawabshah		2,334	30.00%	Tullow	OMV, POL, MGCL
Sara D&PL	Sara	83	38.18%	Tullow	OGDCL, POL, Attock
Sara West D&PL[20]	Sara West	168	60.00%	Tullow	OGDCL
Suri D&PL	Suri	24	38.18%	Tullow	OGDCL, POL, Attock

Notes:
13 SNPC has agreed to acquire an interest from Burren and Maurel & Prom.
14 Marathon has acquired a 75% operating interest in the Soulandaka area (approx 51 sq km) of this licence.
15 Renewal of licence under negotiation with Government of Gabon. Mitsubishi to participate in renewed licence.
16 Tullow has a 'Back-In' option on this licence as well as its 15% working interest
17 Back-In Options : Tullow has the option, in the event of a discovery, to acquire varying interests in these licences.
18 Bangora-Lalmai discoveries are under appraisal. Bangora-1 well going on long-term test in 2006.
19 50% will be assigned to ONGC on award of PEL.
20 Interest being sold to OGDCL.

Proven and Probable Reserves Summary working interest basis

year ended 31 December 2005

	Europe		Africa		Asia		Total		
Commercial	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Petroleum mmboe
At 1 Jan 2005	14.60	131.95	116.07	28.00	–	96.20	130.67	256.15	173.36
Revisions	–	21.09	22.04	(3.79)	–	(0.03)	22.04	17.27	24.92
Acquisitions/ Disposals	(13.81)	250.45	(12.95)	–	–	–	(26.76)	250.45	14.97
Production	(0.79)	(47.31)	(12.20)	(0.41)	–	(0.91)	(12.99)	(48.63)	(21.10)
At 31 Dec 2005	**–**	**356.18**	**112.96**	**23.80**	**–**	**95.26**	**112.96**	**475.24**	**192.15**
Contingent									
At 1 Jan 2005	–	121.80	–	780.60	–	16.20	–	918.60	153.10
Revisions	–	69.60	0.70	0.60	–	–	0.70	70.20	12.40
At 31 Dec 2005	**–**	**191.40**	**0.70**	**781.20**	**–**	**16.20**	**0.70**	**988.80**	**165.50**
Total									
At 31 Dec 2005	**–**	**547.58**	**113.66**	**805.00**	**–**	**111.46**	**113.66**	**1,464.04**	**357.65**

Proven and probable Commercial reserves are based on a Group reserves report produced by an independent engineer. Proven and probable Contingent reserves 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 162.2 mmboe at 31 December 2005 (2004: 149.99 mmboe), calculated at $40/bbl (2004: $30/bbl).

Contingent Reserves relate to reserves in respect of which development plans are in the course of preparation or further evaluation is under way with a view to development within the foreseeable future.

Five Year Financial Summary

	IFRS		UK GAAP[1]			
	2005 £'000	2004 £'000	2004 £'000	2003 £'000	2002 £'000	2001 £'000
Group Profit and Loss Account						
Sales Revenue	**445,232**	225,256	225,256	129,625	110,610	76,633
Cost of Sales	**(243,149)**	(141,228)	(131,071)	(82,249)	(75,350)	(46,480)
Gross Profit	**202,083**	84,028	94,185	47,376	35,260	30,153
Administrative Expenses	**(13,793)**	(11,573)	(11,017)	(3,059)	(3,925)	(3,859)
Profit/(Loss) on Disposal of Oil and Gas Assets	**36,061**	2,292	2,292	(952)	914	–
Exploration Costs Written Off	**(25,783)**	(17,961)	(17,961)	(12,772)	(4,169)	(3,945)
Operating Profit	**198,568**	56,786	67,499	30,593	28,080	22,349
Loss on Hedging Instruments	**(159)**	–	–	–	–	–
Finance Revenue	**4,367**	3,458	3,458	2,016	1,409	1,371
Finance Costs	**(24,197)**	(13,449)	(12,960)	(8,730)	(9,044)	(7,708)
Profit from Continuing Activities before Taxation	**178,579**	46,795	57,997	23,879	20,445	16,012
Taxation Charge on Profit on Ordinary Activities	**(65,443)**	(15,460)	(25,048)	(12,958)	(7,649)	(6,702)
Profit for the Year from Continuing Activities	**113,136**	31,335	32,949	10,921	12,796	9,310
Dividends Paid	**(14,555)**	(6,995)	(6,995)	(3,782)	–	–
Retained Profit for the Financial Year	**98,581**	24,340	25,954	7,139	12,796	9,310
Earnings per Share						
Basic – Stg p	**17.50**	5.88	6.18	2.92	3.56	2.61
Diluted – Stg p	**17.20**	5.81	6.11	2.90	3.51	2.56
Group Balance Sheet						
Fixed Assets	**897,602**	649,967	599,728	193,263	195,886	207,659
Net Current (Liabilities)/Assets	**(71,273)**	21,394	23,353	32,521	15,771	8,685
Total Assets less Current Liabilities	**826,329**	671,361	623,081	225,784	211,657	216,344
Long Term Liabilities	**(437,310)**	(295,894)	(243,997)	(109,863)	(111,357)	(124,344)
Net Assets	**389,019**	375,467	379,084	115,921	100,300	92,000
Called Up Equity Share Capital	**64,744**	64,537	64,537	37,784	35,981	35,847
Share Premium Account	**123,019**	121,656	121,656	14,198	2,485	1,993
Other Reserves	**60,589**	148,591	148,591	45,593	69,213	69,213
Profit and Loss Account	**140,667**	40,683	44,300	18,346	(7,379)	(15,053)
Equity Shareholders' Funds	**389,019**	375,467	379,084	115,921	100,300	92,000

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

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 (Ireland) Limited whose contact details are as follows:

Computershare Investor Services (Ireland) Ltd
Heron House
Corrig Road
Sandyford Industrial Estate
Dublin 18
Ireland

email: webqueries@computershare.ie
Telephone number UK shareholders: 0870 703 6242
Telephone number Irish shareholders: 01 216 3744
Telephone number other shareholders: +44 870 703 6242

Computershare Online Enquiry Service

Computershare provides a range of services through its free online shareholder enquiry service at www.computershare.com. 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 or Irish bank account and have the tax voucher sent directly to their registered address. Please contact Computershare for a dividend mandate form or download a dividend mandate form from Computershare's online enquiry service detailed above.

Electronic Communication

Shareholders have the option to receive shareholder communications including annual reports, interim reports and notices of meetings electronically. To register for this service shareholders should log into the Computershare website www.computershare.com and follow the instructions. Once registered, shareholders will be emailed when an Annual Report, Interim Report or Notice of Meeting is available for viewing on the Tullow Oil website.

Share Dealing Service

A telephone share dealing service has been established for UK and Irish registered shareholders with Computershare for the buying and selling of Tullow Oil shares. Shareholders who are interested in using these services can obtain further details by calling the appropriate telephone numbers below:

For UK shareholders:	0870 703 0084
For Irish shareholders:	1890 924 995

Financial Calendar

Financial year end	31 December 2005
Results announced	29 March 2006
Annual General Meeting	31 May 2006
2006 Interim results announced	September 2006

Dividend Payments

Final dividend payable	7 June 2006
2006 Interim dividend payable	November 2006

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Kevin Quinn, *Business Unit Manager South Asia*
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