Tullow Oil plc 2010 Annual Report and Accounts

Africa's leading independent oil company

Our vision is to be the leading global independent exploration and production company and we believe we will achieve this through a continuing focus on Africa and related geological plays in South America.

We are Africa's leading independent oil company with 53 licences in 15 countries covering an area of 215,000 sq km. Africa provides us with great opportunities to open up new basins and establish new oil producing countries such as Ghana and Uganda.

We are headquartered in London, and employ over 1,200 people in global operations spanning 22 countries. Our shares are listed on the London and Irish Stock Exchanges and are a constituent of the FTSE 100 index.

1 Tullow at a glance

Exploration and appraisal had another exceptional year in 2010 with 24 successes out of 29 wells. 2011 has started strongly with seven successes out of nine wells. Learn more about who we are and how we performed in 2010 in this section.

2 Business review

It has been a remarkable period for Tullow with major changes in cash flow, production, deepwater capability, new oil fields to develop and exploration potential that is better than ever. Here you can read about how Tullow is changing, and how we are executing our strategy and growing our business.

3 Operations review

We achieved a strong operational and EHS performance in 2010 and we are forecasting production of 86,000 to 92,000 boepd in 2011 as the Jubilee field in Ghana ramps up to plateau production. Read about our operational performance here.

"The best thing about working for Tullow is being part of a culture where your inputs are valued and respected. Another thing I really enjoy is the fact that you are frequently challenged to apply innovative solutions to engineering problems. As a Ghanaian, achieving First Oil gave me a wonderful feeling of pride because not only did I witness it firsthand but I also played an active role in making Ghana a new oil producing nation."

Samuel Ofosu, Trainee Drilling Engineer on the Sedco 702, offshore Ghana.

4 Corporate responsibility

For Tullow, corporate responsibility is about achieving a balance between delivering our business plans and our commitment to our stakeholders as a whole. Learn more about our approach to our responsibilities in this section.

5 Corporate governance

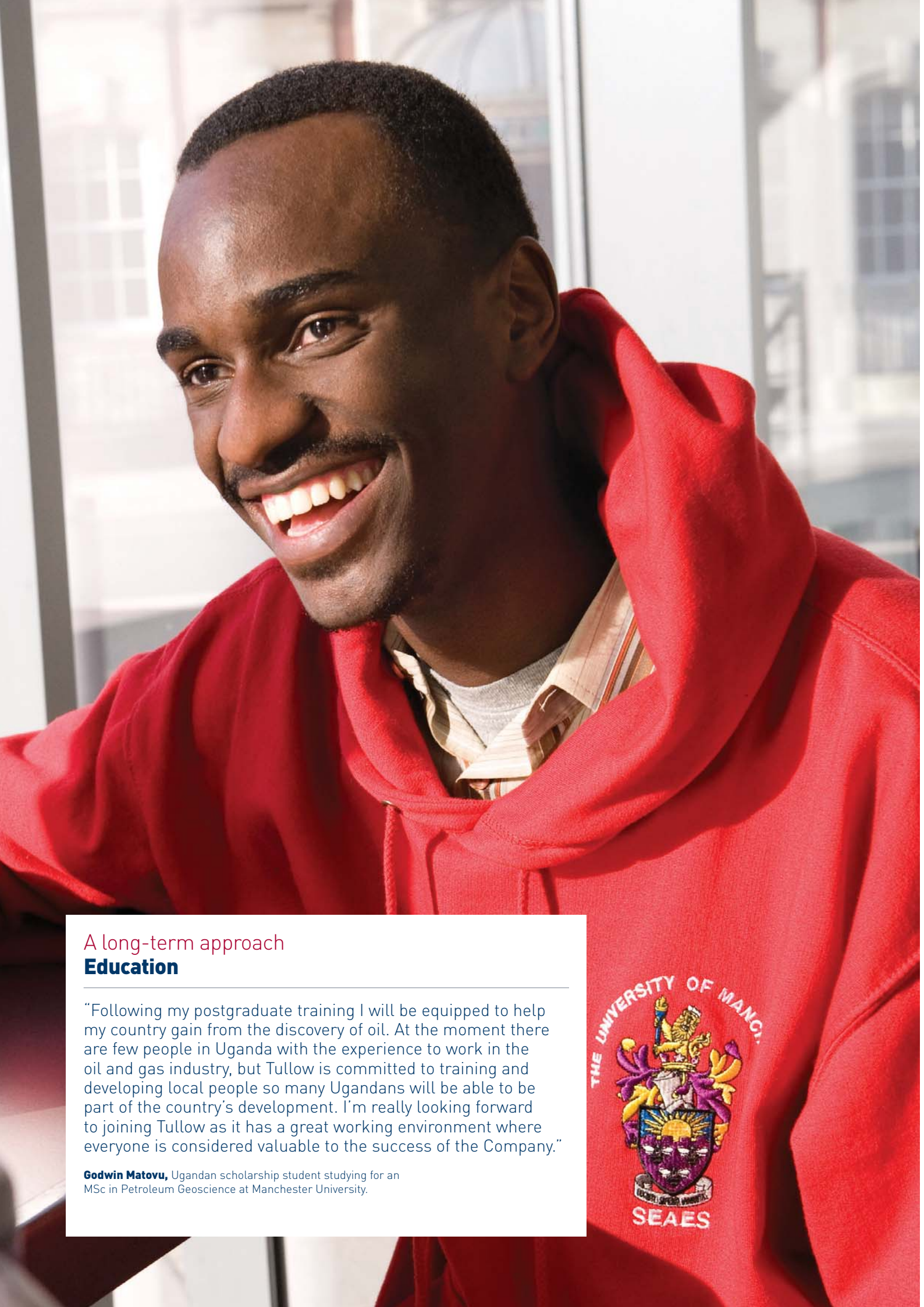
The Board is responsible to all Tullow stakeholders for providing strong strategic leadership and making sure that the risks undertaken by the business are properly balanced and managed. By doing this well, we successfully execute our business plans, maintain safe operations and deliver shareholder value. In this section learn more about our approach to corporate governance.

6 Financial statements

This section contains statutory financial information, five year performance summary, current licence list and detailed information on our reserves and resources. It also contains supplementary information for shareholders, Group contacts, report index and glossary of terms.

For more information: **www.tullowoil.com**

Sections 1-5 make up the Directors' Report in accordance with the Companies Act 2006.

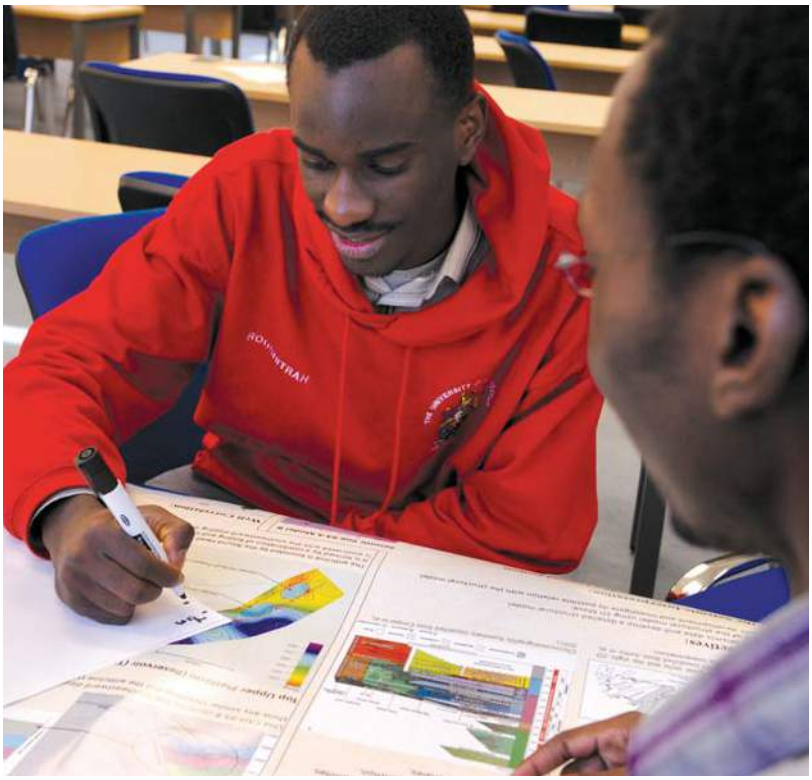


A long-term approach

Education

"Following my postgraduate training I will be equipped to help my country gain from the discovery of oil. At the moment there are few people in Uganda with the experience to work in the oil and gas industry, but Tullow is committed to training and developing local people so many Ugandans will be able to be part of the country's development. I'm really looking forward to joining Tullow as it has a great working environment where everyone is considered valuable to the success of the Company."

Godwin Matovu, Ugandan scholarship student studying for an MSc in Petroleum Geoscience at Manchester University.



1 Tullow at a glance

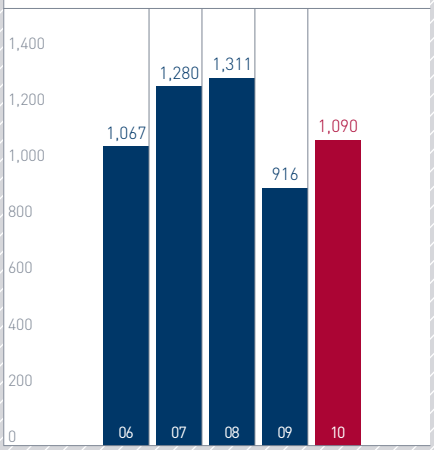
Delivering a strong performance

In 2010, we demonstrated continued exploration and appraisal success and delivered first production from the Jubilee development in record time. Our reported financial results for 2010 are materially ahead of 2009. The successful equity placing in 2010 coupled with the planned Uganda farm-down, and the increased cash flow from Ghana, will ensure that the Group remains well funded to execute its exploration-led growth strategy.

Sales revenue

$1.1 billion ↑ **19%**

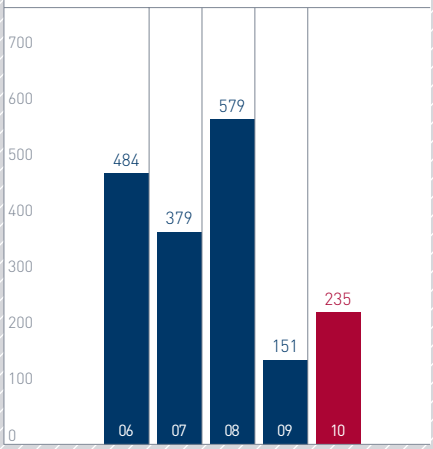
2009: $916 million



Operating profit

$235 million ↑ **56%**

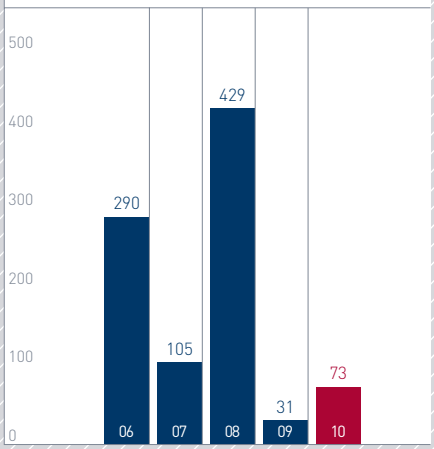
2009: $151 million



Profit after tax

$73 million ↑ **137%**

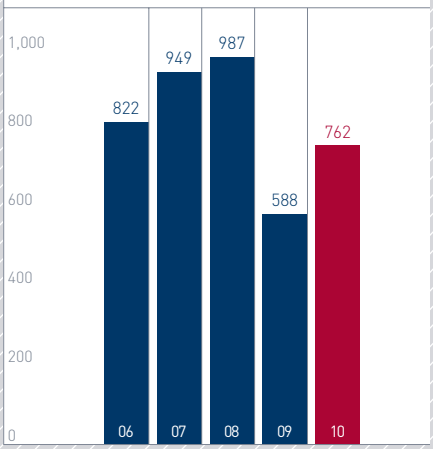
2009: $31 million



Operating cash flow

$762 million ↑ **30%**

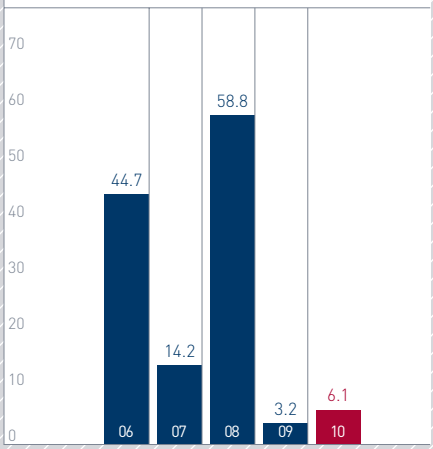
2009: $588 million



Basic earnings per share

6.1 cents ↑ **90%**

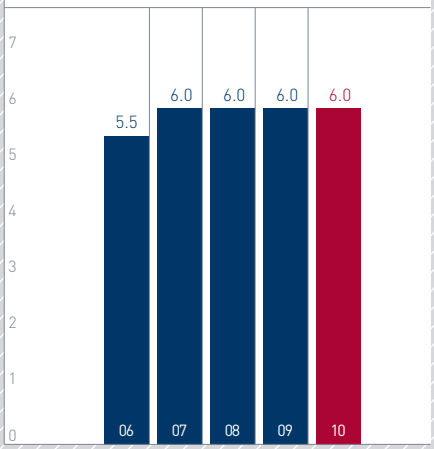
2009: 3.2 cents



Dividend per share

6.0 pence →

2009: 6.0 pence



1. Celebrations to mark First Oil, in Takoradi, Ghana. 2. The Sedco 702 during drilling operations, offshore Ghana.
3. Ugandan staff during a visit to the London office. 4. Lake Albert and the surrounding area in EA 2, Uganda.

Respected deepwater operator

In Ghana, we have completed the first phase of development of the Jubilee field successfully. Tullow has now become a competent and respected deepwater operator. His Excellency John Atta Mills, President of Ghana, led the celebrations to mark First Oil production in December 2010.

Increasing production profile

Our production and financial profile is being transformed through First Oil production in Ghana. Successfully achieving First Oil in 2010 and the steady ramp-up to plateau production this year will drive significant revenue growth and underpin future cash flow generation.

Strong EHS performance

The Tullow Team delivered a strong Environment, Health & Safety (EHS) performance across the business. Of particular note was the strong EHS performance on the Jubilee Project which delivered first-rate EHS results during the course of a diverse and challenging project, with many complex and potentially hazardous operations.

83% E&A success ratio

Exploration & appraisal (E&A) achieved an 83% success ratio in 2010 with important Equatorial Atlantic discoveries offshore Ghana and offshore Sierra Leone, together with 10 successes out of 10 wells in Uganda. A 40-well E&A campaign including basin-opening wells in Africa and South America is planned for 2011.

New licences in East Africa

We are trying to replicate our Ugandan exploration success elsewhere in East Africa and have acquired a 50% operated interest in six adjacent licences covering the East African Rift Basins of Kenya and Ethiopia.

65% local employees

We are very conscious of being part of an emerging industry in many parts of Africa and we want to contribute to developing an industry that is run by nationals. We do this by hiring local staff and creating training and career development opportunities.

Very low staff turnover

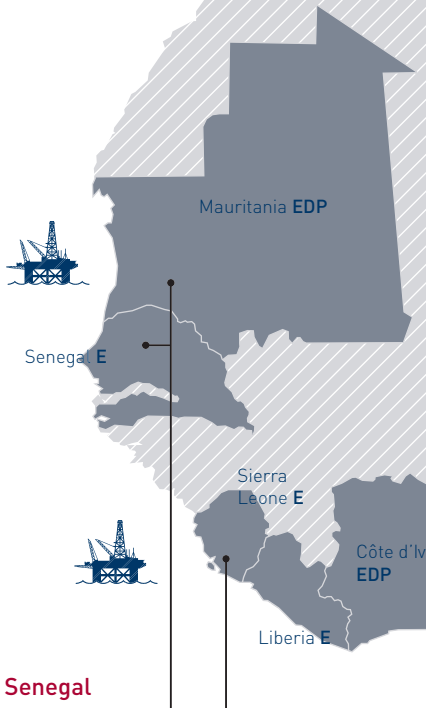
Our total workforce grew 40% in 2010, adding new skills and developing our organisational capacity. We fundamentally believe everything is about teamwork and people and monitor our staff turnover on an annual basis. It was 1.3% in 2010.

Progress in Uganda

Tullow and the Government of Uganda (GoU) are currently engaged in finalising a Memorandum of Understanding (MoU). The imminent signing of this MoU will be the first step on an exciting journey to developing Uganda as a significant oil-producing country.

Building a world-class portfolio

We have global operations in 22 countries, over 90 licences covering some 280,000 sq km of acreage that combine world-class exploration and future production growth opportunities.



Côte d'Ivoire

2,200 sq km

Interpretation of over 2,200 sq km of 3D seismic in CI-103 and CI-105 has begun following the completion of processing. Two exploration wells are planned in the second half of 2011.

Ghana

First Oil

Jubilee Phase 1 came on stream in November and will ramp up to plateau production by the middle of 2011. The Tweneboa and Enyenra fields have been confirmed as major discoveries with development studies well advanced. An extensive E&A programme in the West Cape Three Points licence commenced at the end of 2010; the first well successfully discovered the Teak oil field up-dip of Jubilee.

Mauritania and Senegal

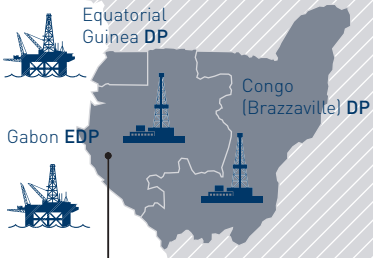
35,000 sq km

Two wells to test Cretaceous-aged reservoirs provided encouraging initial results for future high-impact exploration across more than 35,000 sq km of prospective acreage.

Sierra Leone & Liberia

40 metres net pay

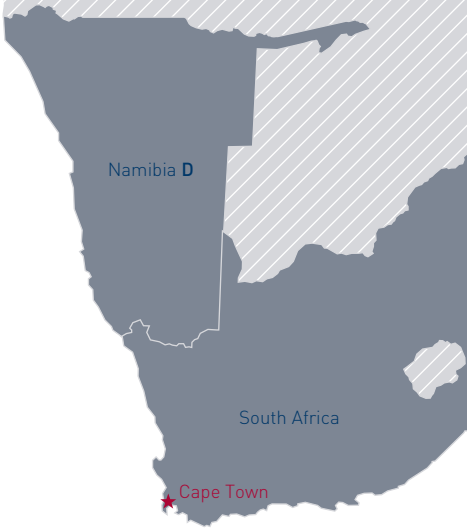
The successful Mercury-1 well encountered over 40 metres of net oil pay in Sierra Leone with further appraisal drilling to follow. In addition the high-impact Montserrado-1 well is targeting the Cobalt prospect in Liberia in the second half 2011.



Gabon

10 E&A wells

An extensive E&A campaign in 2010 resulted in eight of ten wells successfully encountering hydrocarbons, with the main drilling focus around the OMOC-N1 discovery well.



Africa

Countries (with EDP)	15
Licences	53
Employees	506
Acreage ('000 sq km)	215
E&A wells	28
Successful E&A wells	23
Development wells	93
Production (boepd)	39,000

p52 **Operations review: Africa**

2010 drilling activity – Offshore – Onshore

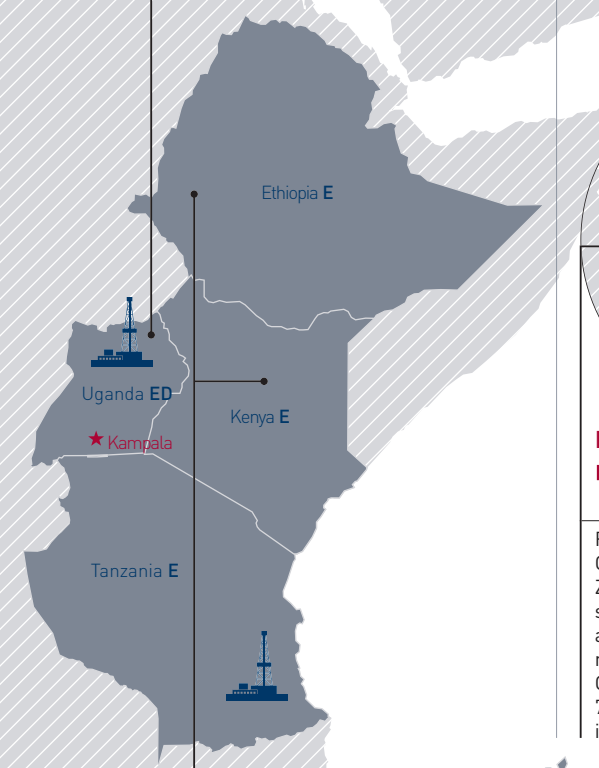
E Exploration **D** Development **P** Production ★ Key offices

United Kingdom
CMS area

Two successful infill wells were drilled in 2010 in the CMS Area of the offshore UK Southern Gas Basin. Ketch-8z was brought on stream in August and Boulton-B5 commenced production in October. Average net production in 2010 from the Group's mature UK assets was 13,300 boepd.

Uganda
1 bn barrels discovered

E&A drilling of 10 wells in 2010 succeeded in advancing the discovered resources to 1 billion barrels of oil (P50) with a yet-to-find from undrilled prospects of 1.5 billion barrels (P50). Potential new partners CNOOC and Total have been working with Tullow on a basin-wide development plan to produce in excess of 200,000 bopd by 2015.



French Guiana
700 mmboe prospect

Following the successful farm-down of the Guyane Maritime block to Shell and Total, the Zaedyus prospect in French Guiana has been selected. This will test the twin play theory across the Atlantic from where Tullow has seen major success in West Africa in the Upper Cretaceous turbidite fan play. This potential 700 mmboe prospect commenced drilling in March 2011.

Bangladesh
5,650 boepd

In Bangladesh, Tullow has significant production from the Bangora field with net average working interest production in 2010 of 5,650 boepd. The field has maintained gross production at 120 mmscfd and the successful installation of the hydrocarbon dew point control system in March 2010 has been operating ahead of expectation, producing around 400 gross barrels of condensate per day.

Kenya and Ethiopia
6 licences

Tullow completed the farm-in to five Kenyan and one Ethiopian licence in January 2011 with a total acreage of around 100,000 sq km. There are two initial exploration wells scheduled for late 2011.

Visit our website to watch video interviews from around the business and to find out more: **www.tullowoil.com**

Rest of the World

Countries (with EDP)	7
Licences	41
Employees	429
Acreage ('000 sq km)	65
E&A wells	1
Successful E&A wells	1
Development wells	2
Production (boepd)	19,100

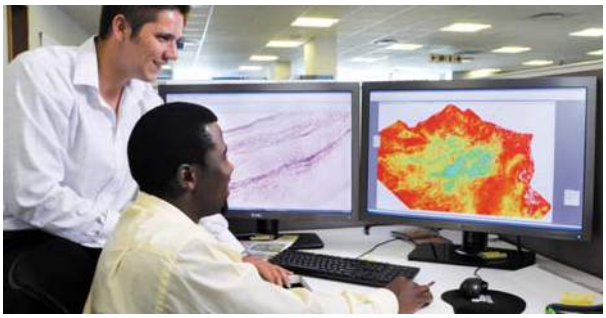
p59 Operations review: Rest of the World

Creating long-term value

We create value in two ways. Through successful exploration and strategic acquisitions we grow our resource base. By either developing or farming down we commercialise those resources.

Explore to find

Successful exploration is one of the most cost-effective ways to add transformational resources to the Group. We find oil and gas through best-in-class geological expertise and geophysical prospecting technologies. We balance high-risk exploration campaigns in frontier areas that have material follow-up potential, with lower-risk appraisal and satellite drilling.



Exploration staff reviewing geophysical imagery, Cape Town, South Africa.

Develop to produce

First Oil from the Jubilee field demonstrates that one of our core strengths is the ability to turn resources into reserves and then into production revenue and cash flow to fund the business. We have the ability to both manage mature production operations and fast-track development of major projects, such as in Ghana. In recent years we have shifted our operating capability to a new level.

Production Operators on the Jubilee field FPSO, Ghana.

Growing our resource base

Value creation

We create long-term shareholder value by pursuing a consistent strategy that seeks to deliver a balance between exploration, appraisal and development investment, funding from production and portfolio activities, and debt and equity financing. To do this successfully and sustainably, we must operate responsibly across the business and effectively manage and mitigate risk.

Commercialising our resource base

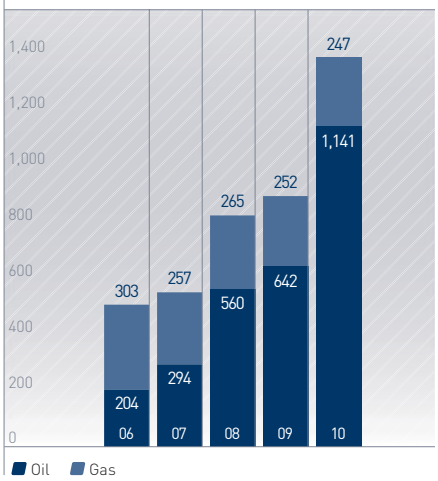
Acquire to grow

We have a strong track record of successfully acquiring assets and companies which complement and extend our portfolio, skill set and business opportunities. In building our portfolio we have acquired UK North Sea gas assets in 2001, and extensive African assets through the acquisition of Energy Africa in 2004 and Hardman Resources in 2007.

Platform on the Tchatamba field, offshore Gabon.

Total reserves and resources*

1,388 mmboe



* Post completion of the farm-down transaction with CNOOC and Total in Uganda, total reserves and resources are expected to reduce to 869 mmboe.

p24 Exploration and appraisal

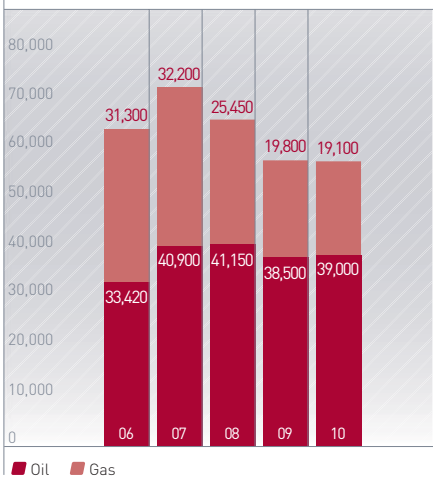
Dilute to re-invest

We continually review our portfolio of assets and we farm down selected exploration and production assets through strategic portfolio management when appropriate. This enables us to introduce new partners with complementary skills and also generates cash flow for re-investment during the development phase.

Drilling rig on the shores of Lake Albert, Uganda.

Working interest production

58,100 boepd



p26 Production and development

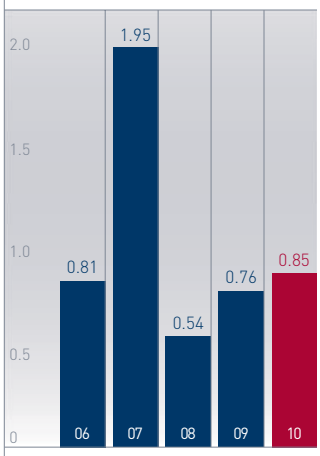
Monitoring the health of the business

We measure our progress through seven KPIs that are closely aligned with delivering our strategy.

Non-financial

Lost Time Injury Frequency Rate (LTIFR)

0.85 LTIFR



One of our strategic priorities is to ensure safe people, procedures and operations. To measure this we have set Group objectives to deliver top quartile industry safety performance and achieve a preset absolute target.

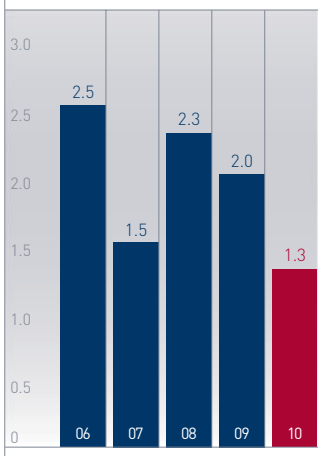
Measurement Throughout the Group there are rigorous and consistent incident reporting procedures in place. These include analysis, follow-up, remedial actions and communication of learnings. EHS is reported to the Board monthly and annually.

Risk management We have clear EHS policies and procedures supported by strong EHS leadership, accountability and EHS commitment statements in each asset and at each level of the business. EHS is also part of all operational planning and activities.

2010 Performance In 2010, we did not achieve top quartile industry safety performance. We did not achieve our stretch target but we did achieve the baseline target of <1.0 LTIFR. As a result, the bonus element relating to this KPI was reduced by 66%.

Staff turnover

1.3%



Our goal is to be the employer of choice in the industry so that we attract and retain the best people.

Measurement We have a Board approved HR strategy and approximately 5% of the Board's time annually is spent on HR matters. There are systems to identify issues early and we track and resolve any issues arising from our global employee survey. People who leave us are debriefed so we can improve our policies.

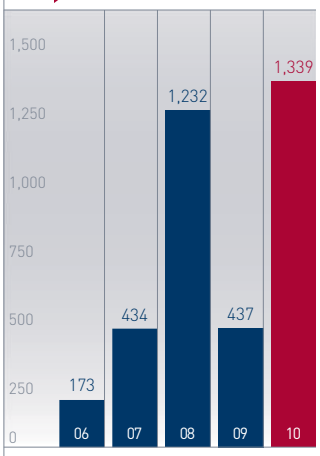
Risk management Our best way to avoid a people skills shortage or unexpected departures is to retain our entrepreneurial culture. This allows people to contribute in the best way possible. It is important also to recognise and reward staff appropriately for their contribution.

2010 Performance 1.3% of staff left the Group in 2010, compared with 2.0% in 2009. This is another strong performance for the year, considering our total permanent workforce grew by 40% to 1,232 people.

Financial

Reserves and resources replacement

1,339%



Replacement of reserves and resources is focused on continuing to grow the Group's production potential.

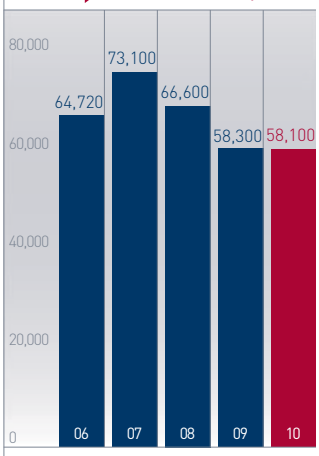
Measurement A review of each field is undertaken every two years by an independent engineer or if there is significant new data that indicates a material change to reserves or resources estimates on any field in the interim.

Risk management The Group manages replacement risk by maximising reservoir performance in producing fields, through operational and technical capability and focused exploration campaigns that deliver material discoveries.

2010 Performance The Group achieved 1,339% organic reserves and resources replacement in 2010.

Working interest production

58,100 boepd



On a yearly basis we aim to achieve production in line with the Group's annual budget. Part of our strategy is to grow our production profile to fund a $500 million to $700 million exploration programme.

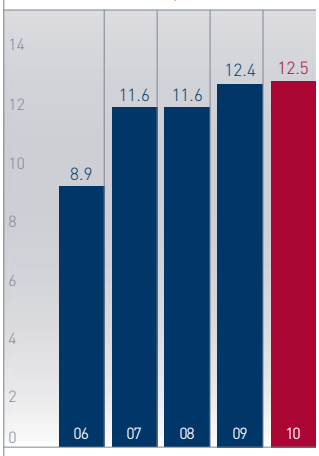
Measurement Daily and weekly production are monitored from all producing assets. Production is reported weekly and on a monthly basis. Forecast updates are prepared regularly during the year.

Risk management In mature assets strong production planning and monitoring mitigates unplanned interruptions. First Oil in Ghana is significantly enhancing our production profile.

2010 Performance The Group's baseline production target for 2010 was 55,900 boepd; the stretch target was 58,700 boepd. 2010 actual production was 58,100 boepd and 94% of the bonus element relating to this KPI was awarded.

Cash operating costs per boe

$12.5 per boe



Cash operating costs per barrel of oil equivalent (boe) are a function of industry costs, inflation, Tullow's fixed cost base and production output.

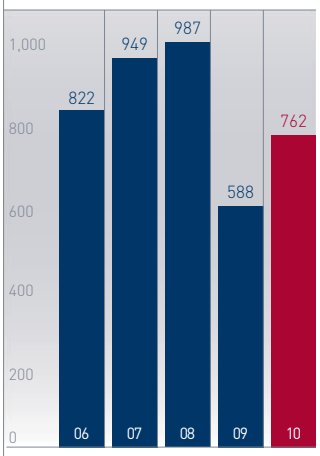
Measurement Cash operating costs are reported monthly on an asset basis and are monitored closely to ensure that they are maintained within preset annual targets.

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

2010 Performance In 2010, we set a baseline target of $13.6 per boe and a stretch target of $12.9 per boe. Cash operating costs for 2010 were $12.5 per boe. The bonus element relating to this KPI, which is linked to working interest production, was achieved.

Operating cash flow before working capital

$762 million



Tullow has a large requirement for capital to fund major project development and a very active exploration and appraisal programme. Our goal is to ensure that operating cash flow funds a significant proportion of capital expenditure.

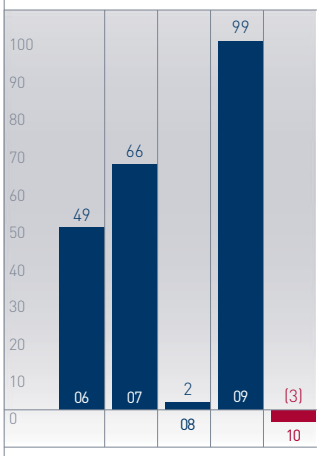
Measurement Operating cash flow is reported monthly with regular forecasting for longer periods to support long-range planning and investment decisions.

Risk management Strong financial and operating management, disciplined monitoring and reporting, long-range cash flow forecasting and strong banking and equity relationships assist the Group in managing liquidity. Annual and project budgets require Board approval.

2010 Performance Realised oil price was 30% higher in 2010 and this was the primary driver of a 30% increase in operating cash flow. During the year Tullow invested $1.2 billion; 57% in P&D activities and 43% in E&A activities. 90% of the total was invested in Africa.

Total Shareholder Return (TSR)

(3%)



Our strategic objective is to deliver substantial returns to shareholders through sustainable long-term growth. Our overall aim is to create and share prosperity so that local communities and wider society in the countries where we operate see real returns on our success.

Measurement TSR (share price movement and dividend payments) is reported monthly and at year-end to the Board. The industry peer group is regularly reviewed.

Risk management The Executive team is responsible for the execution of Tullow's strategy and it is reviewed annually with the Board as part of three-year business planning. Being a well run business, delivering in line with business plans, being open and transparent and maintaining strong capital market relationships underpin delivery of TSR.

2010 Performance The Macondo deepwater blowout in the Gulf of Mexico and the lack of a resolution to the Uganda tax dispute impacted Tullow's share price resulting in TSR of minus 3%. As neither TSR absolute performance nor TSR performance versus comparator group was achieved, the bonus element of this KPI was not awarded.

The bonus element of the Executive Directors' remuneration is linked to LTIFR, working interest production, cash operating costs per boe and TSR. Other KPIs relating to bonus remuneration include finding costs per barrel, specific finance and portfolio management objectives and key project milestones for Ghana and Uganda.

p20 For more information on **Our strategy**

p42 For more information on **Risk management**

p86 For more information on **Remuneration**

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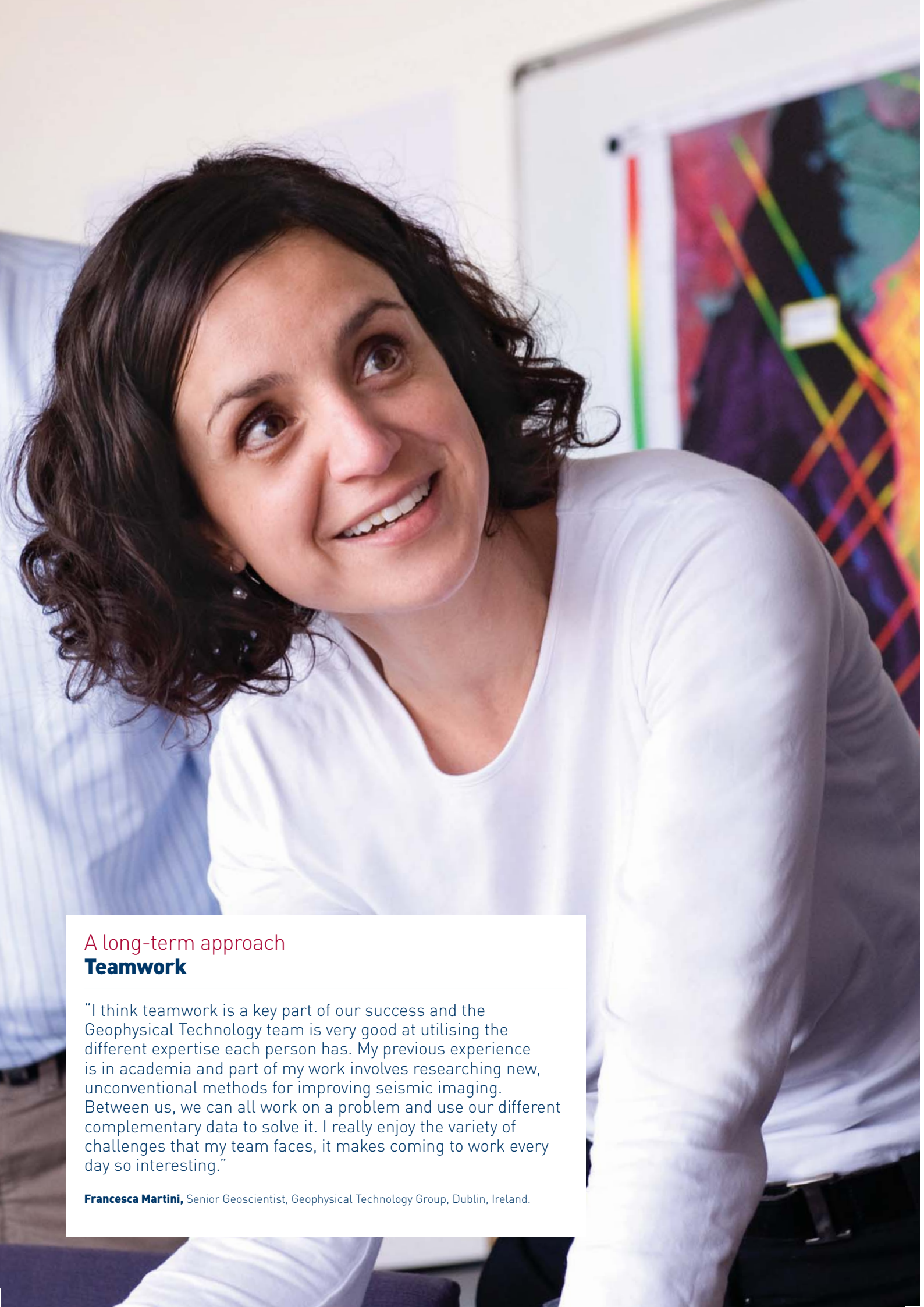
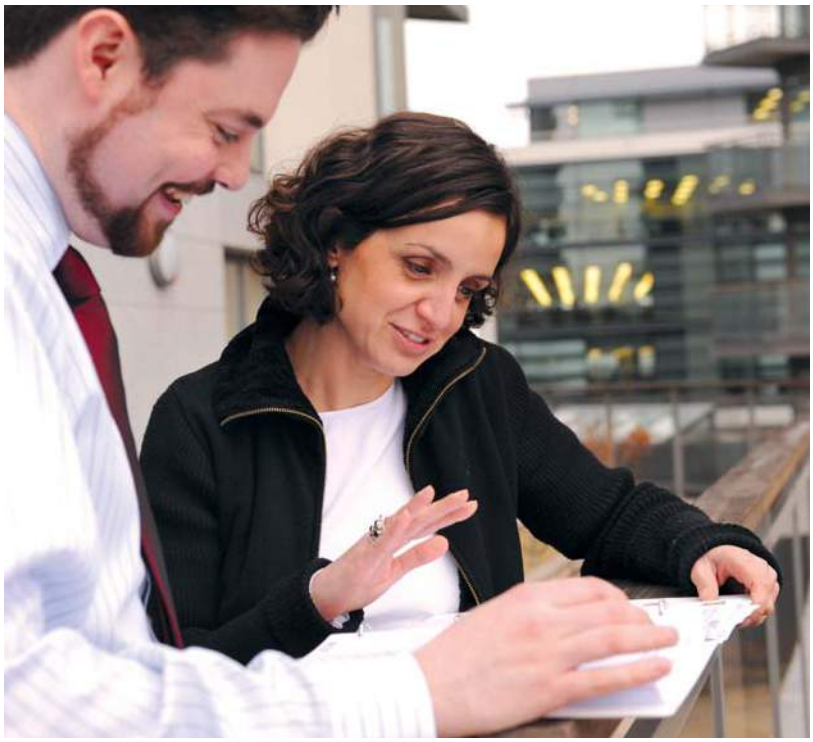


A long-term approach

Teamwork

"I think teamwork is a key part of our success and the Geophysical Technology team is very good at utilising the different expertise each person has. My previous experience is in academia and part of my work involves researching new, unconventional methods for improving seismic imaging. Between us, we can all work on a problem and use our different complementary data to solve it. I really enjoy the variety of challenges that my team faces, it makes coming to work every day so interesting."

Francesca Martini, Senior Geoscientist, Geophysical Technology Group, Dublin, Ireland.



2 Business review

Making history

2010 was a very good year. In particular, Ghana and the Jubilee Partnership made history with First Oil and we had another year of exceptional exploration success.

Making history in Ghana

Tullow's highlight of 2010 was achieving First Oil from the Jubilee field offshore Ghana with formal celebrations held on 15 December 2010. We are now a deepwater development operator having delivered production on schedule, within 5% of the original budget. The facilities uptime has been exceptional to date at approximately 90% and we will continue to ramp-up production over the coming months.

For more information on delivering First Oil in Ghana see **Jubilee special feature**

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"We made remarkable progress in 2010 and are building Tullow year-by-year. We are in great shape and in a strong position as Africa's leading independent oil company."

Pat Plunkett, Chairman

Good financial performance

2010 revenue benefited from higher oil prices offset by slightly lower sales volumes. First Oil in Ghana will transform Tullow's financial profile in 2011. During the year we raised $1.45 billion from an equity placing and took the opportunity, based on good operational performance and a strengthening external environment, to increase our debt capacity.

Exceptional exploration and appraisal success

2010 was another year of exceptional exploration and appraisal (E&A) delivery. We achieved an 83% success ratio, finding hydrocarbons in 24 out of 29 E&A wells during the year.

In Ghana, highlights were the discovery of Enyenra (formerly Owo), subsequently proved to be a major oil field, and the successful appraisal of the Tweneboa field. The Mercury-1 discovery well in Sierra Leone also extended the Jubilee play more than 1,000 km west of Ghana. The Equatorial-Atlantic play represents an important opportunity for further exploration and new basin opening potential in both West Africa and South America.

We had a 10 out of 10 success ratio in Uganda and have made good progress in developing new E&A targets in the Lake Albert Rift Basin. We are now seeking to replicate our Ugandan success elsewhere in the East African Rift Basins and have acquired six contiguous licences in Kenya and Ethiopia. We have an exciting high-impact E&A programme of some 40 wells planned in 2011 and already we have had seven out of nine successes.

Strong production and development performance

The performance of our global assets in 2010 was very strong with production of 58,100 boepd. Contingent Resources increased by 500 mmboe during the year and our three-year reserves replacement ratio is 250%.

The contribution from the Jubilee field will considerably increase Group production in 2011, to an expected average of between 86,000 and 92,000 boepd. This broader range is more appropriate given the weighting of the Jubilee field production in our portfolio and the timing uncertainty of when Jubilee will reach gross plateau production of 120,000 barrels of oil per day (bopd).

A pipeline of development projects continues to be built from the exceptional results of our exploration programmes and this will build our production profile in the medium term.

The Tullow team

The quality and commitment of the Tullow team is our leading strength as an organisation and we welcomed over 250 new employees during 2010 to the Group who will further enhance our capabilities in many parts of the business. Our total workforce grew to 1,232, also up 40% year-on-year. We employ 680 people in Africa, of whom over 65% are local nationals.

Environment, Health and Safety

The management of EHS remains a core priority. During 2010, we delivered a strong EHS performance across the organisation while progressing a number of key EHS initiatives. Of particular note was the EHS performance on the Jubilee deepwater development, which delivered excellent EHS results during the course of a diverse and challenging project with many complex and potentially hazardous operations.

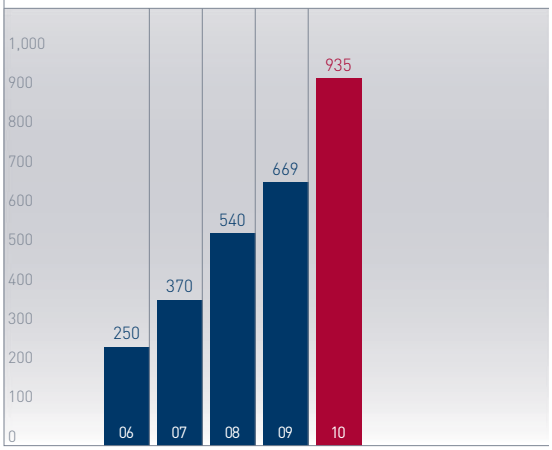
We reviewed well control (which relates to prevention) and oil spill response in Ghana in the immediate aftermath of the Deepwater Horizon incident in the Macondo prospect in the Gulf of Mexico; and we have continued with our follow-up throughout the year at operational and Board level.

Our safety performance was good but did not achieve our objective of top quartile industry performance for the year.

Growth in employees

40%

year-on-year increase in full time employees in 2010



Risk management

In 2010, we again enhanced our risk management processes and procedures including:

- The Jubilee project team implemented an operational readiness and assurance (OR&A) plan to manage transition risks from development to production;
- A Financial Risk Committee was established with the objective of ensuring the overall framework for financial risk management is comprehensive and responsive to changes in the business; and
- We reacted, as outlined above and on page 42 of this report, to the Macondo incident in the Gulf of Mexico.

Dividend policy

The Board feels it is appropriate to continue to observe a stable dividend policy for 2010. The final dividend proposed is 4.0 pence per share, which brings the total payout for 2010 to 6.0 pence per share. The dividend will be paid on 20 May 2011 to shareholders on the register on 15 April 2011. The Annual General Meeting (AGM) will be held on 12 May 2011 in Haberdashers Hall in London. A meeting for shareholders in Ireland will be held on 2 June 2011 in the Royal College of Physicians of Ireland in Dublin.

Board changes

In August 2010, Tutu Agyare was appointed to the Board as a non-executive Director. Tutu has had an extensive career in investment banking and is currently a Managing Partner at an Africa-focused hedge fund. Tutu brings a wealth of experience in banking and invaluable knowledge of doing business in Africa to the Group, as we continue to expand our business there.

At the AGM in May, Clare Spottiswoode CBE will retire from the Board of Tullow having served as a Director for over nine years including three years as the Chairman of the Remuneration Committee. On behalf of the Board I would like to thank Clare for her immense contribution. Following Clare's departure from the Board, David Bamford will become the Chairman of the Remuneration Committee.

The Board has appointed Simon Thompson as a non-executive Director with effect from 16 May 2011. Simon was previously an executive Director of Anglo American plc, Chairman of the Tarmac Group and also held investment banking positions with S G Warburg and N M Rothschild. He is currently a non-executive Director of Newmont Mining Corporation, Sandvik AB and AMEC plc.

Finally, I would like to announce that after over 12 years as a non-executive Director of Tullow and 10 years as the Chairman, I have advised the Board that now would be a good time to identify my successor. The Board plans to commence the search after this year's AGM and expects to make an appointment prior to the AGM in 2012.

Key Performance Indicators

We measure the performance of the business with seven key KPIs together with specific objectives for major projects, finance and managing our portfolio of assets. In 2010, we did well against our targets with the main exceptions being TSR targets and ongoing delays in Uganda.

For more information on
KPIs

p10

Ghana listing

In November 2010, we announced that we were planning a secondary listing on the Ghana Stock Exchange. This was in order to create a more accessible opportunity for Ghanaian individuals and institutions to invest in the future of their oil industry through Tullow. Originally planned for December, the Listing was postponed due to the need to focus on achieving First Oil from the Jubilee field and year-end corporate planning. The Listing is now planned to go ahead as soon as practicable after the issue of this Annual Report.

Establishing a major new partnership in Uganda

In 2010, we took the opportunity to pre-empt a deal agreed by our partner in Uganda when it decided to sell its stake. In parallel we agreed to farm down two thirds of our interests to CNOOC and Total to create a like-minded, aligned partnership.

However, a transaction of this size and importance takes time to negotiate and finalise, particularly in an election year. Large scale oil development is new to Uganda and it is important to get the appropriate fiscal and legal framework in place for the long-term benefit of all parties.

After many months of discussion, we are close to signing an MoU with the GoU. This agreement will satisfy the GoU's taxation concerns and enable Tullow, CNOOC and Total to proceed with the basin-wide development with the full support and commitment of the GoU.

Finalising the Ugandan farm-down will secure our funding for the medium term and ensure we are adequately capitalised to develop our major projects, fund our high-impact exploration programme and achieve our strategic objectives.

Outlook

This time last year I wrote that Tullow had a very bright future after an outstanding 2009. We continued to make remarkable progress in 2010 towards our vision of being the leading global independent exploration and production company. Our excellent performance is due to Aidan Heavey, his Executive colleagues and all our employees who are building the Group year-on-year. Tullow is in great shape and in a strong position as Africa's leading independent oil company.

Pat Plunkett, Chairman

Governance highlights

"An externally facilitated evaluation of the Board, its Committees and individual Directors was undertaken in 2010. Overall the Board performance reports concluded that the Board had been effective during the year."

Graham Martin, General Counsel and Company Secretary

p72 For more information on **Corporate governance**

2010 Board objectives	2010 Board performance
Corporate strategy	
Ensure Board focus is on high-level issues and strategy	In 2010, 45% of the Board's time was devoted to strategy, including the evolving Uganda situation. A number of external advisers presented to the Board on topics including the equity and debt markets in relation to our sector, current economic and political developments in our African areas of interest and stakeholder engagement. The Board performance report identified the need to continue to improve the strategy development process and to allocate sufficient time to strategic debate and the consideration of alternative strategies for the achievement of corporate objectives.
Invite suitable external advisers and speakers to Board meetings to stimulate discussion and debate	
Succession planning	
Appoint external advisers	External advisers were appointed during the year.
Consider matters within Nominations Committee terms of reference	These were reviewed and revised appropriately.
Develop a clear roadmap for non-executive Director refreshment and Chairman succession	A suitable roadmap was devised and its implementation has already begun successfully. See the Report of the Nominations Committee for further details on page 84. Tutu Agyare's appointment during the year has increased the Board's African expertise and within the organisation we have continued to recruit Africans to senior management positions.
Increase African profile of Tullow Board, management and staff	
Consider development plan for each of the Executives and senior management	Development plans for the Executives and senior management have been discussed and are now being implemented. The Board performance report identified the need to formalise and continue these efforts and to ensure they cover general compliance training as well as sector-specific training.
Board training and administration	
Select suitable external courses for non-executive Directors and Executives and formalise Directors' training register	In accordance with the new UK Corporate Governance Code, the Chairman will agree individual training plans for each of the Directors, tailored to their respective skills and requirements, and a formal Training Register will be established.
Continue to review membership of Board Committees	Membership of the Committees was reviewed in 2010 and it was agreed that no change was required at that stage. However, the issue will be reviewed again in 2011 after the announced changes to the Board have taken place.
Investigate electronic/web-based solutions for Board administration	Some progress was made in electronic/web-based Board administration in 2010 but a more thorough review will be undertaken in 2011.
Board visibility and Group communications	
Attendance of Directors at Group functions	The Executive Directors made numerous visits to key offices in 2010 and attended various functions with staff. The full Board visited Ghana prior to First Oil, giving them a chance to meet a wide cross-section of staff there. Some of the non-executive Directors also visited other offices during the course of the year and attended staff events. The Board performance report noted that the non-executive Directors were committed to such visits and to improving the accessibility of the Board to all staff and recommended that advantage be taken of this commitment.
Demonstrate support for key offices	
Consider further non-executive Director visits to key offices	
Improve accessibility of Board to all staff	

Moving on to the next level

It has been an exceptional period for Tullow. We have developed our deepwater operating capability and major changes are underway in production and cash flow. We have new oil fields to develop and our exploration potential is better than ever.

"Delivering First Oil has been an enormous undertaking, and the steps on the journey to deliver on this scale have literally transformed the business."

Aidan Heavey, Chief Executive Officer

Delivery and growth

2010 was a year of delivery and growth for Tullow. We are bigger, better and stronger than ever before, but it has also been a year of contrasts. We have experienced great exploration success and the excitement of First Oil in Ghana, contrasted with unanticipated delays and some uncertainty in Uganda. This was undoubtedly a challenge for us, but true to our entrepreneurial spirit we used the time to review and consolidate the business, after the extraordinary year-on-year growth we had experienced since 2004. We also continued to make steady progress across the organisation and there are hallmarks of success in each area of Tullow.

Major successes but taking time in Uganda

We entered 2010 with a major exploration and appraisal programme planned for the year, which subsequently delivered material discoveries. We were also blessed with two, almost simultaneous, world-class oil development projects in Ghana and Uganda.

The commercial threshold for development in Uganda was achieved in 2009. Uganda has prolific oil resources and will have an oil industry for many decades to come. It was therefore fundamentally important to the GoU, Tullow and the new partnership with CNOOC and Total, to establish a strong fiscal and legal framework and this took many months of discussions. The signing of the MoU will establish this framework and enable the GoU to grant consent for Tullow's purchase of Heritage's interests in the Lake Albert Basin and the subsequent farm-downs to CNOOC and Total.

We look forward to working closely with the GoU, in conjunction with CNOOC and Total in developing the Ugandan oil and gas sector.

For the latest information on Uganda visit the press release section of our website **www.tullowoil.com/media**

Who we are

Tullow is 25 years old in 2011 and therefore 2010 presented us with a timely opportunity to remember what Tullow is all about, what we are good at and what is important in terms of our personality and our culture.

We are entrepreneurial and driven and we like to do things differently because we take a long-term approach to developing our business. We want to achieve our strategic objectives and goals and do so through exploration-led growth. We fundamentally believe everything is about teamwork and people and we want to be recognised and acknowledged as Africa's leading independent oil company.

We believe we will achieve our vision to become the leading global independent E&P company through our focus on Africa and by opening new basins with related geological plays in South America and elsewhere.

For Tullow, Africa remains our birthplace and as a result it is our heartland. We have an excellent track record there and it provides great opportunities for us to develop new basins and establish a new industry model for partnership and shared prosperity. Our heritage is in Africa and our legacy will be defined by our actions there.

Creating shared prosperity

The challenge for us is to characterise what creating shared prosperity means, and what success will look like for all our stakeholders so that we can measure and report our progress towards that goal. For Tullow, creating shared prosperity means behaving responsibly in all aspects of our business to create an environment that helps us to successfully deliver our business plans, continue our growth strategy, and contribute to social and economic development, both within and outside of our core business activities. That means:

- Being a successful, profitable company that gives an appropriate return to our shareholders and the providers of capital to the business;
- Rewarding employees for their contribution to our continued success;
- Ensuring safe people, procedures and operations and minimising environmental impacts;
- Developing an industry that is run by nationals by addressing the need for in-country skills for the oil and gas industry and hiring local staff;
- Supporting the growth of national and local businesses and helping those businesses enter into the industry's supply chain;
- Developing a funding and partnership programme for Social Enterprise projects that contributes to both our business as well as economic and social development in countries where we operate; and
- Undertaking regular engagement with key external stakeholders to create genuine dialogue at a global and local level to respond appropriately to their needs and concerns. This in turn helps to improve how we run our business.

In keeping with the nature of the industry and the level of investment required, Tullow has always taken a long-term approach. Our goal, over the next 25 years, is for Tullow to have been a great support and service in the development of new oil producing countries; to have made a significant contribution to real progress in economic and social development in those countries; and above all to be a company that has delivered on its responsibilities.

Exploration-led growth

This year we have communicated more about our Group strategy and the key components of our E&A, P&D and Finance strategies in this report. While as entrepreneurs we are always looking for new ways to accelerate the growth of the business, we are first and foremost an exploration-led company with long-term production and cash flow targets to ensure that we can fund our ambitious exploration programme.

Our strategic priorities

We have clear strategic priorities focused on developing our operations and running our business in a responsible way.

With regard to our operational priorities, our 2010 exploration programme delivered an 83% success ratio and we achieved First Oil in Ghana on time and within 5% of the original budget. There were unanticipated delays in finalising transactions in Uganda during the year but an MoU with the GoU will be the first step on an exciting journey to successfully develop Uganda as a significant oil-producing country.

In 2010, we also performed well against our corporate responsibility priorities with a strong EHS performance. We focused mainly on developing our stakeholder strategy this year and we held our first multi-stakeholder forum in London in February 2011. Our total workforce grew 40% in 2010 as we continued to grow our organisation and capabilities. Staff turnover during the year was 1.3%.

Vision

To be the leading global independent exploration and production company

Objective

To deliver substantial returns to shareholders

Strategy

To achieve sustainable long-term growth through balanced funding, exploration and production in core geographical areas

Operational priorities

1 Executing selective high-impact exploration programmes funded by surplus cash flow or equity

2 Delivering major projects, with a significant focus on increasing bankable reserves

3 Managing our assets to high-grade the portfolio, replenish upside and assist funding needs

Corporate responsibility priorities

1 Ensuring safe people, procedures and operations, and minimising environmental impacts

2 Building long-term relationships with local governments, communities and key stakeholders

3 Continuing to develop a strong team with excellent commercial, technical and financial skills

For more information on **KPIs**

p10

For more information on **Corporate responsibility**

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Total Shareholder Returns

Global equity markets exited 2010 largely unchanged as signs of economic recovery were hampered by sovereign debt concerns around Europe. During the year, the global oil and gas sector was placed under severe scrutiny when the Deepwater Horizon well exploded off the Gulf of Mexico in April. Stock markets, and in particular oil and gas stocks, fell significantly. The explosion had a profound impact on the industry, causing governments and regulators to question drilling practices and safety procedures, particularly in relation to deepwater drilling. Unsurprisingly, in terms of share performance price, the sector suffered on the back of the Deepwater Horizon events; but industry responsiveness and an increased focus on safety saw some improvement towards the year end.

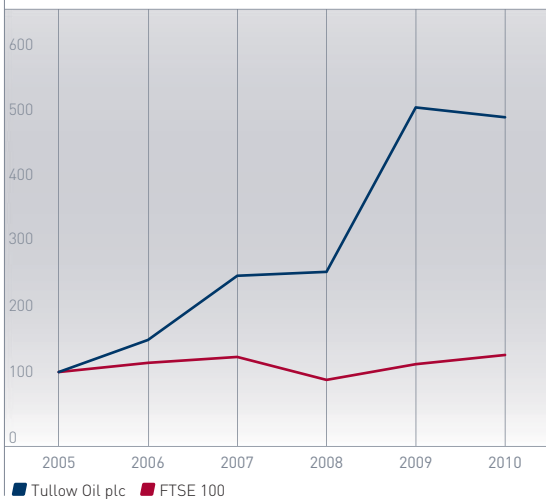
Overall, pricing across the sector closed flat in 2010 and Tullow exited the year with Total Shareholder Return (TSR) down 3% (2009: 99% increase) reflecting delays in Uganda and wider market and industry factors. However Tullow's TSR performance over a three and five-year period ranks us number two and one respectively versus our industry peer group.

p10 For more information on KPIs

Total Shareholder Return (TSR)

363%

Over a five-year period Tullow has outperformed the FTSE 100 by 363%.



Market commentary and outlook

In 2010, the key driver behind oil price was emerging market industrial demand, particularly from China. Strong demand helped the Brent oil price to rally in the second half of the year and on 31 December 2010 it closed at $93/barrel. Overall, Tullow benefited from a 30% rise in realised oil prices during 2010.

In terms of industry outlook, global oil demand in 2011 is expected to show good growth. The outlook for oil price in 2011 remains robust, mainly supported by a steady tightening of physical supply and emerging market growth. The price of Brent oil is forecast to be higher through 2011 and favourable oil prices are expected to be positive for the sector as a whole. The management of oil price volatility will be of particular significance to Tullow, given our enhanced production profile following First Oil in Ghana in 2010.

2011 represents one of the most active drilling calendars across the industry, combining high-impact exploration and appraisal campaigns with frontier drilling programmes. We expect supply-side cost pressures to increase during 2011 in line with increased activity and as a greater focus is placed on EHS following the Macondo incident in 2010. Given events in North Africa and Western Asia already this year, geopolitical risk is expected to heighten during the year.

2011 to 2013 business plans

Our 2011 to 2013 business plan objectives support our well established growth strategy and they are closely aligned with our operational strategic objectives. Our 2011 to 2013 plans are as follows:

- Across the Group, to create specific plans to maximise the value of all existing assets, in line with portfolio management criteria. This is an ongoing business objective;
- Throughout our organisation to ensure we continue to build capability and align our cost base appropriately with our current phase of growth and development. In 2010, over 250 people joined Tullow as employees and our total workforce including contractors grew 40% to over 1,200 people;

- To deliver the asset farm-down in Uganda and establish the new Tullow, CNOOC and Total partnership, as well as drill out the exploration portfolio and progress development of discoveries to date. As a result of delays in reaching agreement with the GoU we have reframed our 2010 to 2012 business plans and timescales for this project;
- In E&A, to continue to execute high-impact, material campaigns and high-grade the Group's exploration portfolio in core geological plays and areas of focus. This is similar to our 2010 to 2012 business plan objective in this area and is consistently underpinned by a very active annual E&A programme. 40 wells are planned in 2011;
- For P&D, in Ghana, our goal is to deliver a gross production plateau of 120,000 bopd in 2011 and Tweneboa/Enyera project sanction in 2012. In 2010 it was to deliver Jubilee Phase 1 First Oil and commence production ramp up; and
- In Finance, we will seek to align long-range funding with exploration, appraisal and development business requirements and portfolio management strategy. The successful equity placing in 2010, coupled with the planned Uganda farm-down and the increased cash flow from Ghana will ensure that we remain well funded to execute our exploration-led strategy.

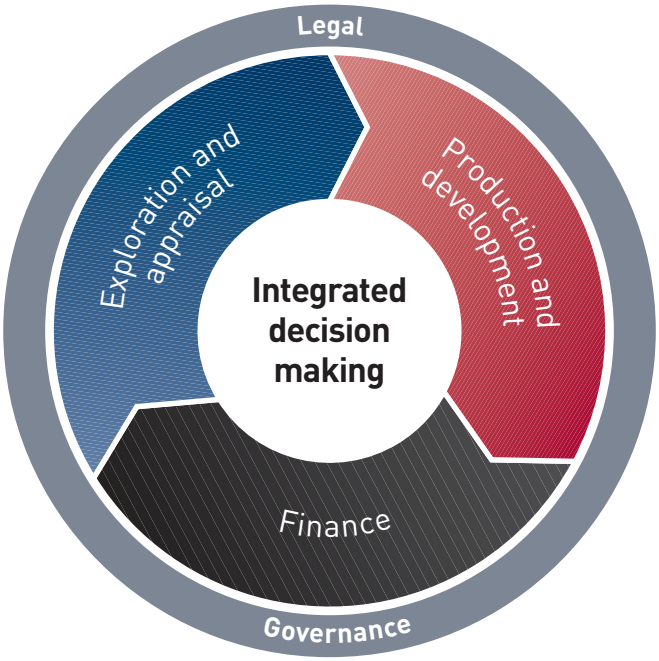
Outlook

2011 has started very well. Production is increasing from Jubilee. A major exploration campaign is underway to open up several potential new basins in Africa and South America and appraisal programmes will assist the sanctioning of major new oil and gas development projects. We are making significant progress in Uganda and will soon be moving into the development phase for the basin. We look forward to another year of achievement.

Aidan Heavey, Chief Executive Officer

Our business model

In order to explore we must first be granted a licence by the Government of the countries in which we invest. After extensive analysis, annual exploration campaigns are planned to try to discover oil and gas fields or more strategically open new basins. When we have a significant discovery we drill appraisal wells to determine the size and quality of the discovery.



If appraisal confirms that development of a discovery will be commercially and financially viable, we begin work on a development plan. This maps out how we will get the hydrocarbons into production to generate revenue and cash flow.

We maintain financial flexibility so that we can sustain a $500 to $700 million exploration programme and build up longer-term exploration and portfolio options. Also fundamental is funding the accelerated development of our major projects in Ghana and in Uganda.

While the Board has overall responsibility for the stewardship and governance of Tullow, the focus of legal and governance is to underpin best practice and ensure regulatory compliance and deliver legal support to all commercial aspects of the business.

Exploration and appraisal

Our E&A team has strategic responsibility for deciding what exploration campaigns we will undertake and ensuring that we continually replenish our exploration portfolio. They identify core plays, prioritise prospective exploration options and execute E&A programmes with material follow-on campaigns.

p24 For more information on **E&A**

Production and development

Our P&D team has strategic responsibility for delivery of major projects, such as First Oil in Ghana, as well as having a strong focus on the management of production and increasing our reserves, which are critical to revenue and cash flow generation. P&D also has responsibility for ensuring safe people, procedures and operations and minimising environmental impacts.

p26 For more information on **P&D**

Finance

Our financial strategy is responsibile for funding sustainable long-term growth through an appropriate capital structure that achieves a balance between operational cash flow, portfolio management and the capital requirements of exploration, appraisal and the development of major projects.

p36 For more information see the **Finance review**

Legal and governance

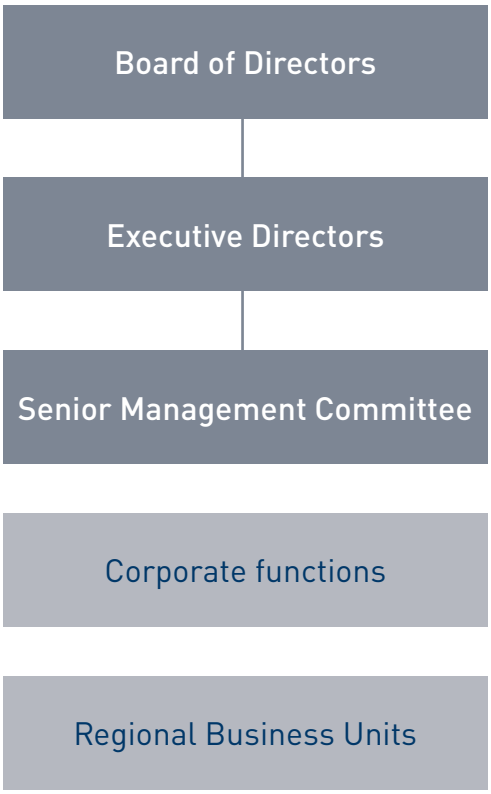
Our legal and governance team has strategic responsibility for maintaining the highest corporate and ethical standards, and for all governance and legal issues including full regulatory compliance, as well as building a strong global team with excellent legal and commercial skills.

p72 For more information on **Corporate governance**

How we're organised

A strong governance and organisational framework defines the roles and responsibilities of our Board and senior management. It is based on accountability, transparency and achieving the highest standards of ethics and integrity. Risk management is the overall responsibility of the Board, with additional resources provided by the Audit Committee.

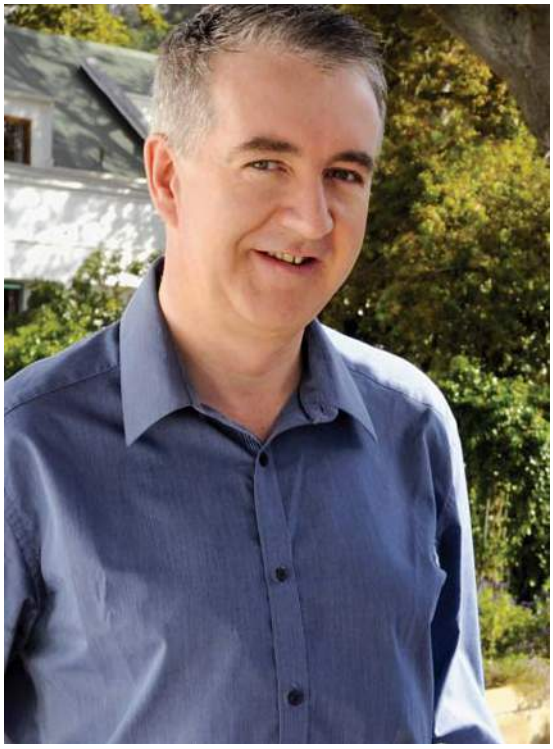
In 2011 we reorganised our operational structure into three regions so that the management and resources of our business are aligned with delivering our business objectives.



For more information on the skills and experience of our Board members see **Board of Directors** p74

Pioneering and entrepreneurial

Tullow's exploration strategy is founded on basic principles and is focused on finding high-value oil in material commercial quantities.



"Our ambition continues to grow and this drives Tullow's exploration team to keep 'moving the needle' in delivering shareholder value."

Angus McCoss, Exploration Director

Building scale, not complexity

We focus on the areas and geologies we know best. Our portfolio of regionally related basins, gives us a broad foundation for risk-mitigated growth with lots of follow-up potential.

We aim to discover and delineate material commercial volumes of high-value oil in our focus areas and within our core geological plays. We focus on rift basins, stratigraphic traps and salt basins. These are straight forward plays, proven by our industry to be prolific in hydrocarbons.

Our pioneering approach to exploration comes from the team's collective geological capabilities and technical excellence that is recognised in the industry.

Our exploration focus is clear. We aim to grow in Africa, expand and replicate our successes in South America, build on our North Atlantic position and mature our Asian acreage.

Continue to grow in Africa

West Africa continues to be a highly successful exploration area for us. We have had excellent results to the west of Jubilee at Tweneboa and Enyenra and have extended the Jubilee play further westwards with encouraging results in the Liberian Basin at Venus and more recently in the Mercury-1 well in Sierra Leone. These results underpin the extent and strategic global importance of this exploration breakthrough.

The successful Cormoran-1 well in northern offshore Mauritania gives us growing confidence about the continuation of the Jubilee play further along the 3,000 km long West African Mauri-Tano Trend. The Mauri-Tano Trend extends from Mauritania, southwards through Senegal, Sierra Leone, Liberia, and Côte d'Ivoire to the Tano basin offshore Ghana. It is currently the most material and prospective trend in our African exploration portfolio. The high-impact Cobalt prospect will be drilled by the high-risk wildcat Montserrado-1 well in Liberia later in 2011.

The East African Rifts are also very important for Tullow. They include the prolific Lake Albert Rift Basin in Uganda and extend across a series of rift basins through Western Kenya into Southern Ethiopia.

The Lake Albert Rift Basin has yielded 1 billion barrels of discovered oil (P50) and could potentially yield a further 1.5 billion barrels (P50) to 2.5 billion barrels (P10) through further exploration and appraisal programmes.

We are finding and sampling oil seeping from the Kenya-Ethiopia Rift Basin prospects and this makes it clear that this is a working petroleum system. In 1992 oil was discovered in the acreage. Our challenge, however, is to turn these geological clues into worthy prospects for drilling.

Further to the east, we have a position on the East Africa Transform Margin comprising onshore acreage in the Rovuma Basin in Tanzania. Our exploration strategy here focuses on finding oil in what is considered to be a gas-prone province.

Geological field work in 2010 in the Morondava Basin in south western Madagascar has been rewarding and the sampling of oil has helped us to refine which plays we should target.

We are also pursuing established oil plays in Gabon, extending the economic utilisation of infrastructure, albeit with smaller prospects and volumes of oil.

Expand and replicate success in South America

We are leading the pursuit of the Jubilee play across the Equatorial Atlantic region off the coast of South America. We are focused on Upper Cretaceous deep-water turbidite fans that appear to be remarkably similar to those on the African side of Equatorial Atlantic Region.

We are drilling a strategic deepwater basin-testing well on the Zaedyus prospect in French Guiana. We are targeting the similar, but deeper, Jaguar prospect in shallower water, offshore Guyana.

Build on our North Atlantic position

Our geological knowledge and experience reveals clear opportunities in the North Atlantic. There are near-field opportunities in satellite prospects which extend the life of existing infrastructure and there are breakthrough plays in relatively under-explored areas, including the North Sea.

Mature opportunities in Asia

In Asia, our high-potential exploration acreage sits in Pakistan, in the eastern part of the prolific Tethys Trend, which extends to Kurdistan in the west. This is a low-cost, high-impact part of our exploration portfolio which is being gradually matured as security improves.

For more information on our exploration and appraisal activities see our **Operations review**

p50

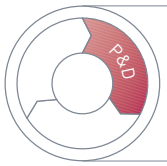
Moving the needle

Tullow's exploration strategy is founded on basic principles and is focused on finding high-value oil in material commercial quantities. Over the years our strategy has evolved through building scale, not by adding complexity. We have pushed Tullow's exploration efforts gradually from simple prospects, through plays and basins, to our current 'needle moving' inventory of highly prospective trends of basins that have regional scale.

Building scale by simply pursuing our successful oil plays in related basins.

We aim to grow in Africa, replicate our Equatorial Atlantic success in South America and build on our North Atlantic position.

Superior operating capability



Our first ever deepwater project set a new industry benchmark for development.

"As part of this journey we are building a superior operating capability by employing the best people and adopting best industry practices."

Paul McDade, Chief Operating Officer

Jubilee sets a new industry benchmark

Delivering First Oil from our first ever deepwater project on schedule and within 5% of the original budget is a great achievement in its own right. To do so in 40 months since the field was discovered made it an outstanding result by global industry standards. The critical elements to delivering success were high quality people working as part of a team; strong relationships with partners, contractors and governments; and a clear vision of what had to be delivered. These elements differentiate our approach and are fundamental to continued growth beyond Jubilee.

Building superior operating capability

Jubilee also represented a further step in our journey to becoming one of the most efficient and entrepreneurial operators globally. We are building a superior operating capability by employing the best people and adopting industry best practices. A challenge for us is to ensure that best practice is adopted in a manner that empowers our operating teams but does not burden them with unnecessary or ineffective processes and procedures. As a management team, we need to achieve strong corporate governance but in a way that does not dampen our entrepreneurial culture.

The Jubilee deepwater project is a great example of what can be achieved when these principles are applied. The approach on this project was to fully utilise the skills, ideas and leadership of all parties involved and to empower the teams delivering the project. As a learning organisation, we welcome everyone's input and involvement as this approach delivers world-class results.

Broad portfolio that continues to perform

The performance of our global assets in 2010 was very strong with production exceeding our budget forecasts. This was due to an excellent performance across our African assets and our UK assets significantly outperforming expectations. While the Jubilee field will considerably increase production in 2011, we also have a pipeline of development projects that will continue to build our production profile in the medium term. This pipeline is replenished by our exploration programmes and development opportunities across our portfolio:

- In Ghana, we have further phases of Jubilee to deliver as well as our second deepwater project Enyenra-Tweneboa, which we hope to sanction in 2012;

- In Uganda, we expect to accelerate delivery of this major onshore project with our potential new partners, Total and CNOOC;
- In Namibia, we continue to make progress on the Kudu gas-to-power project;
- In the UK and Gabon, we have multiple small projects which will continue to replace production and reserves in these mature areas; and
- Elsewhere in West Africa we have numerous infill drilling and facility upgrade projects in hand.

On an ongoing basis we continue to review our investment in development projects to determine whether shareholder value is best served by development, dilution or divestment of these assets.

Developing best global standards

Our response to the Macondo deepwater blowout in the Gulf of Mexico has been to review all of our well engineering practices and procedures even though the technical challenges of the Macondo well far exceeded those of the wells being drilled by Tullow anywhere in the world. These reviews, as anticipated, indicated that we were following best practice although some minor improvements were identified. We also need to be sure that all the learnings from extensive industry reviews of this incident are incorporated and, to support this, we have been actively involved in industry workgroups on how to improve operational practice and emergency response. In Ghana, we had already introduced a safety case regime for the Jubilee FPSO based on the North Sea standard which post-Macondo is acknowledged as one of the most robust processes for managing risk on large projects. This is a strong example of our desire to apply best global and industry practices wherever we work and in setting these standards, we then work in partnership with local governments to mature local regulations as appropriate.

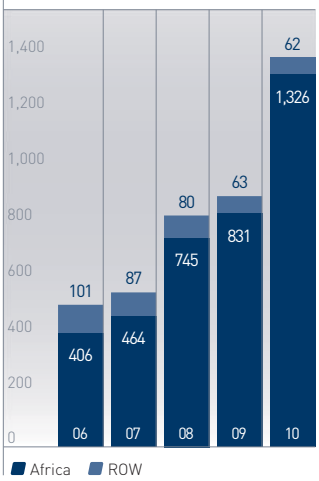
Ensuring safety is given a high priority

We continually look for ways to involve all our staff and improve awareness of their personal responsibility for safety and the people they work with. In 2010, we have continued to develop our in-house safety management training for all employees. To date 269 employees and contractors have attended our three-week modular EHS course.

We constantly monitor our performance and respond promptly if any issues are identified. In October 2010, the Tullow global workforce of approximately 1,200 people stopped working for a one hour safety stand-down following a rise in safety incidents.

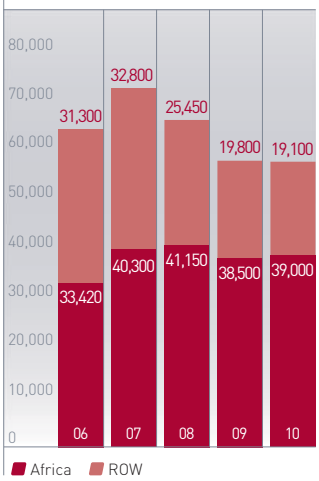
Total reserves and resources*

1,388 mmboe



Working interest production

58,100 boepd



* Post completion of the farm-down transaction with CNOOC and Total in Uganda, total reserves and resources are expected to reduce to 869 mmboe.

This stand-down allowed us to reinforce a clear message to all staff about the importance of our safety performance and underline their support to active management of safety across Tullow. With a 40% increase in our total workforce this year, it is a challenge for us to ensure that everyone is empowered and aware of our safety standards. Our role is to continue training and developing our people to ensure they continuously make the right decisions when managing safety.

Reorganising Tullow for further growth

In 2011, we implemented a reorganisation of the business to ensure that we can continue to manage growth. We are now organised into three business regions: Europe, North Africa & Asia, Equatorial Atlantic and South & East Africa. These Regional Business Units will be led by Regional Business Managers who will each have their own specific targets and dedicated teams to meet those targets. This will ensure that management and specialist functional skills remain close to business delivery.

For more information on
Corporate responsibility

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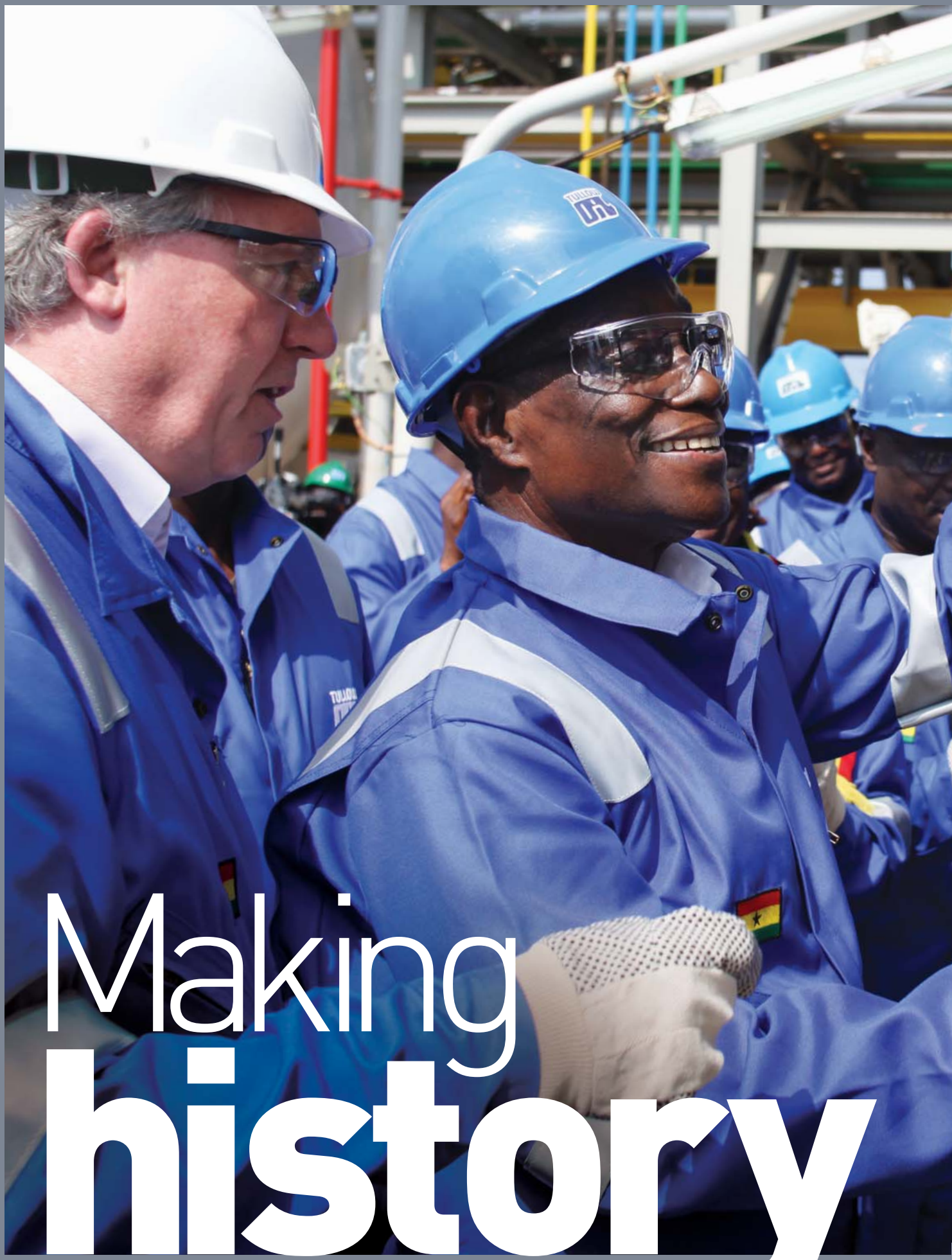


Making history

On 15 December 2010, His Excellency John Atta Mills, President of Ghana, led the celebrations to mark First Oil from the Jubilee field offshore Ghana. With its partners, Tullow achieved this milestone only 40 months after the first discovery in 2007, a new benchmark for the industry.

Keith Mutimer, Production Operations Manager, Ghana with His Excellency John Atta Mills, President of Ghana, opening the valve for First Oil on the Jubilee field FPSO, offshore Ghana.

Jubilee special feature

40

months from discovery to First Oil

1,500

people active on the project

370

million barrels P50 reserves

120,000

Bopd gross production capacity

17

Wells

50,000

Bopd initial gross production

The Kwame Nkrumah FPSO during tanker loading operations on the Jubilee field, offshore Ghana.

The journey so far

2004-2006
Licences awarded

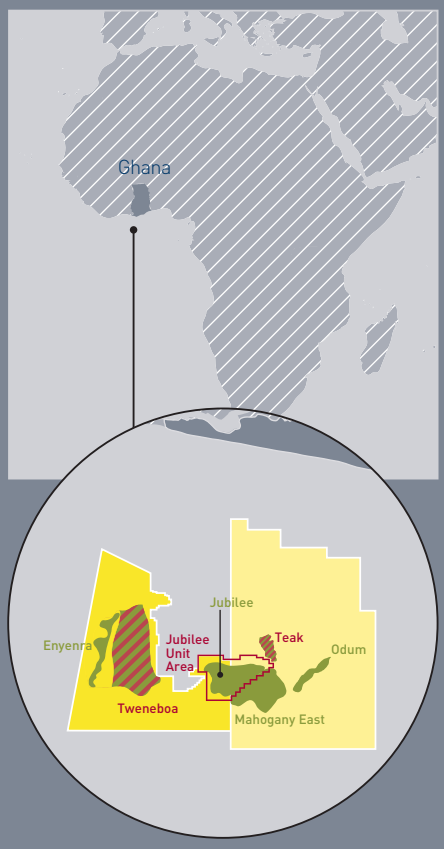
June 2007
First discovery well

August 2007
Second discovery well

Delivering **First Oil**

"...it is indeed proper and fitting for us to acknowledge the contributions which many individuals have made to bring us to where we are today. How can we forget the Jubilee partners; Tullow, Kosmos, Anadarko, Sabre, the EO Group and of course GNPC, through whose perseverance and efforts, we have been able to develop the deep sea oil facilities. We are now in a position to start exploiting this very valuable natural resource."

His Excellency John Atta Mills, President of Ghana



A record achievement

In 2007, based on the results of the first two exploration wells, the Jubilee field partners and the Government of Ghana jointly took the early decision to proceed with the accelerated appraisal and development of the Jubilee field. The development plan consisted of 17 wells, 40 km of subsea flowlines, 28 km of control umbilicals, an FPSO vessel with 1.8 billion barrels of storage capacity and significant in-country infrastructure.

All of this was delivered on schedule and within 5% of the original budget for first production at the end of 2010. The field is currently producing over 69,000 bopd gross and is expected to ramp up to 120,000 bopd gross by the summer of 2011. A number of tanker-loads have already been successfully exported to worldwide refining locations.

February 2008
Development planning commences

July 2009
Development plan approved by Government

June 2010
FPSO arrives in Ghana

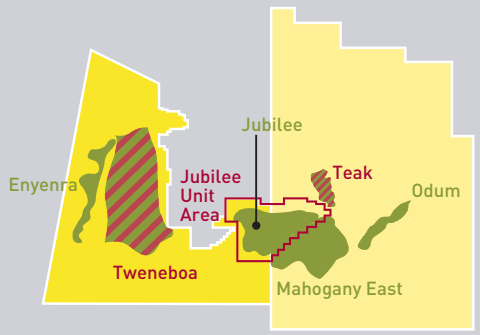
November 2010
First Oil achieved

The next phases of growth in Ghana

The development of the Jubilee field is only the first phase of development targeting a mid-reserve case of 370 million barrels. The field itself, in Tullow's view, has a P50 resource base of 700 million barrels which will be targeted through subsequent phases of development in the coming years.

The Jubilee discovery identified a new geological play in Ghana, and utilising this data and expertise, Tullow identified further prospectivity. Since 2008 Tullow has discovered the Odum, Enyenra, Tweneboa and Teak fields containing a combination of oil, gas and condensate. While more complex than Jubilee, these fields represent significant resource potential for future development.

Future development potential



World-class operating infrastructure

Tullow has established a very strong deepwater operating capability and in-country infrastructure in Ghana, capable of supporting future developments. All asset management disciplines are represented in Ghana. In Takoradi, a shorebase capable of supporting deepwater drilling rigs, FPSOs and all aspects of aviation and marine activity has been built and operates all year round to a very high standard.

218

Employees in-country

86%

Ghanaian workforce

The Deepwater Millennium during drilling operations on the Enyenra 2A well, offshore Ghana.

Future **developments**

"Post First Oil, our focus has now turned to a safe and timely ramp-up of the Jubilee field and appraisal and development planning of the significant resources identified in the Tweneboa and Enyenra fields."

Stuart Wheaton, Jubilee Development Manager

24

Equatorial Atlantic exploration and appraisal wells

88%

Success ratio

Following the **golden thread...**

The Jubilee reservoir is a stratigraphic trap in the late Cretaceous geological interval, one of Tullow's core plays. These traps appear subtly on seismic but have exceptional upside potential. Tullow is developing its expertise and expanding its acreage to capture regions where this Jubilee geological play is present beyond Ghana.

The Group has interests in offshore deepwater blocks in Côte d'Ivoire, Liberia, Sierra Leone and Mauritania in West Africa and French Guiana, Guyana and Suriname in South America. Seismic surveys have identified Jubilee-type prospects and a comprehensive campaign of high-impact exploration wells is planned for 2011 and 2012.

William Cheng and Rochelle Steyn, geologists in the West African exploration team, reviewing seismic data in the Cape Town office, South Africa.

"We are continuing to capitalise on our success in exploiting the Jubilee-play with a high-impact but high risk drilling campaign in West Africa and South America planned for 2011."

Robin Sutherland, Exploration Manager,
Ghana, Sierra Leone, Liberia and Côte d'Ivoire

Beyond **Jubilee**

Global and **industry best practice**

Carrying out well operations in a safe and efficient manner is of paramount importance to Tullow. On page 26, Paul McDade, our COO, outlines our commitment to making safety a top priority and how we support this by adopting the best global and industry standards wherever we work. In 2010, we reviewed all of our well engineering practices and procedures and these reviews have indicated that we are following best practice. For example, in Ghana, we have a safety case regime for the Jubilee FPSO based on the North Sea standard and analysis post-Macondo in the Gulf of Mexico has shown this regime is one of the most robust processes for managing risk on such large projects.

Visit our website to find out more:
www.tullowoil.com

Enhancing financial flexibility

Our financial strategy continues to be to ensure we have a strong balance sheet and the flexibility to support the Group's significant growth strategy.

"The Tullow financials are up on 2009 and will be transformed significantly in 2011 by revenues from the Jubilee field in Ghana and the expected proceeds from the Uganda farm-down."

Ian Springett, Chief Financial Officer

2010 results summary

	2010	2009	Change
Sales revenue ($m)	**1,090**	916	+19%
Operating profit ($m)	**235**	151	+56%
Net profit ($m)	**73**	31	+137%
Basic earnings per share (cents)	**6.1**	3.2	+90%
Dividend per share (pence)	**6.0**	6.0	No change
Capital investment ($m)[1]	**1,235**	1,189	+4%
Cash generated from operations ($m)[2]	**762**	588	+30%

1. 2010 excludes $1,450 million Heritage acquisition and $340 million Ghana FPSO.
2. Before working capital movements.

Supporting our growth strategy

Our financial strategy is to ensure we have a strong balance sheet and the flexibility to support the Group's significant exploration-led growth strategy. In 2011 we expect to spend some $1.5 billion on high-impact exploration, and further significant appraisal and development programmes in Ghana and Uganda while the remainder will be allocated across the rest of the business.

In 2010, Tullow strengthened its balance sheet with $0.9 billion of additional debt facilities and $1.45 billion raised from an equity placing in January. This finance, the expected Uganda farm-down proceeds and the revenues from Jubilee production, will ensure we have a very secure funding base for the next phase of our growth.

Looking forward, our focus will remain on high-impact exploration campaigns funded increasingly by operational cash flow and by making choices on selective developments and portfolio activity. We may also seek to further diversify our sources of debt funding when appropriate.

2010 financial results

2010 profit before tax was higher than 2009 primarily because of the following:

- Increased revenues of $174 million from higher oil and gas prices partially offset by lower sales volumes;
- A lower IAS 39 charge of $28 million in 2010 compared with a charge of $60 million in 2009;
- Partly offset by increased exploration write-offs which were $72 million higher in 2010.

2010 key financial metrics

	2010	2009	Change
Production (boepd, working interest basis)	**58,100**	58,300	No change
Sales volume (boepd)	**47,400**	48,350	-2%
Realised oil price per bbl ($)	**78.0**	60.0	+30%
Realised gas price (pence per therm)	**42.0**	39.3	+7%
Cash operating costs per boe ($)[1]	**12.5**	12.4	No change
Operating cash flow before working capital per boe ($)	**35.9**	27.6	+30%
Net debt ($ million)[2]	**1,943**	1,144	+70%
Interest cover (times)[3]	**13.8**	10.1	3.7 times
Gearing (%)[4]	**50**	47	3%

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

Production, commodity prices and revenue

Working interest production averaged 58,100 boepd, which is in line with 2009 and was ahead of budget expectations. Additional production from Ghana, Gabon and successful infill drilling in the UK largely mitigated the impact of the decline in other mature fields. Sales volumes averaged 47,400 boepd, which is a reduction of 2% compared to 2009.

On average, oil prices in 2010 were significantly higher than 2009 levels. Realised oil price after hedging for 2010 was US$78.0/bbl (2009: US$60.0/bbl), an increase of 30%. Tullow's oil production sold at an average discount of 2% to Brent Crude during 2010 (2009: 2% discount).

UK gas prices in 2010 were broadly in line with 2009 levels. The realised UK gas price after hedging for 2010 was 42.0 pence/therm (2009: 39.3 pence/therm), an increase of 7%.

Higher commodity prices more than offset the lower sales volumes. Overall revenue increased by 19% to $1,089.8 million (2009: $915.9 million).

Operating costs, depreciation and impairments

Underlying cash operating costs, which exclude depletion and amortisation and movements on the underlift, amounted to $264.3million; $12.47/boe (2009: $264.7 million; $12.43/boe), in line with 2009 levels.

Depreciation, depletion and amortisation charges before impairment charges for the year amounted to $355.9 million; $16.78/boe (2009: $350.7 million; $16.46/boe). The Group has also recognised a further impairment charge of $4.3 million; $0.20/boe (2009: $12.5 million; $0.59/boe) in respect of the Chinguetti field in Mauritania.

At the year-end, the Group was in a net underlift position amounting to 10,100 barrels. The movements during 2010 in the underlift and stock position have given rise to a credit of $8.3 million to cost of sales (2009: charge of $10.1 million).

Administrative expenses of $89.6 million (2009: $77.6 million) include an amount of $10.2 million (2009: $18.3 million) associated with IFRS 2 – Share-based Payments. The increase in total general and administrative costs is primarily due to the continued growth of the Group during 2010 with employee numbers increasing by 40% to 935 people.

Exploration cost written-off

Exploration costs written-off were $154.7 million (2009: $82.7 million), in accordance with the Group's 'successful efforts' accounting policy, which requires that all costs associated with unsuccessful exploration are written-off in the income statement. This write-off is principally associated with exploration activities in Gabon, Ghana and Tanzania, new ventures activity and licence relinquishments in Angola and Gabon.

Derivative instruments

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

At 31 December 2010, the Group's derivative instruments had a net negative fair value of $82.4 million (2009: negative $17.6 million), inclusive of deferred premium. The movement in the fair value position has mainly been caused by a strengthening of the underlying commodity prices during the year.

While all of the Group's commodity derivative instruments currently qualify for hedge accounting, a pre tax charge of $27.7 million (2009: charge of $59.8 million) has been recognised in the income statement for 2010. The charge is in relation to the reduction in time value of the Group's commodity derivative instruments, caused by a strengthening of the underlying commodity prices during the year.

Commodity hedging summary

At 1 March 2011 the Group's commodity hedge position to the end of 2013 was as follows:

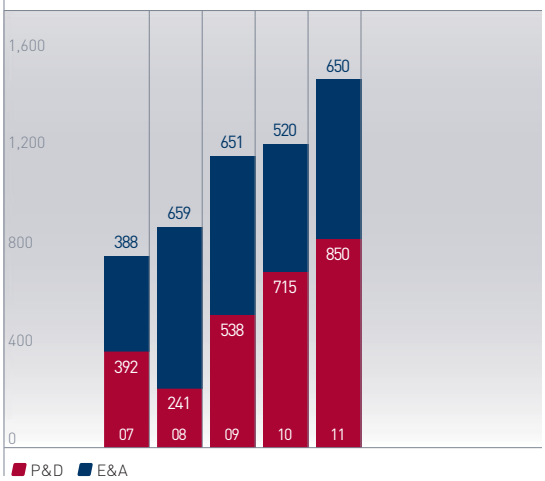
Hedge position

	2011	2012	2013
Oil hedges			
Volume (bopd)	19,167	13,500	8,000
Current price hedge ($/bbl)	104.1	107.9	106.6
Gas hedges			
Volume (mmscfd)	43.9	19.2	8.4
Current price hedge (p/therm)	55.9	61.5	64.7

2011 capital expenditure

$1.5 billion

Approximately 40% of the investment in 2011 will be exploration and appraisal.



Operating profit

Operating profit amounted to $234.6 million (2009: $151.0 million), an increase of 56%. The increase was principally due to higher commodity prices, partly offset by higher exploration costs written-off during 2010 together with higher staff related general and administrative costs.

Gearing, financing costs and interest cover

The net interest charge for the period was $55.0 million (2009: $58.7 million) and reflects the increase in net debt levels during 2010 offset by an increase in interest capitalised during the year on qualifying assets, principally associated with the Jubilee phase 1 development in Ghana.

At 31 December 2010, Tullow had net debt of $1,943 million (2009: $1,144 million), with unutilised debt capacity of approximately $685 million. The Group's gearing was 50% (2009: 47%) and EBITDA interest cover has increased to 13.8 times (2009: 10.3 times).

Taxation

The tax charge of $79.4 million (2009: $1.9 million) relates to the Group's North Sea, Gabon, Equatorial Guinea and Ghanaian activities. After adjusting for exploration costs and profit on disposal of subsidiaries, the Group's underlying effective tax rate is 26% (2009: 3%). The increase in the effective tax rate is mainly due to the fact that losses were generated in fiscal regimes where uncertainty exists as to the recoverability of those losses.

Dividend

Due to the ongoing capital requirements of the Group, and in particular the opportunity to add significantly to shareholder value by continuing to invest in its exceptional portfolio of exploration assets, the Board believes that it remains appropriate to maintain the final dividend at the 2009 level. Consequently, the Board has proposed a final dividend of 4.0 pence per share (2009: 4.0 pence per share). This brings the total payout in respect of 2010 to 6.0 pence per share (2009: 6.0 pence per share). The dividend will be paid on 20 May 2011 to shareholders on the register on 15 April 2011.

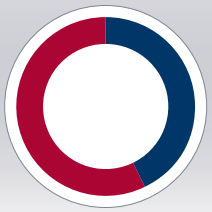
Operating cash flow and capital expenditure

Increased commodity prices led to an operating cash flow before working capital movements of $762.0 million (2009: $587.8 million), 30% higher than 2009. This cash flow together with the equity placing proceeds helped facilitate significant 2010 capital investment in exploration and development activities, payment of dividends and the servicing of debt facilities.

2011 capital expenditure split

50%

Tullow's activities in Ghana and Uganda will comprise approximately 50% of the anticipated capital expenditure in 2011.



E&A	43%
P&D	57%

Ghana & Uganda	$780m
Rest of Africa	$485m
Rest of the World	$235m

Based on the current estimates and work programmes, capital expenditure for 2011 is forecast to be $1.5 billion. Approximately 40% of this investment will be exploration and appraisal and the remainder will be for development and production activities. Tullow's activities in Ghana and Uganda will comprise approximately 50% of the anticipated 2011 capital outlay.

Balance sheet

Total net assets at 31 December 2010 amounted to $3,868.9 million (31 December 2009: $2,431.0 million), with the increase mainly as a result of the share placing in January 2010 increasing share capital by 9.9%; partly offset by dividends and hedge movements.

Portfolio management

In July 2010, Tullow acquired a 50% interest in Exploration Areas 1 and 3A in the Lake Albert Rift Basin from Heritage Oil and Gas Limited. $1.05 billion was paid to Heritage with $121 million deposited with the Ugandan Revenue Authority and $283 million held in Escrow pending a resolution of a dispute between Heritage and the Government of Uganda over payment of capital gains tax.

Tullow and the Government of Uganda are engaged in negotiations aimed at resolving the Heritage capital gains tax issue. A legally binding Memorandum of Understanding is being finalised to pave the way for the farm-down and development of all assets within the Lake Albert Rift Basin by Tullow, Total and CNOOC.

Long-term funding

In January 2010, Tullow completed a share placing raising net proceeds of $1.45 billion, increasing its share capital by 9.9%. In addition, Tullow increased the commitments of its Reserve Based Lending facility by $500 million to $2.5 billion in May 2010. It also increased its Revolving Corporate facility by $350 million in October 2010 and by a further $50 million in December 2010 to $650 million. The Group now has total debt facilities of $3.15 billion which, when combined with the anticipated Uganda farm-down proceeds, further strengthens the balance sheet in support of Tullow's strategy to:

- Maintain a $500 to $700 million per annum exploration programme and develop longer-term exploration options;
- Accelerate development in Uganda with potential new partners Total and CNOOC; and
- Continue with Jubilee Phase 1a development following successful first production from the Jubilee field together with fully appraising and developing the Tweneboa and Enyenra discoveries.

Accounting policies

UK listed companies are required to comply with the European regulation to report consolidated statements that conform to International Financial Reporting Standards (IFRS). The Group's significant accounting policies and details of the significant accounting judgements and critical accounting estimates are disclosed within the notes to the financial statements. The Group has not made any material changes to its accounting policies in the year ended 31 December 2010.

Presentational currency

With effect from 1 January 2010 the Group presents its financial statements in US dollars. The Group has decided it is now appropriate to change the presentational currency from sterling as the majority of the Group's activities are in Africa where oil revenue and costs are dollar denominated.

Liquidity risk management and going concern

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Group's producing assets and delays to development projects. The Group seeks to ensure that it has a minimum ongoing capacity of $500 million for a period of at least 12 months to safeguard the Group's ability to continue as a going concern. In addition to the Group's operating cash flows, portfolio management opportunities are reviewed to potentially enhance the financial capacity and flexibility of the Group. The major assumption in current cash flow forecasts is that the receipt of disposal proceeds from the Uganda farm-down, which have been delayed longer than expected, will now be received in the second quarter of 2011. On this basis, the Group's forecasts, taking into account reasonably possible changes as described above, show that the Group will be able to operate within its current debt facilities and have very significant financial headroom for the 12 months from the date of approval of the 2010 Annual Report and Accounts. However, in the unlikely event that the Ugandan farm-down process is delayed beyond the second quarter of 2011, the Directors are confident that the Group can manage its financial affairs, including the securing of additional funding, agreement with existing lenders, portfolio management and deferring of non-essential capital expenditure, so as to ensure that sufficient funding remains available for the next 12 months. Therefore, not-withstanding the above uncertainties, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future.

Risks to 2011 performance

In common with other companies in the oil and gas sector, Tullow is exposed to commodity price risk, the delivery of major projects and ensuring safe operations in all locations. The Board determines the specific key risks for the Company and required mitigation plans and reviews delivery on a regular basis. Risks for 2011 include successful ramp up of the Jubilee oil field, completion of the Uganda farm-down and maintaining an adequate hedging programme.

International ownership

40%

In 2010, Tullow's shareholder ownership continued to diversify internationally with North American holdings increasing by 40%.

United Kingdom	54%
Europe (excluding UK)	22%
North America	18%
Asia	5%
Rest of the World	1%

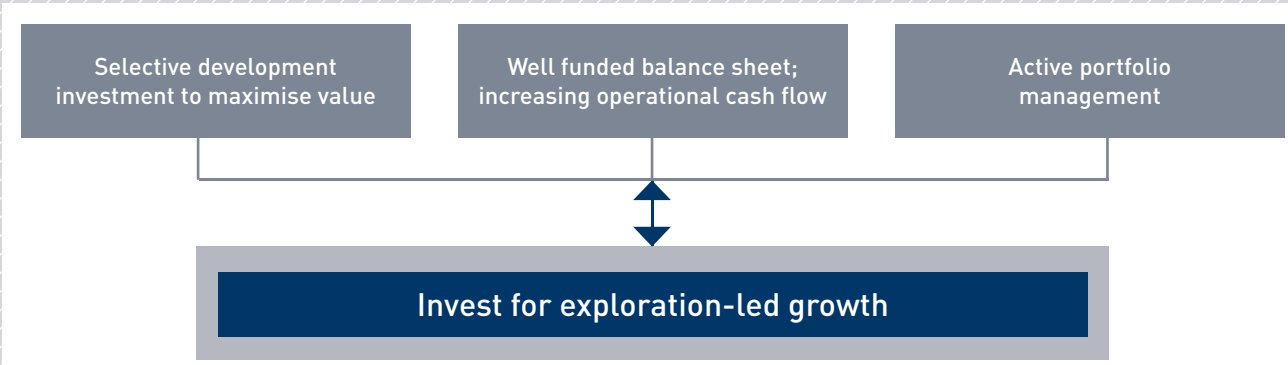
Institutional ownership

80%

Tullow has a well established base of global institutional investors, which the Executive team and senior management meet on a regular basis.

Institutions	80%
Corporates and Non Profit	5%
Private Investors	2%
Others	13%

Implementation of financial strategy



Substantial shareholdings

As at 8 March 2011, the Company had been notified of the following significant holdings (being 3% or more) in the Company's ordinary share capital.

Shareholder	Number of shares	% of issued capital
Blackrock Inc	106,586,436	11.99%
Prudential plc	72,123,865	8.12%
IFG International Trust Company Limited	38,960,366	4.38%
Legal & General Group plc	35,414,975	3.98%

Capital market relationships

Tullow places great emphasis on achieving top quartile and best practice performance in investor relations and capital market communications. This was enhanced in 2010 with the launch of a new corporate website which has provided users with additional functionality and allowed them to participate in two of the year's key events; the Capital Markets event and the First Oil celebrations, both in Ghana. In 2010, senior management participated in over 270 investor meetings in the UK, Europe and North America and presented at 10 capital market conferences and hosted investors and sell-side analyst events in the UK and Europe.

Share price performance across the sector remained flat in 2010. Despite strong news flow from Tullow's operations during the year, TSR was down 3%, compared to an increase of 99% in the previous year. Our 2009 Annual Report was recognised for good disclosure, being nominated at the Investor Relations Society Best Practice Awards 2010 for the Most Effective Overall Annual Report in the FTSE 100.

Financial strategy and outlook

Our financial strategy is to maintain flexibility to support the Group's high-impact exploration campaigns, significant appraisal and development programmes in Ghana and Uganda and effectively allocate capital across the remainder of our business. This financial flexibility has been materially enhanced during 2010 by a successful equity placing and the expansion of our debt facilities to $3.15 billion. The finalisation of the Uganda farm-down in the first half of 2011 will create a very strong platform for future investment.

The outlook for 2011 is very positive for Tullow. The Jubilee field commenced production in November 2010 and is expected to ramp-up to 120,000 bopd gross during 2011 and plans for further development with potential new field developments, Enyenra and Tweneboa in Ghana are under review and we expect a successful completion of the Ugandan farm-down in the near future. Over the next 12 months we plan to drill exploration and appraisal wells in French Guiana, Ghana, Sierra Leone and Uganda, which have the potential to add material resources to the Group. Overall, Tullow is well positioned to deliver further growth in shareholder value over the coming years.

Ian Springett, Chief Financial Officer

Protecting our business

Risk management is a dynamic and critical business function as it is important to help achieve long-term shareholder value and protect our business, people, assets, capital and reputation.

Risk management is an essential element of how we run our business and it is a Board level responsibility. Like many businesses we cannot function properly unless we continuously identify and manage those risks and opportunities that could affect Tullow and the achievement of our business plans and strategic objectives. Our approach is aimed at early identification of key risks, reducing or removing those risks and/or responding quickly and effectively when a risk crystallises. In each instance, where possible, we seek to mitigate risks in order to reduce risk to an acceptable level.

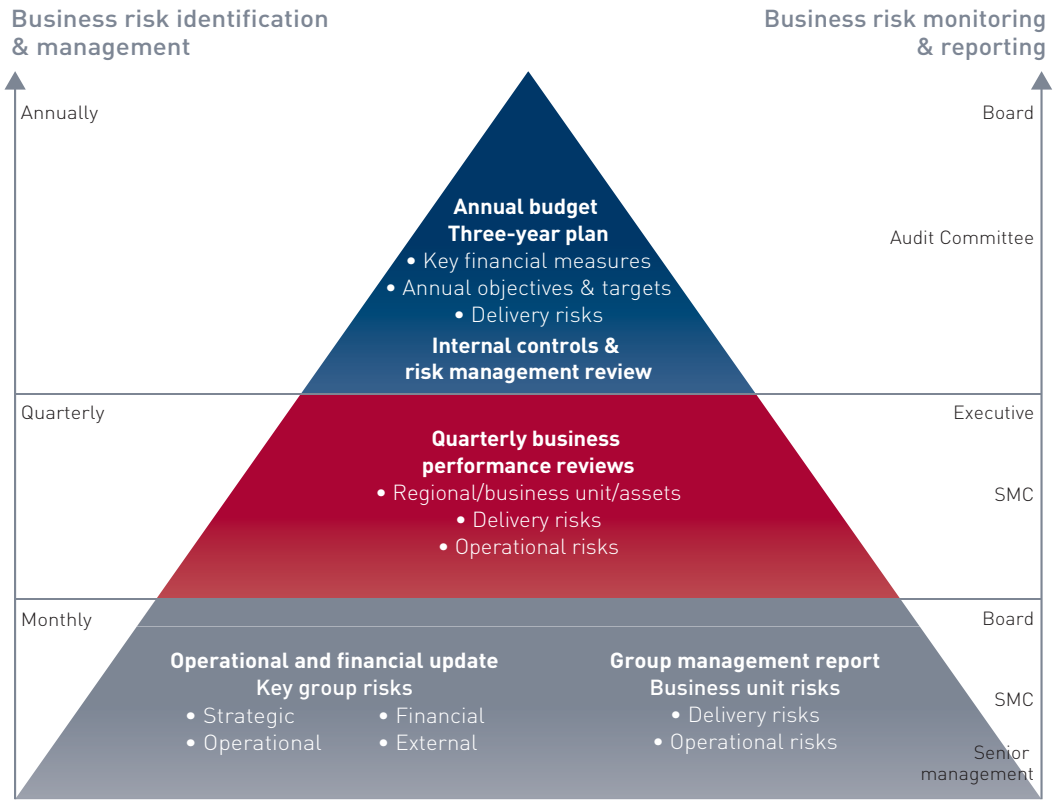
We have formal risk management processes in place at Tullow, with designated Executive Director responsibility for key risks. In each area of risk Executive Directors are supported by members of the senior management committee or senior managers with functional, business unit or in-country roles. Accountability for managing risk is assigned to individual managers and each employee is personally responsible for managing risk within the remit of their role.

We combine Board level assessment of risk with risk factors originating from and identified by the Group's regional business units. These processes continue to evolve and develop each year, in line with Tullow's growth.

Responding to changing risk

We operate in a dynamic environment where responding effectively to changing risks is key to our continued success. During 2010 we addressed emerging risks in the following ways:

- The Jubilee project team implemented an Operational Readiness and Assurance (OR&A) management plan to manage transition risks from the development to operational phase of the project and to demonstrate operational readiness assurance. This plan was split into six key areas including OR&A management, operations, EHS, cost, organisation, commissioning and start-up with a detailed breakdown of activity to ensure accountability for delivery. A series of assurance activities and reviews were delivered throughout the project phase and during the run up to First Oil and reported on through the Unit Operating report. This provided a seamless transition from the project phase to the operational phase. In addition, an integrated EHS plan was developed detailing all audits undertaken by the Ghana team and Modec;
- A Financial Risk Committee was established during the year with the objective of ensuring that the overall framework for financial risk management is comprehensive and responsive to changes in the business. The Committee is chaired by the Chief Financial Officer and comprises the General Manager Finance, Head of Corporate Planning, Head of Risk and Marketing, Group Internal Audit Manager, Group Tax Manager and Head of Supply Chain Management. Achievements during the year included:
  - Development of a key financial risks register that is tracked and updated to ensure mitigating actions are being followed up in a timely way;
  - Control of Well insurance review with limits being increased in the fourth quarter of 2010;
  - Development of improved and integrated management reporting and planning processes that were subsequently delivered during 2010;
  - Development and implementation of integrated supply chain and financial systems to support enhanced reporting; and
  - Review and update of Group Delegation of Authority (DoA) to reflect new organisation structure and implementation of supply chain management processes and system.
- In response to the Macondo well blowout in the Gulf of Mexico we:
  - Undertook a detailed audit of well control procedures and a physical audit of blowout preventor capabilities for our Ghana drilling operations in collaboration with key contractors;
  - Implemented a new approach to assessing critical aspects and risk areas of the Group's well programme, which has resulted in focussing resources to manage risks; and
  - Reviewed and updated control of well insurance limits; and
- A Development Leadership Team (DLT) was established to oversee project development processes to improve assurance to Group management that good practice is being applied to all developments.



Risk management is embedded into our organisation structure, operations and performance management tools.

A detailed annual business plan and budget process, extending over a three-year period, provides the principal metrics against which the performance of the Group is measured. These include annual objectives and targets covering production, development, exploration, EHS and financial performance, which are set at a business unit level. Business plans are agreed with the Board together with risks to delivery and defined operational targets. Key risks for strategic delivery of the Group's business plans and objectives are then collated as part of the Board's annual review of Group strategy. The Audit Committee also plays a key role on an annual basis in reviewing the effectiveness of Tullow's internal controls and financial risk management.

On a quarterly basis senior management assess the Group's performance through a series of reviews with the business units. These reviews include an assessment of risks to delivery and measures being implemented to manage these potential risks.

Updates on key risks form part of monthly reporting to the Board and senior management on the operational and financial management of the Group. Risk reporting is an action-oriented process that closely monitors key risks. In this way it is clear whether risk mitigation has been achieved, is in progress or whether risk has escalated and requires immediate attention. On a cumulative basis this approach validates progress being made in mitigating risk throughout the year as well as creating a dynamic risk management system that identifies new risks and refines mitigation processes in line with changes in the external operating environment. Risk reporting is co-ordinated independently by the Group Internal Audit Manager.

On a weekly basis Executive Directors meet to discuss strategy implementation as well as meeting separately with the Senior Management Committee (SMC), who are responsible for delivery of the annual budget. Together with monthly reporting and quarterly reviews, this structure leads to an effective two-way exchange of information and ensures co-ordinated decision-making takes place with a premium placed on risk management.

Tullow has detailed policies, procedures and systems in place to support risk management across the Group. These include the Group's Code of Business Conduct, HR and EHS policies and systems, supply chain management, crisis management plans and ISO14001 certification of the Group's Environmental Management System.

2011 principal risks and uncertainties

We have identified the following principal risks and uncertainties in relation to the Group's financial and operational performance in 2011:

- Risks associated with Jubilee production ramp-up;
- Timely approvals from Ugandan authorities to progress drilling and development operations; and
- Exploration programme risk with high-impact wells planned in our 2011 E&A programme in Africa and South America.

In addition the Board has a 2011 objective with regard to major corporate risks as set out on page 73.

For more information on
How we're organised
p 23

Risk	KPI	Impact	Executive responsibility	Policies and systems
Strategic risk				
Strategy fails to meet shareholder expectations	TSR performance	Ineffective or poorly-executed strategy fails to create shareholder value. It also fails to meet shareholder expectations, leading to a loss of investor confidence and a reduction in the share price. This in turn reduces the Group's ability to access finance and increases vulnerability to hostile takeover.	**Aidan Heavey**	Annual business plan, SMC responsibility, monthly reporting, annual strategy review, IR programme
Loss of key staff and succession planning	Staff turnover	The loss of key staff and a lack of internal succession to key roles within the Group, causes short- and medium-term disruption to the business.	**Graham Martin**	Living our values, HR function and policies, training and development
Financial risk				
Insufficient liquidity, inappropriate financial strategy	Liquidity profile	Asset performance and excessive leverage leads to the Group being unable to meet its financial obligations. This scenario, in the extreme, impacts on the Group's ability to continue as a going concern, or causes a breach of bank covenants.	**Ian Springett**	Financial strategy, cash flow forecasting and management, capital allocation processes
Cost and capital discipline	Operating cost per barrel Full finding costs per barrel Capital expenditure and cost management targets	Ineffective cost control leads to reduced margins and profitability, reducing operating cash flow and ability to fund the business.	**Paul McDade** **Angus McCoss**	DoA and budgeting and reporting processes, project approval process for all significant categories of expenditure

Long-term performance risks

We group risk into strategic, financial, operational and external risks, which we believe could potentially adversely impact employees, operations, performance and our assets. Throughout the year we have critically reviewed and evaluated the risks the Group faces. This list is not exhaustive and it is likely to change as some risk assumes greater importance than others during the course of the year.

Our business risk systems combined with the Board's ownership of strategic risks ensures that risk management is embedded in the business, aligned with our business model and is directly linked to strategic delivery.

Our assessment of the most significant risks and uncertainties which could impact the Group's long-term performance is outlined in the following table. These risks are not set out in any order or priority and they do not comprise all the risks and uncertainties we face.

	Mitigation	Progress in 2010
	Strategy focused on delivering Ghana and Uganda developments and selective high-impact exploration programme. Effective communication with all stakeholders, based on open and transparent dialogue.	Ghana: Jubilee production commenced on schedule at the end of November. The Mahogany East discovery and Enyenra and Tweneboa areas were progressed during the year. Uganda: acquisition of Heritage equity in Blocks 1 and 3A agreed. Progress made in preparation of a legally-binding MoU to pave the way for farm-down and development of all assets within the Lake Albert Rift Basin.
	Clearly defined people strategy based on culture and engagement, talent development, performance management and reward and recognition; together with the continuing success of the Group.	Staff numbers increased by 40% to support continued business growth. Employee survey results were used to develop targeted improvements in people management. Tailored training programmes also implemented with a focus on developing coaching and mentoring skills.
	Prudent approach to debt and equity, with balance maintained through refinancing, equity placing and M&A activity. Regular Board review and approval for financing options. Short- and long-term cash forecasts reported on a monthly basis to senior management and the Board. Maintenance of strong banking and equity relationships.	Balance sheet was strengthened through equity placing of $1.45 billion. Commitment increases of $500 million and $400 million agreed with the Reserve Based Lending Facility and revolving credit facility, respectively. The Group now has total debt facilities of $3.15 billion.
	Comprehensive annual budgeting processes covering all expenditure are approved by the Board. Executive management approval is required for major categories of expenditure and investment and divestment opportunities are ranked on a consistent basis, resulting in effective management of capital allocation.	Capital expenditure in 2010 of $1.2 billion was principally focused on Phase I development of the Jubilee field, and on Ghana and Uganda exploration and appraisal.

Risk management continued

Risk	KPI	Impact	Executive responsibility	Policies and systems
Operational risk				
EHS failures and security incident	No significant environmental incidents LTIFR <1.0 and top quartile industry safety performance	Major event from drilling or production operations impacts staff, contractors, communities or the environment, leading to loss of reputation and/or revenue.	**Paul McDade**	EHS policies, IMS, toes, EMS, crisis management procedures, EHS policy, EHS Leadership Team
Key development failure	Specific yearly base and stretch targets that reflect key project milestones	Development projects fail to meet cost and schedule budgets, causing returns to be eroded.	**Paul McDade**	IMS, EHS systems and policies, DOA, Code of Business Conduct, risk management process and DLT.
Sustained exploration failure	Reserves and resources organic replacement Full finding costs per barrel	Failure to sustain exploration success limits replacement of reserves and resources, which impacts investor confidence on long-term strategic delivery.	**Angus McCoss**	GELT, competitive capital allocation process, clear exploration strategy
External risk				
Corporate responsibility	TSR performance	The overall political, industry or market environment negatively impacts the Group's ability to grow and manage its business.	**Graham Martin**	Code of Business Conduct, CR policies
Country risk	TSR performance	Government regulations change rapidly, resulting in expropriation of the Group's assets and the introduction of burdensome tariffs or taxes. Political changes affect the competitive environment, with political instability and civil disturbances disrupting the Group's operations.	**Aidan Heavey**	Social Enterprise project selection criteria and guidelines Stakeholder engagement strategy and plan
Oil and gas price volatility	Realised commodity prices	Volatility in commodity prices impacts the Group's revenue streams, with adverse effect on liquidity.	**Ian Springett**	Hedging strategy
Hostile acquisition	Remaining independent	Hostile acquisition if not handled correctly causes major distraction and value erosion.	**Graham Martin**	Documented defence manual

Mitigation	Progress in 2010
EHS performance standards set and monitored regularly across the Group through Business Unit performance reporting. EHS management system implemented. Clear policies and procedures supported by strong leadership accountability and commitment throughout the organisation.	EHS performance measures were met. A process was developed to identify and document significant EHS risks, along with a regular review process to update the EHS risk profile. Crisis management resources and procedures were also upgraded. A well-ranking process was devised to identify critical aspects and risk areas for the Tullow drilling programme. Mitigation is achieved by focusing on resources to manage risks, applying a portfolio management approach and engaging with the Board and Executive management through risk discussions.
Technical, financial and Board approval required for all projects, and for all dedicated project teams. Risk evaluation and progress reporting initiated for all projects. Project milestone KPIs established for Ghana and Uganda.	Jubilee project was delivered within 5% of the original $3.1 billion budget, and on schedule. First phase of Uganda EA 2 development got under way, with field development plans submitted to the GoU. The farm-down to CNOOC and Total is pending final approval.
Board approval of E&A programme. Monthly reporting to Board on full finding costs per barrel and high grading of Group's portfolio, with a view to measuring success of exploration spend. Continued use of appropriate technologies and technical excellence in exploration methodologies.	Exploration and appraisal success ratio of 83% was achieved. This included discovery of the Enyenra and Tweneboa fields in Ghana, and successful exploration wells in Gabon, Pakistan and Sierra Leone.

Consistent ethical standards established and applied through Code of Business Conduct, and through contract and procurement procedures. Regular review of compliance requirements with periodic Board reporting.	Compliance Manager was appointed to monitor the application of revised Code of Business Conduct.
Successful relationships with Governments and other external stakeholders built and maintained. Through these relationships, trust is grown, key issues identified and processes improved. Social Enterprise projects aligned with the needs of stakeholders and the business in support of creating shared prosperity.	Detailed stakeholder mapping exercise and planning carried out for stakeholder engagement programme. Community relations teams expanded in Ghana and Uganda. New Social Enterprise project selection criteria developed. New Social Enterprise Committee and terms of reference launched.
Hedging strategy agreed by Board, with monthly reporting of hedging activity.	Conservative hedging policy implemented, with realised oil and gas prices of $78/bbl and 42 pence per therm. Detailed monthly Board reporting of hedge positions. Board also reviewed and approved ongoing hedging strategy throughout the year.
Robust defence strategies against hostile acquisitions. Effective investor engagement and ongoing open and transparent communications programmes.	Defence strategy was reviewed with key advisers. Independent full-value review of reserves and resources completed.

A long-term approach

Nationalisation

"The oil and gas industry in Uganda is only just beginning but it has already provided many employment opportunities for Ugandan people like myself. It's good that the companies involved are committed to employing and training nationals. It is also great to see that there is investment in local communities through various projects and the building of roads, schools and hospitals which will make a brighter future for Uganda."

Geoffrey Tummusime, Banksman / Slinger (yard operative), Ngege camp, Uganda.

3 Operations review

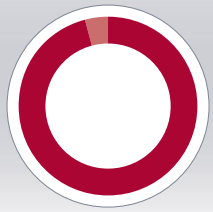
Strong performance

The performance of our global assets was very strong in 2010.

Group highlights

Group reserves and resources
1,388 mmboe

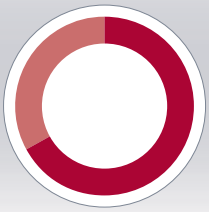
Oil	82%
Gas	18%



Africa	96%
Rest of the World	4%

Group working interest production
58,100 boepd

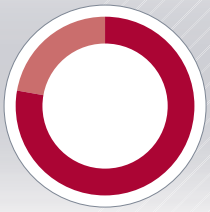
Oil	67%
Gas	33%



Africa	67%
Rest of the World	33%

Group revenue
$1,090 million

Oil	78%
Gas	21%
Tariff income	1%



Africa	78%
Rest of the World	22%

Africa

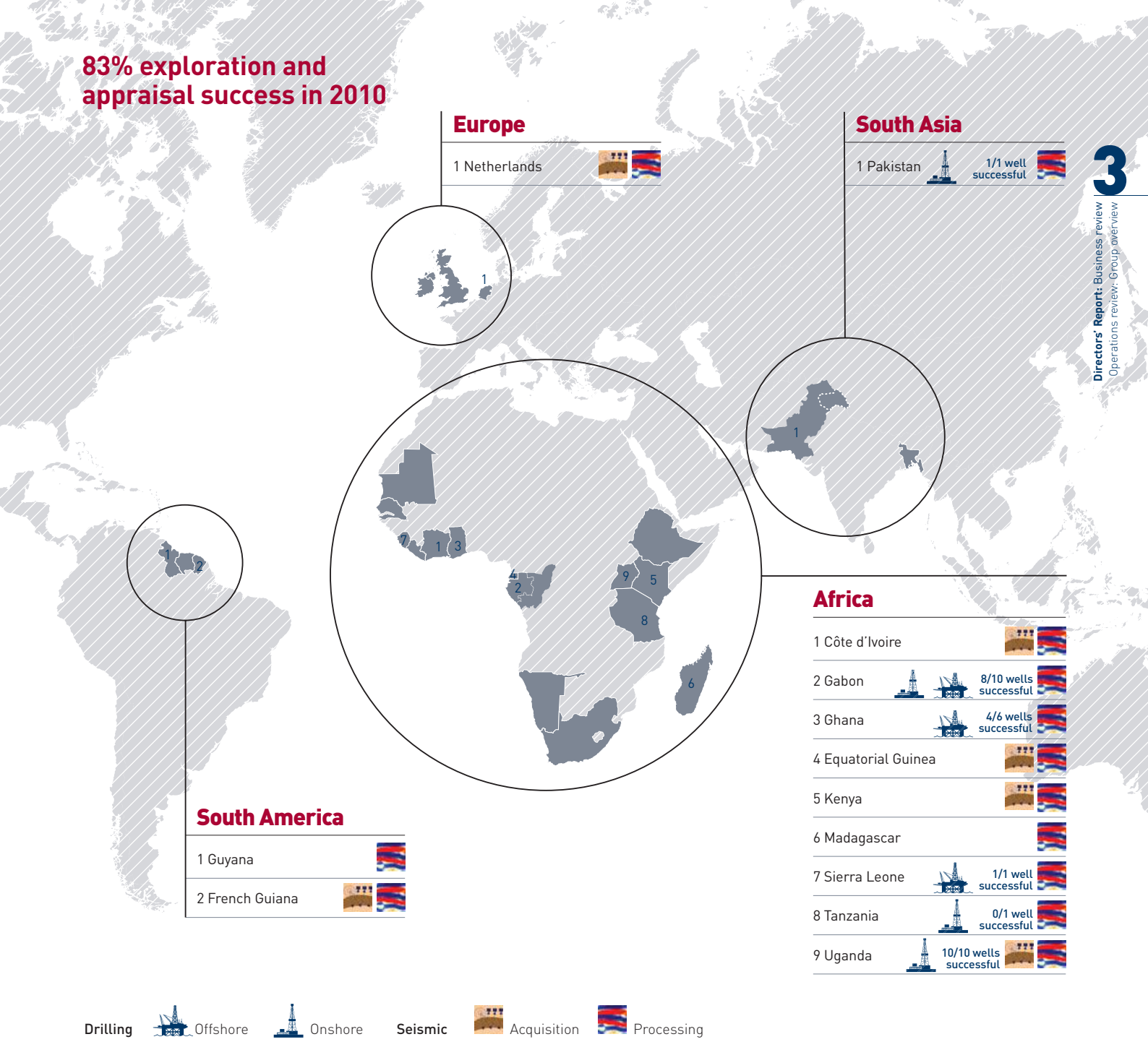
In Ghana and Uganda, Tullow had major operational success throughout the year; the Jubilee field was brought on production, Enyenra and Tweneboa were established as major new fields and one billion barrels of resources has been established in Uganda's Lake Albert Rift Basin. Across the portfolio, production remained strong, exploration and appraisal success continued and major high-impact exploration opportunities are being matured.

p52 For more information on **Africa**

Key producing assets

Country	Producing field (Tullow %)	2010 Working interest production (boepd)
Congo (Brazzaville)	M'Boundi (11%)	4,000
Côte d'Ivoire	Espoir (21.33%)	3,850
Equatorial Guinea	Ceiba (14.25%)	3,950
	Okume Complex (14.25%)	11,750
Gabon	Etame / Avouma / Ebouri (7.5%)	1,450
	Niungo (40%)	3,650
	Tchatamba (25%)	3,600
	Others (3.75% – 40%)	4,150
Ghana	Jubilee (34.7%)	1,100
Mauritania	Chinguetti (19.01%)	1,500

83% exploration and appraisal success in 2010



Rest of the World

The Group's Rest of the World assets form an integral part of Tullow's business. Gas production in the UK and Bangladesh generate strong revenues. The Group also has low risk exploration drilling and development opportunities in Europe and high-impact exploration opportunities in South America and South Asia which are an important component of our global exploration portfolio.

p59 For more information on **Rest of the World**

Key producing assets

Country	Producing field (Tullow %)	2010 Working interest production (boepd)
Europe		
UK	CMS Area fields (14.1% – 100%)	10,850
	Thames Area fields (50% – 100%)	2,450
South Asia		
Bangladesh	Bangora – Lalmai (30%)	5,650
Pakistan	Sara-Suri[1] (38.18%) / Shekhan-1 (40%)	150

1 This field was shut-in during Q4 2010.

Continued success in Africa

In Ghana and Uganda, Tullow had major operational success throughout the year.

Ghana and West African Equatorial Atlantic

In the Equatorial Atlantic region offshore West Africa Tullow has interests in 10 blocks across four countries: Sierra Leone, Liberia, Côte d'Ivoire and Ghana. 2010 has been a period of strong delivery for Tullow's operations in Ghana, culminating in the delivery of First Oil from the Jubilee field in November. Exploration and appraisal success continued throughout the year in Ghana and Sierra Leone where significant new fields have been discovered. The Group's extensive 2011 drilling programme has the potential to transform this area into one of Africa's most substantial oil producing regions.

First Oil from Jubilee field Phase 1 development

Production from the Phase 1 development of the Jubilee field commenced on 28 November and was inaugurated by the President of Ghana on 15 December 2010. This milestone was achieved around 40 months after discovery of the field, with top quartile safety performance, and the final cost is expected to be within 5% of the original $3.1 billion budget. The project has set a significant new global benchmark for the delivery of major deepwater developments.

Gross production of over 69,000 bopd has been achieved from five wells and full production capacity of 120,000 bopd is expected to be reached in the next five months as the remaining four production wells are completed and brought on line. On 5 January 2011, the first lifting of Jubilee crude oil, a 650,000 barrel Tullow cargo, was successfully completed. Once plateau production is reached an average of three offtakes are expected each month. Water injection to two wells is currently around 110,000 bwpd and a further four water injection wells will be completed during 2011 to maintain plateau oil production levels. Gas injection will commence in March and a second injection well is expected to be completed in the third quarter of 2011.

39,000 boepd

Average working interest production

Glossary

boepd Barrels of oil equivalent per day
bopd Barrels of oil per day
CNOOC China National Offshore Oil Corporation
DRC Democratic Republic of Congo
EA Exploration Area
FEED Front End Engineering and Design
FPSO Floating Production Storage and Offloading vessel
FTG Full Tensor Gravity Gradiometry
km kilometres
P50 Reserves and/or resources estimates that have a 50 per cent probability of being met or exceeded
WCTP West Cape Three Points

Further phases of Jubilee development

Planning work for Phase 1a of the Jubilee development, to comprise between five and eight further wells, commenced in the fourth quarter of 2010. This development will help maintain field production at plateau levels and develop further reserves. It is anticipated that the investment decision will be made in the third quarter of 2011 following analysis of reservoir performance and submission of plans to the Government of Ghana. Sub-surface planning work is well advanced and has already identified the additional well locations. A deepwater rig to execute the programme, starting early in 2012, is currently being tendered.

The operator of the West Cape Three Points (WCTP) licence submitted a Declaration of Commerciality for the Mahogany East Area (previously known as Southeast Jubilee area) in September 2010. The Plan of Development for the Mahogany East Area is currently under discussion with the Government of Ghana. The development of the Mahogany East Area reservoirs, which are extensive but generally thinner than in the main Jubilee reservoirs, is currently planned to consist of a four-to-six well tie-back to the existing Jubilee subsea infrastructure when capacity is available. However, an accelerated development as part of an integrated project with other WCTP discoveries may be considered depending upon further exploration and appraisal success in the WCTP licence.

Enyenra (formerly Owo) and Tweneboa

In February 2010, the first appraisal well on the Tweneboa field, Tweneboa-2, in the Deepwater Tano licence offshore Ghana, intersected a significant combined hydrocarbon column. Coupled with the Tweneboa-1 discovery in 2009, Tweneboa was established as a major gas-condensate and oil field.

In July 2010, the Owo-1 and Owo-1 sidetrack wells continued the success of Tullow's West African Equatorial Atlantic drilling campaign. The wells intersected a total of 69 metres of net oil pay in a substantial gross oil column of 200 metres and established Enyenra as a major new oil field in its own right. The wells also intersected 13 metres of net condensate pay and six metres of net gas pay below the Enyenra oil field.

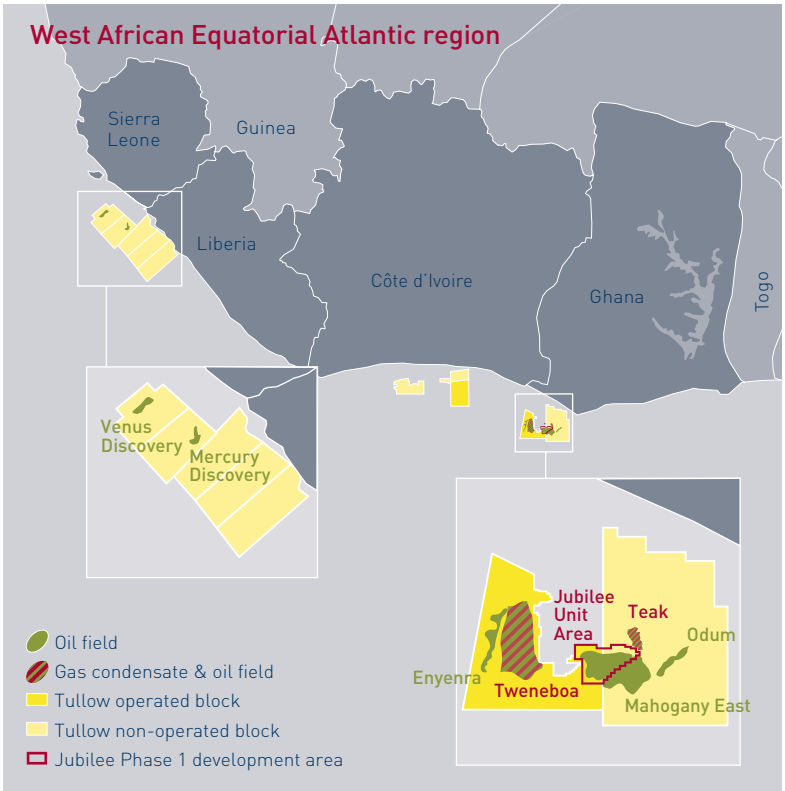
A campaign of appraisal wells and flow tests has now commenced across both the Enyenra and Tweneboa fields. The programme is designed to determine reservoir extent and connectivity and to provide rock and fluid data. The first well in this campaign was Tweneboa-3, drilled in December 2010, which confirmed producible gas-condensate at this location. In February 2011, Enyenra-2A was drilled and encountered oil in excellent quality reservoirs which are in communication with the original Owo-1 discovery well located 7km up-dip. The result confirms Enyenra as a major light oil discovery. The activity programme this year will lead to a Declaration of Commerciality for the Enyenra and Tweneboa fields being submitted to the Government of Ghana later in 2011. The expected schedule of wells includes Tweneboa-4, Tweneboa-DST, Enyenra-3A, Enyenra-DST and Enyenra-4A.

Development studies for both fields are focused on optimising the recovery of the light oil discovered at Enyenra and maximising both liquid and gas recovery from the Tweneboa field. Conceptual developments include the use of a large FPSO with liquid rates in the range of 75,000 to 125,000 bopd. Water and gas is expected to be injected into the reservoirs to optimise both oil and condensate recovery levels. Gas export infrastructure to shore will also be put in place to satisfy the growing demand in Ghana. A Plan of Development will be prepared for submission in the first quarter of 2012 and, pending approvals and a timely sanction of the project, first production would be anticipated before the end of 2014.

Further West African Equatorial Atlantic exploration and appraisal activity

In 2010, Tullow has continued to progress the Jubilee play in the West African Equatorial Atlantic region including Côte d'Ivoire, Sierra Leone and Liberia. In addition to the successes with Enyenra and Tweneboa, Tullow has also made other important discoveries through a campaign of wells in Ghana and Sierra Leone.

Following the interpretation of 10,000 sq km of 3D data over Tullow's acreage in Sierra Leone and Liberia, several Jubilee-type prospects have been identified. The Mercury-1 well offshore Sierra Leone was drilled in November and encountered 35 metres of excellent quality oil pay in the primary objective and a further six metre oil pay in a shallower secondary objective. These accumulations are currently being assessed with a view to drilling a potential appraisal well during 2011. In Liberia,



Deep Pioneer installing subsea equipment on the Jubilee field, offshore Ghana.

the high potential Montserrado (formerly Cobalt) prospect is now scheduled for drilling in the third quarter of 2011 with the operator having recently secured the Transocean Discoverer Spirit drillship for a campaign in the region.

In Ghana, another important discovery was made in February 2011 when the Teak-1 well in the West Cape Three Points licence found hydrocarbons in all five prospective horizons. An extensive multi-well exploration campaign is continuing in the licence before the exploration period expires in mid-2011. The current well, Teak-2, is being drilled into a fault block adjacent to that intersected by Teak-1 and a result is expected later in March.

The Dahoma-1 exploration well in the West Cape Three Points licence and the Onyina-1 exploration well in the Deepwater Tano licence were drilled in April and October 2010 respectively and were unsuccessful. The results from these wells have helped us to calibrate the basin and the Onyina-1 result also supported the required 25% relinquishment of non-prospective acreage in January 2011.

In Côte d'Ivoire, advanced processing of the large 3D surveys acquired in blocks CI-103 and CI-105 in 2010 have been completed and the interpretation of these datasets has revealed a number of potential targets for the two wells scheduled for the second half of 2011. Interpretation of the reprocessed 3D seismic data over CI-102 revealed limited prospectivity so Tullow withdrew from this Joint Venture at the end of December 2010. Until the current political uncertainty in Côte d'Ivoire is resolved our exploration licences have been placed in Force Majeure, however, there has been no impact on production.

82%
Exploration and appraisal success rate

Enyenra
Major light oil discovery

Production and Development in Côte d'Ivoire

Net production from the East and West Espoir fields was in line with expectations averaging 3,850 boepd (2009: 5,000 boepd). The decrease in production from 2009 levels was due to planned shutdowns to facilitate the upgrade to the FPSO and because of the natural decline of the fields. The upgrade to the processing facilities was completed successfully in the middle of the year. An investigation into the feasibility of adding extra well slots to both platforms is at an advanced stage and infill drilling from both the East and West wellhead towers is anticipated in 2012 or 2013.

Ghana Listing

In November 2010, Tullow announced that in order to create a more accessible opportunity for Ghanaian individuals and institutions to invest in the future of their oil industry, through Tullow, the Group was planning a secondary listing on the Ghana Stock Exchange. Originally planned for December, the Listing has been postponed due to the requirement over that period to focus on First Oil from the Jubilee field and year-end corporate planning. The Listing is now planned to go ahead as soon as practicable after our year-end results and the issue of our Annual Report.

Uganda

Tullow has had interests in the Lake Albert Rift Basin in Uganda since 2004 when it acquired Energy Africa. Since then, the Group has drilled approximately 40 wells with all but one encountering hydrocarbons. To date, one billion

Deepwater Millennium which drilled the successful Mercury-1 well offshore Sierra Leone.

barrels of P50 resources have been discovered and 1.5 billion barrels of P50 prospective resources remain. Over this period, Tullow has acquired additional equity by purchasing Hardman Resources in 2007 and Heritage Oil and Gas Limited's (Heritage) interests in 2010. Tullow is now finalising plans to farm down a one-third interest to both CNOOC and Total to align interests across the basin and accelerate basin-wide development. Ultimately, Tullow expects the basin to be producing in excess of 200,000 bopd.

Purchase of Heritage interests and farm-down to CNOOC and Total

On 17 January 2010, Tullow exercised its right to pre-empt the sale by Heritage of its interests in Uganda to a third party. This resulted in Tullow acquiring a 50% interest in Exploration Areas 1 and 3A (EA 1 and EA 3A) for $1.45 billion on 26 July 2010. $1.05 billion was paid directly to Heritage, $121 million was deposited with the Ugandan Revenue Authority and $283 million was put into escrow pending resolution of a dispute between the Government of Uganda and Heritage over payment of capital gains tax. Conditional approval from the Government of Uganda was received for the purchase and a subsequent farm-down to CNOOC and Total; however, the Government of Uganda has stated that final approval for both transactions would not be received until a basis for resolution of the Heritage capital gains tax dispute has been achieved.

Tullow and the Government of Uganda have been engaged in negotiations aimed at resolving this issue. A legally binding Memorandum of Understanding has been drafted. This agreement will pave the way for the farm-down and development of all assets within the Lake Albert Rift Basin by Tullow, Total and CNOOC.

Exploration and appraisal

The successful exploration and appraisal campaign in Uganda continued in 2010 with ten wells drilled, all of which encountered hydrocarbons. This led to the estimated P50 resource base for Uganda being revised upwards from 800 million barrels at the beginning of the year to 1 billion barrels at year-end.

The 2010 Ugandan drilling campaign commenced in January with the Kasamene appraisal programme where the OGEC-750 rig drilled three wells: Kasamene-2, 3 and 3A. Positive results from these wells give strong support to the development of this field.

In May, the Nzizi-3 appraisal well was drilled, establishing reservoir connectivity with the Nzizi-2 well and proving the well's viability as a future gas producer for the integrated power project. In June, the OGEC-600 rig arrived in EA 1 and a comprehensive two-rig exploration and appraisal campaign commenced across EA 1 and EA 2. In total, a further six successful appraisal wells were drilled and the Mpyo-1 exploration well made a material discovery.

Good progress is being made in defining numerous new exploration and appraisal drilling targets for the drill-out campaign in 2011 which will accelerate

Upgrade of processing facilities on the Espoir field FPSO, offshore Côte d'Ivoire.

Accelerated weight drop units used in seismic acquisition, in EA 2, Uganda.

once the transaction with CNOOC and Total is approved. Following a short drilling hiatus, one rig is now operational in EA 2, a second rig is on standby and further rigs are being contracted. In 2011, two successful appraisal wells have been drilled Nsoga-2 and Kigogole-6. Ngege-2 is currently drilling.

During the year, three 2D seismic surveys have been completed in the Butiaba Area of the basin resulting in a total of 767 line kilometres of good quality data. These surveys have firmed up a series of large prospects and have assisted in the placement of wells to finalise the appraisal of a number of discoveries. In addition, a new 3D survey is ongoing and will run through to the fourth quarter of 2011.

Lake Albert Rift Basin Development

During the year, good progress has been made on the first phase of the EA 2 development. An Extended Well Testing programme is planned to start in the second quarter of 2011 with test crude to be sold to a domestic industrial user. Field Development Plans have also been submitted to the Government of Uganda for the Waraga, Mputa and Nzizi discoveries as required at the end of the appraisal period. It is anticipated that the Kasamene Field Development Plan will be submitted in the second quarter of 2011.

The Front-End Engineering and Design (FEED) phase for the Nzizi and Kasamene development projects has been completed and work is underway to progress these developments to sanction. The Nzizi gas field development will deliver gas to a new power plant in the Lake Albert area. First gas from Nzizi is subject to gas sales agreements and the readiness of the new Lake Albert Power Plant, which is expected in 2012. The timing of the Kasamene development, based on a production facility with an initial capacity of up to 10,000 bopd, is under review to determine how this development will be best integrated into the overall Lake Albert development plan.

Following completion of the farm-down to CNOOC and Total, the partners will work closely with the Government on a development plan aimed at delivering in excess of 200,000 bopd which will include refinery options to supply petroleum products for the region as well as pipeline export routes to international markets. The target for achieving significant oil production from this phase of the development is currently 2015.

Focus on Capacity Building in Uganda

Tullow has facilitated considerable growth in the petroleum sector in Uganda. Tullow's Kampala team has grown with the focus firmly on maximising recruitment of Ugandan nationals in order to ensure the long-term sustainability of the project and of the industry as a whole. Over 80% of the team working in Kampala, Cape Town and London are Ugandans and competencies continue to build through on-the-job experience and formal training.

Staff members from the Kampala office, Uganda.

Production facilities at the Onal field, Gabon.

Tullow has also stepped up its programme this year to build capacity in the supply sector by encouraging local businesses to partner with international specialists. A Logistics Suppliers Open Day, held in January 2011, attracted over 500 service providers and provided a forum for debate on the way in which access to the industry by local entrepreneurs can be supported. Further events planned in 2011 will expand these efforts to every sector of the industry.

3.5 years
From Jubilee discovery to First Oil

100,000 sq km
New Kenya and Ethiopia Acreage

Kenya and Ethiopia

In the second half of 2010, Tullow farmed in to blocks 10A, 10BA, 10BB, 12A & 13T in Kenya and the South Omo block in Ethiopia. The deal was completed in early 2011 and Tullow now operates all six blocks covering an area of around 100,000 sq km. The acreage covers the Turkana Rift Basin, which is similar in character to the Lake Albert Rift Basin, and also a south-east extension of the geologically older Sudan rift basins trend. A 600 km 2D seismic survey has already been completed in Block 10BB and an 800 km 2D seismic survey covering Block 10A is in progress. A Full Tensor Gravity Gradiometry (FTG) survey will commence in the first quarter of 2011 followed by multiple 2D seismic programmes across all the blocks. Two wildcat exploration wells are planned for late 2011. In March 2011, Tullow also farmed in to Block L8 offshore Kenya, subject to certain approvals. On completion, Tullow will gain a 10% interest and have an option to increase its interest by a further 5% in this highly prospective acreage.

Congo (DRC)

In 2006, Tullow was awarded two Congo (DRC) licences, adjacent to its Ugandan acreage on Lake Albert, through a transparent bidding process. In June 2010, the Government awarded the licences via Presidential decree to two British Virgin Islands-registered companies. Tullow commenced legal proceedings to challenge that award and obtained an interim injunction preventing those companies carrying out any work until Tullow's rights had been legally determined. In subsequent proceedings, it became clear that Tullow's rights were not likely to be upheld so long as the DRC Government maintained its position that it had the right to ignore or revoke the earlier award to Tullow. Given the expense of further proceedings and the difficulty in enforcing any award against the DRC even in the event of success, the Board has regretfully taken the decision to discontinue the legal proceedings and withdraw from the DRC.

Equatorial Guinea

Net production from the Ceiba field was ahead of expectations, averaging 3,950 bopd in 2010, due to the optimised use of the subsea pumps. Net production from the Okume Complex averaged 11,750 bopd in 2010 as new production wells kept the field on plateau whilst uptime and throughput were enhanced leading to slightly higher average production than 2009.

During the year, two drilling rigs completed separate development drilling campaigns on the deep water and shallow water sections of the Okume Complex, with eight new wells drilled ahead of schedule. In the third quarter of 2010, a time lapse 3D (4D) seismic survey was acquired over the Ceiba field and the deep water part of the Okume Complex which is expected to assist with selecting future infill well locations.

Gabon

Net production in Gabon averaged 12,850 bopd from 13 fields during 2010, an increase of 7% over the previous year. The Niungo, Echira and Tchatamba fields all performed well and work is ongoing to further enhance production. Tullow and its partners drilled 53 wells in Gabon during 2010, including a series of very successful exploratory appraisal wells, and in 2011 the level of drilling activity will be sustained with over 50 wells planned. Further seismic evaluation is also planned to support the 2012 drilling campaign.

In February 2010 the Maroc-Nord-1 exploration well discovered 50 metres of net oil pay in an emerging under-explored stratigraphic trap play which is currently being appraised and will be brought into the Onal area development in 2011. The Noix de Coco–1 exploration well was drilled in April 2010 on the Tullow operated Azobe exploration block but the well encountered

non-commercial levels of hydrocarbons and following a full review the licence was relinquished. Tullow entered an agreement with Perenco to farm in to the offshore Arouwe exploration block for a 35% interest. The Falcon North-1 exploration well was drilled in December 2010 and encountered non-commercial volumes of hydrocarbon; however, material prospectivity remains in the licence for the new exploration campaign ahead.

Congo (Brazzaville)

Net production from the M'Boundi field averaged 4,000 bopd in 2010. A delay in the ramp up of water injection has resulted in a decline in average reservoir pressure and hence a decline in well productivity. Infill drilling however continued throughout the year, with the delivery of 30 new wells. Hydraulic fracturing has been successful in improving productivity of a number of wells and downhole pumps are being installed in producer wells to deal with the rising watercut.

Mauritania and Senegal

In Mauritania, the Chinguetti field production rate declined in line with expectations, averaging 1,500 boepd net to Tullow. Towards the end of 2010, a programme of well and flowline optimisation resulted in a reduction in the rate of decline and the potential for further optimisation in 2011 and beyond is being evaluated.

The Cormoran-1 exploration well, located in offshore Block 7, completed drilling in January 2011. The objective of the well was to appraise the Pelican gas discovery and to target two underlying exploration prospects, Cormoran and Petronia. The well successfully intersected gas in both Pelican and Cormoran. The Pelican interval was flow tested at a stabilised flow rate of approximately 23 mmscfd. In the deeper Petronia target, the well encountered rich gas in Turonian-age reservoirs. However, drilling had to be stopped for operational reasons soon after penetrating the trap.

The result from the Gharabi-1 well, in Mauritania Block 6, was announced in February 2011. The well, which was selected by the operator to meet licence commitments, intersected poorly developed water-bearing reservoirs. The result has no impact on Tullow's future plans for its Mauritanian or other West African acreage. In 2011, Tullow will continue defining prospects throughout the Mauritania-Senegal basin with further planned exploration activity in 2011 and 2012.

Tanzania

In April 2010, the Likonde-1 exploration well in the Lindi Block was drilled to a depth of 3,647 metres testing Tertiary and Cretaceous sequences. Significant amounts of residual oil and gas were found; however, no commercial quantities would have been producible from the well. Tullow's strategy of exploring for oil in the Ruvuma Basin continued throughout 2010 with the entire seismic dataset being reprocessed to better image potential objectives in the Lindi and Mtwara blocks with a second commitment well planned later in 2011.

Madagascar

Due to the political instability in Madagascar during 2010, Tullow elected to delay the 2D seismic acquisition programme until 2011. However, Tullow completed an extensive geological field study programme to better define areas of high prospectivity targeting a light oil play in the Permo-Triassic Karoo interval. Oil sampled from natural seepages along the faults which bound the prospects is being analysed. Tullow has also completed a reprocessing project of the historical seismic data which has resulted in a large improvement of the dataset. The assignment of Madagascar Oil's 50% equity in Block 3109 to Tullow completed by the end of 2010 and a well in Block 3111 is planned for 2012.

Namibia

Terms of a new Kudu Petroleum Agreement have been agreed with the Ministry of Mines and Energy and a revised 25 year Production Licence is expected to be issued in the first quarter of 2011. Tullow, on behalf of the Production Licence partners NAMCOR, Gazprom International and Itochu, has completed the concept selection study for the offshore development of the Kudu gas field and is now entering into technical integration discussions with NamPower to optimise design concepts of both the offshore development and the Kudu Power Station. In parallel, discussions are underway with NamPower on the gas supply agreements and for the 800MW power station and, subject to progress, Tullow expects to initiate detailed design of the offshore development in the second quarter of 2011.

Angola

On 30 November 2010, Tullow elected to withdraw from the Block 1/06 licence in Angola on commercial grounds. The first exploration period has terminated and in-country operations are due to complete by mid-year.

Opportunities in the Rest of the World

The Group's Rest of the World assets form an integral part of Tullow's business.

The Group's Rest of the World assets form an important part of Tullow's business. Gas production in the UK and South Asia contribute important revenues while low-risk exploration prospects and development opportunities in Europe combine with high-impact potential in South America and South Asia to provide an exciting exploration portfolio.

Europe

Tullow's well established producing assets lie in the Southern Gas Basin offshore UK and are centred around two gas producing hubs, associated fields and infrastructure. Tullow also has a portfolio of mostly operated exploration blocks offshore the Netherlands where it is looking to capitalise on the exploration success it has experienced in adjacent UK blocks in recent years.

UK

Production in 2010 from the UK assets exceeded expectations averaging 13,300 boepd (2009: 14,450 boepd). In the Thames Area, production was in line with expectations supported by a full year of combined flow from the Tullow-operated Horne, Wren and Wissey fields. In the CMS Area, higher rates were achieved as a result of the successful implementation of a detailed well performance improvement programme on the Ketch field, the earlier than forecast tie-in of the Ketch-8z well, the successful in-fill drilling on the Boulton field and various well interventions across the portfolio.

2010 marked a busy year of operational activity in the CMS Area. The Boulton B5 infill well was drilled and brought on stream; successful well interventions took place on the Kelvin field; and a development concept and export route was agreed for the Harrison development in block 44/19b with gas production anticipated to commence in the second half of 2012. In addition, the Ketch-8z well was brought on production ahead of schedule in August 2010 and the Ketch-10 well is now planned for 2011. Following a farm-in agreement with ConocoPhillips in January 2011, Tullow increased its equity in the Cameron prospect located south of the Harrison discovery in 44/19b. The exploration well will be operated by Tullow and is expected to commence drilling in April 2011.

1. Tullow and Ensco staff during a site visit to the Ensco 70 rig in Teeside, UK.
2. Ensco 70 en route to the Ketch-8z well, offshore UK.

19,100 boepd
Average working interest production

Glossary
boepd Barrels of oil equivalent per day
CMS Caister Murdoch System
EHS Environment, Health and Safety
mmscfd Million standard cubic feet per day
sq km square kilometres

Operations review: Rest of the World continued

1. WG Tasman seismic vessel, which carried out a 3D survey offshore the Netherlands.
2. Ensco 8503 en route to the Guyane Maritime block offshore French Guiana.

In the Thames Area, in December 2010, Tullow acquired a 100% interest in Block 49/29d and in February 2011 agreed a deal for a further 65% in 49/30b and 49/29e. These blocks are considered to have material gas prospectivity. Tullow intends to drill a well in the first half of 2011 and in the event of a success, the well will be tied back to Thames, deferring field abandonment and generating additional revenues.

Netherlands

Building on the successful exploitation of the Carboniferous play in the UK CMS Area, Tullow has been building an extensive operated position in the adjacent underexplored Carboniferous province of the Dutch offshore sector and now has interests in 10 blocks. In early 2010, Tullow and its partners participated in two major 3D seismic reprocessing programmes and the results led to the acquisition of a significant 1,600 sq km high specification 3D seismic survey during the summer. The data will be used in 2011 to mature the prospect inventory for a potential drilling campaign in 2012 and 2013.

Tullow participated with a 4.3% working interest in the drilling of the non-operated Muscovite prospect, which extends into Block E13b and sits immediately south of the Tullow operated acreage in the E blocks. The purpose of participating was to calibrate geological risk factors in the area at a low cost to Tullow. The well found only residual gas and was plugged and abandoned. Valuable insights from this well will now be applied to Tullow's Carboniferous exploration acreage in the Netherlands.

Portugal

Following the completion of work programme commitments in the frontier, deep-water Alentejo Basin and a detailed evaluation of the full subsurface dataset, Tullow took the decision not to pursue this opportunity any further and its operated interest in the acreage was transferred to other parties within the Joint Venture.

South Asia

The demand for energy in Asian economies remains strong. This region offers Tullow excellent growth potential through exploration, particularly in Pakistan, where the Group has a significant non-operated position.

Bangladesh

Production from the Bangora field in 2010 was marginally ahead of expectations averaging 5,650 boepd (2009: 5,050 boepd). In March, the installation of a Hydrocarbon Dew Point unit to improve the gas

sales specification was completed, increasing condensate yield from 140 to 400 barrels per day whilst delivering on-spec gas at a maximum permissible rate of 120 mmscfd.

Tullow has also undertaken reprocessing and reinterpretation work on the southerly extension of the Bangora structure where there is significant potential for satellite traps which could be tied into the Bangora facilities. The viability of exploration drilling and life-of-field optimisation programmes will be considered during 2011.

The offshore exploration block SS-08-05 is due to be awarded to Tullow following competitive bidding. However, the award is being delayed until a maritime border dispute between India and Bangladesh is resolved.

Pakistan

In July 2010, the Shekhan-1 exploration well penetrated a total net gas pay of 45 metres in sandstone reservoirs over a gross interval of 93 metres. A pipeline and gas processing and production facilities were then installed so that an extended well test could be performed with gas sold into the Pakistan gas grid. This was achieved in record time allowing sales of around 15 mmscfd of gas plus 100 barrels per day of condensate to commence in December 2010. The test will continue into 2011 and will assist in deciding upon forward programmes for the Shekhan area.

In the first half of 2011, a second exploration well, Jabbi-1, will be drilled 20 km to the west, along the same geological structural trend as Shekhan. If successful, Jabbi-1 gas could be quickly tied-in to the Shekhan production facilities. Tullow has equity in several other high-impact exploration blocks in Pakistan and is working with the local authorities to enable activity in these blocks to recommence as soon as local security conditions permit.

The Sara-Suri field continued producing gas at very low levels until the fourth quarter of 2010 when it was shut in pending approval from the Government for the sale of the asset.

South America

Tullow has deep water interests in the Guyane Maritime, Block 47 and Georgetown licences in French Guiana, Suriname and Guyana respectively. The Guyana Basin of South America has long been recognised as the potential twin to the West Africa Basins where Tullow has had significant exploration success over the past three years.

Zaedyus and Jaguar

High-impact prospects matured for 2011 South America exploration campaign

Ketch-8z

CMS Area well brought on production

French Guiana

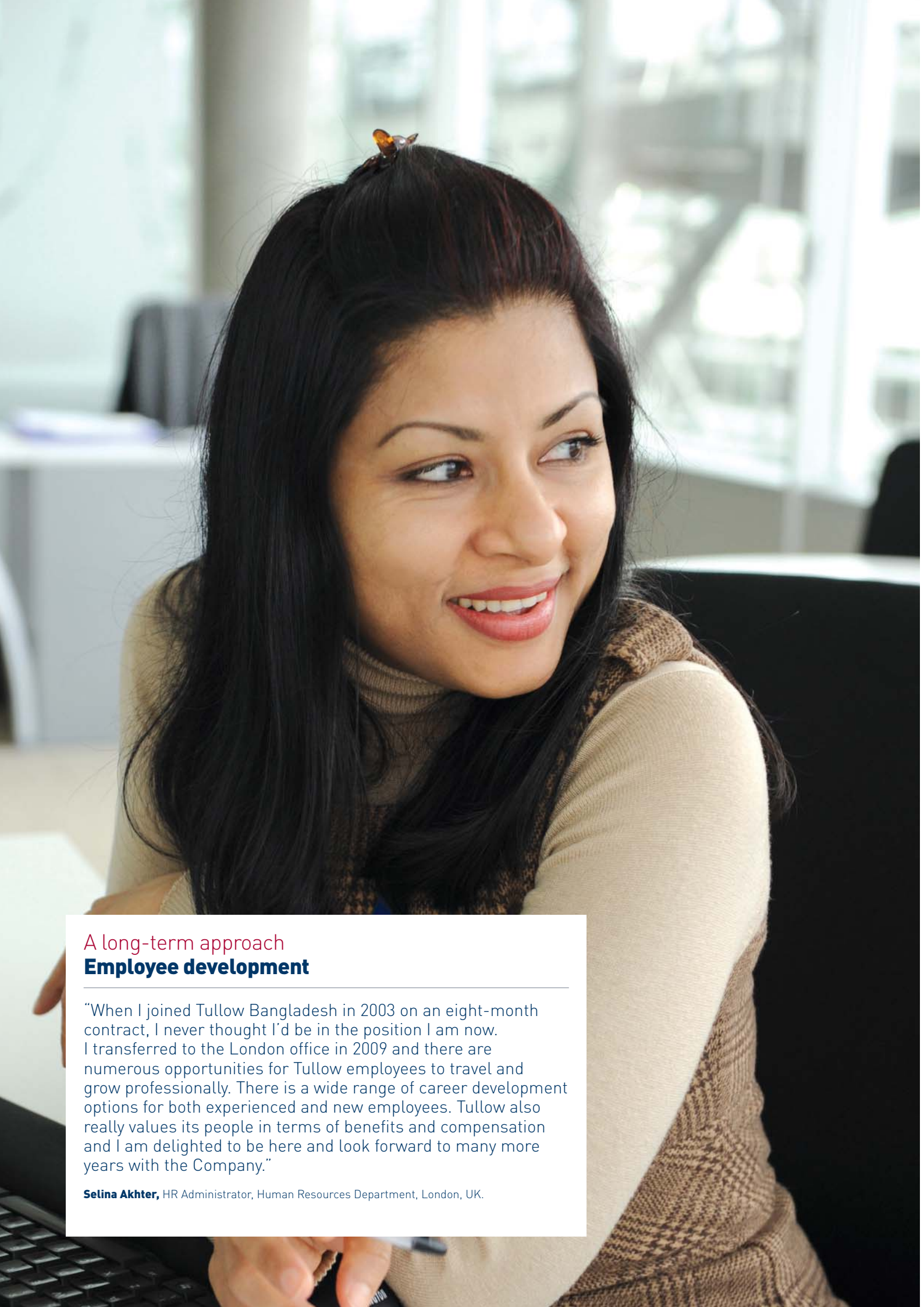
Seismic acquisition on the Eastern Slope part of the Guyane Maritime permit in French Guiana, which started in September 2009, was completed in early 2010 with a total of 2,500 sq km 3D and 180 km 2D seismic acquired. Interpretation of this data during 2010 confirmed the presence of the major Late Cretaceous turbidite system previously identified on the existing regional 2D seismic in 2008. A portfolio of high risk but high-impact deepwater prospects analogous to the Jubilee field in Ghana, has been interpreted and the first well on the Zaedyus prospect commenced drilling with the ENSCO 8503 in early March 2011. The well has the potential to open up a major new oil province in French Guiana with a significant number of further prospects and leads already identified. Tullow is operator with 27.5% equity in the licence.

Guyana

Tullow has a 30% interest in the Georgetown Block in Guyana where, following analysis of a 3D seismic survey acquired and processed during 2008-2009, a number of prospects were identified in 2010. Jaguar, a Late Cretaceous turbidite fan prospect, will be the first well to be drilled in the licence. The Atwood Beacon jack-up rig has been contracted and the well is expected to commence drilling in the third quarter of 2011.

Suriname

In September 2010, Tullow signed a Production Sharing Contract for the deepwater Block 47. While previous industry focus in this area had been on an Early Cretaceous tilted fault block play, Tullow's focus is on the Cretaceous turbidite fan play analogous to Tullow's West African discoveries. Planning for a large 3D seismic programme (2,000 sq km) is currently ongoing with an anticipated commencement date of late 2011/early 2012. Onshore activity in Suriname is focused on continued preparation for the five-well Coronie and two-well Uitkijk drilling programmes in 2011.

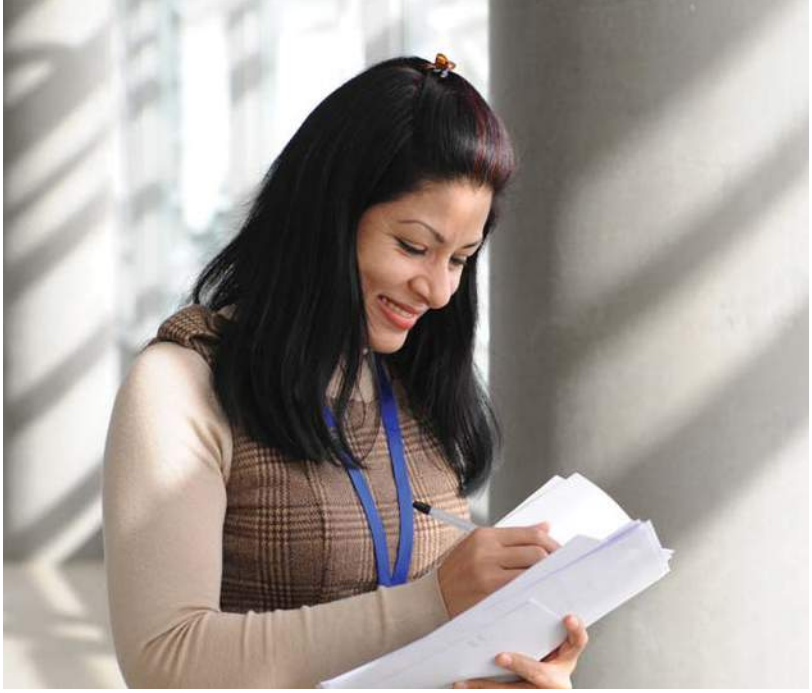


A long-term approach

Employee development

"When I joined Tullow Bangladesh in 2003 on an eight-month contract, I never thought I'd be in the position I am now. I transferred to the London office in 2009 and there are numerous opportunities for Tullow employees to travel and grow professionally. There is a wide range of career development options for both experienced and new employees. Tullow also really values its people in terms of benefits and compensation and I am delighted to be here and look forward to many more years with the Company."

Selina Akhter, HR Administrator, Human Resources Department, London, UK.



4 Corporate responsibility

We create shareholder value by pursuing a consistent strategy that seeks to deliver sustainable long-term growth. To do this successfully we must behave responsibly in all aspects of our business together with managing and mitigating risks. For Tullow, corporate responsibility is about achieving a balance between delivering our business plans and being committed to our stakeholders as a whole.

Creating shared prosperity

We are working to create and share prosperity so that countries where we operate and local communities can participate in the benefits of our success.

Highlights

External stakeholder engagement
We are taking a more strategic approach to our external stakeholder engagement and the work to define and roll-out this will be completed in the first half of 2011.

Materiality
Over the last year we have held several external stakeholder events that have provided us with critical input into identifying and prioritising material issues for Tullow and the industry.

Social enterprise
In 2010, we invested $2.6 million in 70 projects; over 70% of these were in Africa. We focused mainly on local community health, education, environment and enterprise development.

Ethics & integrity
A new Group Compliance Manager has responsibility for Tullow's anti-bribery and corruption, and regulatory compliance programmes worldwide. As soon as the UK Bribery Act is finalised we will be introducing a new Code of Business Conduct.

Sustainable supply chain
The shift in Tullow's size, scale and profile of our assets means we have a continuous demand for services. This will help us influence our suppliers' behaviour in critical areas such as safety, local content and the environment.

National/local content
We also have a role to play in developing local or national content by using local contractors and suppliers, hiring local staff, creating opportunities and growing the skills base in the countries where we operate.

Environment
In 2010, we had zero high potential environmental incidents which is a strong performance in the context of the high levels of activity across the Group and the transition from development to production in Ghana.

Health & safety
In 2010, there were seven Lost Time Incidents (LTI) in Tullow (2009: five) and 11 High Potential Incidents (HIPOs) (2009: 10). There were seven malaria cases (2009: eight). We did not achieve our stretch target of top quartile industry safety performance.

People
A continuous challenge for us is to build organisational capacity to meet the needs of our major projects and growth opportunities, while still maintaining our unique culture and ethos.

Nationalisation
In Uganda, 84% of our employees are nationals and in Ghana 86% of our employees are nationals. We are investing in training and developing skills so that local people can participate fully in the new oil industry in their country.

Supporting education in Sierra Leone

We believe in making a contribution to the broader development of a country as soon as we have been invited in. Partnering with Playhouse Foundation in Sierra Leone, we've provided 500 sets of school furniture to primary schools in Kono District, creating jobs for 18 young local welders and carpenters trained by the St. Joseph's Vocational Institute in Lunsar.

For more information visit **www.tullowoil.com/casestudies**

Corporate responsibility and our business

For Tullow, corporate responsibility runs through every aspect of how we run our business, including Governance, our Code of Business Conduct, Human Resources, Environment, Health & Safety, Supply Chain Management, External Affairs, Information Systems Management, Risk and Investor Relations.

Visit the new corporate responsibility section of our website for up-to-date information on the systems, policies and procedures that underpin our approach to corporate responsibility.
www.tullowoil.com/corporateresponsibility

Stakeholder engagement

Our stakeholders include local communities, government (national, regional and local), NGOs (both advocacy and development), intergovernmental organisations, academics, investors, the media and employees. While we have always aimed to be open and transparent in all that we do, our size and scale means that a more strategic approach to building relationships is needed.

There are genuine inherent risks in failing to understand and respond to what is important to our stakeholders and these can translate into real business and opportunity costs.

In 2010, we undertook the first steps in the process of developing a detailed external stakeholder engagement plan with a focus in the first instance on Africa. This will help us to shape a genuine dialogue with supporters and critics of Tullow – at a global and local level – and to respond appropriately to their needs and concerns. It will also help us to demonstrate the depth of our heritage in Africa and our desire and commitment to creating shared prosperity there and to promote and contribute to the development of the continent. This in turn facilitates the creation of an operating environment that enables us to successfully continue our growth strategy and deliver our business plans. The need to improve external stakeholder engagement, particularly in Africa, is a Board-level key corporate risk for 2011.

Creating shared prosperity

The oil and gas industry is long-term by nature, given the capital resources required and the many decades between successfully finding oil or gas and the useful life of a field or basin. Two major projects in two new oil countries in Africa have focused our attention on the need to create and share prosperity as these projects evolve and develop.

We are in the process of more clearly defining how we can contribute to social and economic development, both within and outside our core business activities. Our goal is to engage in wide-ranging and open consultation so that we build meaningful opportunities to contribute that are both relevant to our local stakeholders, and aligned with the growth objectives of our business.

Over the last year we have planned and held several external stakeholder events that have provided critical input into identifying and prioritising many of Tullow's material issues. These included community consultation and disclosure initiatives, a multi-stakeholder forum and meetings with SRI managers as part of investor relations initiatives.

Communities

In 2010, we held regular meetings with local leaders to explain our projects; we held informal round table discussions with community groups to listen to and discuss their concerns; we held four three-day "introduction to oil and gas" courses for a number of external stakeholders from local government, media, NGOs and CSOs (Civil Society Organisations) and local business people; and we undertook briefings about the dangers of fishing near our operations and reinforced this education drive through poster campaigns and local radio programmes. These are in addition to the daily contact our community liaison officers have with the communities near to our operations.

Investors

There is a very active annual investor relations programme at Tullow, details of which are contained in pages 80 and 81 of this report. In 2010, we took part in a growing number of meetings/interactions with Socially Responsible Investment (SRI) managers. We have a multi-disciplinary team that addresses investors' questions on all aspects of corporate responsibility, in person or in writing, and we have also contributed to the work of individual SRI managers working on evolving methods for assessing CR performance. We held one group meeting for SRI managers in 2010 and plan to formalise a programme for building relationships with SRI funds in 2011.

Employees
In a five-year period since 2006 our employee numbers have grown from 250 people to over 900 full time employees at the end of 2010. To develop and implement an employee communications and engagement strategy we set up an internal communications function. This was particularly important in the context of the growth in the number of employees and an ever changing organisation. We now have a small team in London supported by internal communication specialists in Ghana and Uganda.

Multi-stakeholder forum
In early 2011, we held our first multi-stakeholder forum in the UK, which brought together experts from civil society, policy making, media and business for a broad, structured discussion to assess Tullow's Corporate Responsibility activities. The participants provided feedback on the key factors that they believe affect our business, and challenged us to respond on how we could best manage these issues in the future.

Materiality
While it is important for us to understand what issues are relevant and material to our external stakeholders, it is just as important for us to reflect on and respond to the issues raised. We have made progress in capturing the results, findings, concerns and questions raised by our stakeholders this year. As a result we are compiling a matrix of material issues identified in our multi-stakeholder forum, in interviews with Executive Directors and senior management and stakeholder mapping process to more easily identify recurring themes. Examples of issues thus far are:

- Local content and national industry skills development;
- Deepwater Macondo, climate change and biodiversity; and
- Building relationships with governments and regulators.

Social enterprise
In 2010, we continued to support local community-based projects primarily in the areas of health, education, environment and enterprise development. We invested $2.6 million in 70 projects; over 70% of our total investment was in Africa. We took the opportunity to review our approach to strategic Social Enterprise investment and have decided to focus our investment on:

- Building capacity in the local/national supply chain by developing and using local contractors and suppliers; and
- Developing in-country skills so that we can employ nationals in our local operations for the benefit of the oil and gas industry.

This year we will be generating project ideas, setting up governance structures, developing a funding policy and identifying partners for a formal launch in 2012. The primary role of our Social Enterprise Committee is to ensure that the Group's social enterprise policy and activities are aligned and integrated, and that they reflect business and external stakeholder priorities.

In addition to strategic social enterprise investment we will continue to invest in local community projects in the areas of health, education, enterprise development and environment to support a diversified and fairer society.

Enterprise development
In 2010, the Tullow South Africa team in Cape Town began working with a new charity, The Clothing Bank, after hearing about them on local radio. Tullow sponsors their Enterprise Development Project, which recruits and trains unemployed mothers from the Cape Town area to run retail trading businesses; with the overall objective of making them financially and socially independent.

For more information visit **www.tullowoil.com/casestudies**

Sustainable supply chain

The shift in Tullow's size and scale and the profile of our assets means we have a continuous demand for services. This is enabling us to forge stronger relationships and offer longer-term commitments to our suppliers. Apart from the opportunity to maximise Tullow's expenditure to create business benefits, it also enables us to influence our suppliers' behaviour in critical areas such as safety, local content and the environment through leveraging our contract performance management processes. At the heart of building a sustainable supply chain is localising supply by fabricating, manufacturing and sourcing as much as possible as close to the point of use. This means that those supplies are provided to us by indigenous companies. By sourcing close to the point of use we greatly reduce the distance over which our supply chain is spread and this in turn greatly reduces the impact on the environment, project cost and time. In terms of the environment we can also improve our supply operations, particularly the use of green technology for managing and developing logistics handling, particularly in new projects such as Uganda.

National/local content

National/local content means sourcing goods and services from local companies who employ local people. This brings benefits to countries through:

- Local business development (goods and services);
- Employment opportunities (skills training and career development); and
- Sustainable local economic development.

In January 2011, our first logistics supplier open day was held in Kampala, Uganda. The event was organised by Tullow to discuss the opportunities available to logistics companies to support the development of the Lake Albert Rift Basin. Over 320 people attended, 180 from Uganda and a further 80 people from East Africa. 135 organisations participated, including 90 logistics companies. The event provided the opportunity to bring together local and international logistics companies; enable suppliers to learn more about working with Tullow; identify the challenges and opportunities in the logistics sectors; and understand the development needs to build sustainable logistics management in-country.

Local content

Consolidated Shipping Agency Limited (Conship) is a leading Ghanaian logistics company with offices in Tema, Accra and Takoradi. The company started working with Tullow in February 2010, supporting Tullow's imports and exports for the Jubilee project.

"Since working with Tullow we have refined and improved our reporting, accounting, EHS standards and complied with the Foreign Corrupt Practices Act. I think our company now meets the standards expected internationally. We have also just been awarded the Gold Star Award for World Quality Commitment 2010 and this has only been possible because of our association with Tullow. We really are very grateful for this opportunity."

Read the full interview with MacDonald Vasnani, CEO of Conship about his company and their work with Tullow at **www.tullowoil.com/casestudies**

For more information on compliance see
Chairman's introduction to corporate governance

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Environment, Health & Safety

There was lots of activity in the EHS team in 2010, highlights of which are included here. A strong environmental performance across the business included an excellent EHS performance in Ghana as this project moved from the development stage into production. This continues today as the Jubilee field ramps up to gross plateau production of 120,000 boepd. The EHS leadership team structure was reviewed during the year and a decision was taken to concentrate the role of the EHS leadership team into developing EHS strategy and providing EHS risk management oversight. In addition, a decision was taken to develop an EHS management structure in each of the Regional Business Units. During 2010, 22 EHS training courses were held; 199 attendees participated, representing the equivalent of 560 days of training.

The Group's safety performance was good overall with the highlight being a significant reduction in vehicle incidents. However, there were increases in LTIs and HIPOs. As a result the Group's stretch safety and industry top quartile performance targets for LTIFR were not achieved. A safety stand-down was conducted across Tullow mid-year and Tullow safety rules, which follow accepted industry good practice and bring consistency to safety standards across Tullow, were introduced. An HIV/AIDS awareness programme was developed in 2010 and will be extended to Tullow worldwide this year. Malaria cases did improve during 2010 as a result of a comprehensive malaria management programme but the death of a contractor in early 2011 has placed malaria awareness and prevention as a key Board-level corporate risk for this year.

For more information on Macondo see **Production and development**

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People

Over 250 people joined Tullow on a permanent basis in 2010 and overall our total workforce increased by 40% to 1,232 people. We have maintained a very low level of staff turnover at 1.3% for the year. In 2010, we followed-up on our first global employee survey which was conducted in 2009. This gave us the opportunity to address many

Managing fishing intrusion in Ghana

Offshore drilling rigs and other exploration and production infrastructure attract fish, which in turn attract fishermen. The fishing vessels present a hazard to oil installations and operations, and the installations and operations present a safety hazard to the fishing crews. Offshore oil and gas operations in West Africa need to co-exist with native fishing communities and their activities and we are taking a collaborative approach to the issue.

For more information visit **www.tullowoil.com/casestudies**

issues – such as salaries and benefits, training and development, and internal communication – in a focused manner and to build in improvements in how we manage people and run our business. Another important initiative in 2010 was to develop a new organisational structure for Tullow. The purpose was to ensure a clear focus on three strategically important areas for continued growth and development.

Nationalisation

We are very conscious of being part of an emerging industry in parts of Africa such as Ghana and Uganda. Our focus here is to deliver training and development which allows us to achieve our localisation commitments. In Uganda, we have seven graduates in technical disciplines following a hands-on graduate programme across the Tullow world, along with four production technicians pursuing an NVQ course in England. We also ran a competition to identify candidates for MSc scholarships and the four successful winners are all studying overseas. In Ghana, we had 14 secondees from the Ghana National Petroleum Company during 2009 and 2010, whom we sponsored for Master's degrees.

Reporting our progress

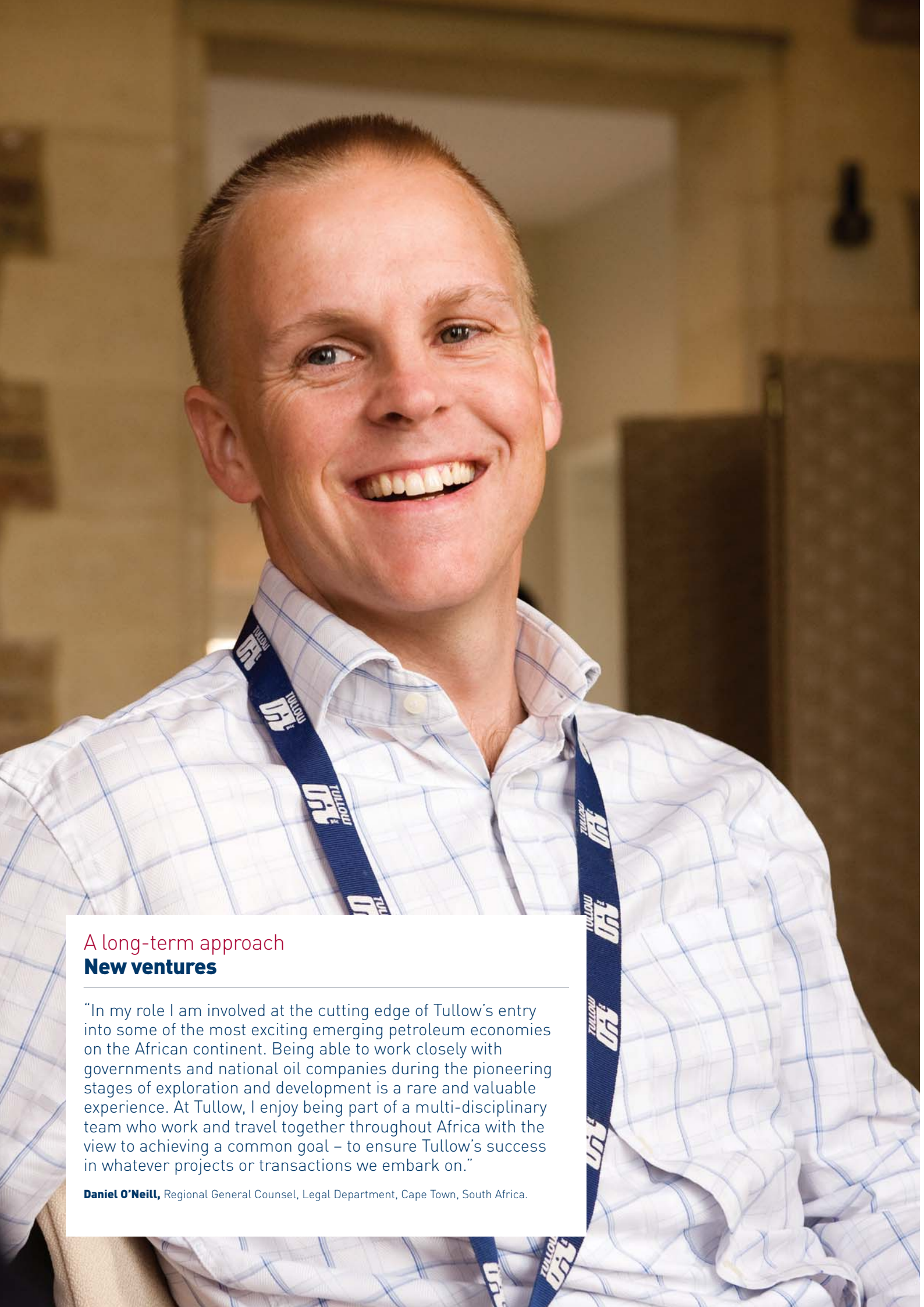
We will publish our 2010 Corporate Responsibility Report on 1 June 2011. In this report we will report fully on the initiatives outlined above and give a full account of our performance and progress in 2010 in each area of corporate responsibility.

To learn more about 2010/2011 initiatives visit:
www.tullowoil.com/casestudies

In-country managers

Tullow has in-country representatives and advisers in Namibia, Senegal and Madagascar. Their primary role is to manage our small local offices and arrange meetings with Government ministers and national oil company staff for visiting Tullow people. All undertake this role as part of running their own businesses.

1. Marcelle Dane, Country Manager, Madagascar. 2. Awa Ndongo, President, Tullow Senegal Limited. 3. Martha Namundjebo Tilahun, President & General Manager, Namibia.

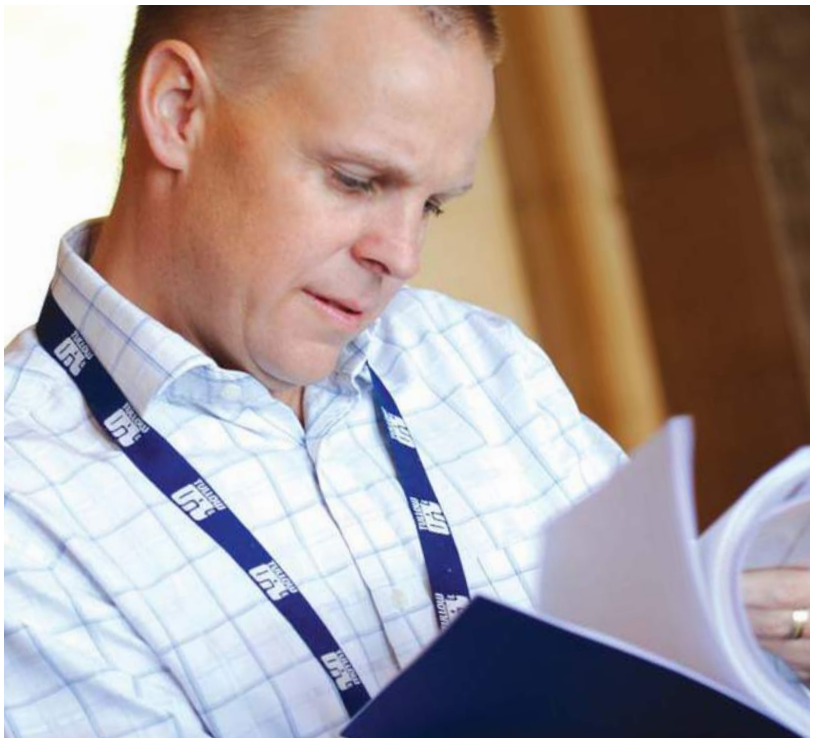


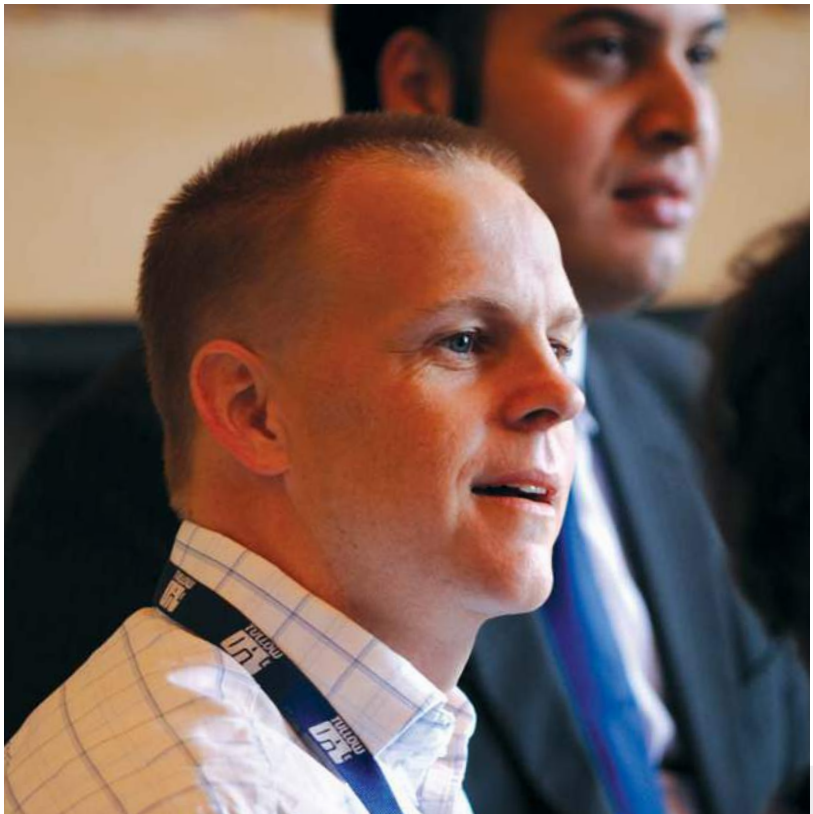
A long-term approach

New ventures

"In my role I am involved at the cutting edge of Tullow's entry into some of the most exciting emerging petroleum economies on the African continent. Being able to work closely with governments and national oil companies during the pioneering stages of exploration and development is a rare and valuable experience. At Tullow, I enjoy being part of a multi-disciplinary team who work and travel together throughout Africa with the view to achieving a common goal – to ensure Tullow's success in whatever projects or transactions we embark on."

Daniel O'Neill, Regional General Counsel, Legal Department, Cape Town, South Africa.





5 Corporate governance

Achieving good governance

The Board is responsible to all Tullow stakeholders for providing strong leadership in Group strategy and ensuring that the risks and rewards of the business are properly balanced and managed.

"A good governance structure must be underpinned by a strong organisational culture that values ethics and integrity and the highest standards of corporate behaviour."

Pat Plunkett, Chairman

2010 Board evaluation

We undertook an external evaluation of the Board's effectiveness in 2010, as the last externally facilitated review was in 2007. Overall, the results of the review demonstrate that the Board was effective during the year.

Recognising the important role the Board plays in setting the strategic direction of the Group, the Board performance report identified the need to continue to refine how the Board is engaged in developing strategy. This includes ensuring that adequate time is allocated to discussions on strategy and, as appropriate, that alternative strategies to deliver corporate objectives are fully considered.

As last year, we have provided information on the detailed annual objectives for the Board and the Board's performance against those objectives. See the Governance highlights on page 17 for performance against the 2010 objectives and the table on page 73 for the 2011 Board objectives.

2010 Board time allocation

We have set out the approximate time we allocated at Board meetings during the year to various discussion topics. Next to strategy, discussions on the situation and progress in Uganda took up the second highest time. Very considerable effort was devoted at Board level and in-country by Executive Directors and senior management trying to satisfactorily conclude this transaction. Achieving First Oil in Ghana and successful operational delivery across the business was also given high importance to ensure we met our targets and stakeholder expectations. EHS commanded more of our time, mainly as a result of the implications of the Macondo incident in April and what that potentially meant for Tullow. Corporate Governance is another important area for the Board, in relation not just to the new UK Corporate Governance Code but also to the UK Bribery Act and the Group's Code of Business Conduct. In recognition of the importance attached to these areas, a Group Compliance Manager was recruited early in 2011, reporting to the General Counsel.

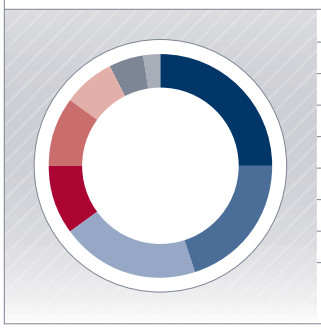
p14 To read the **Chairman's statement**

p64 For progress in **Corporate responsibility**

p79 For the review of the Board's effectiveness see **Board performance evaluation**

p82 For information on **Board committees**

Topics discussed at 2010 Board meetings



Strategy	25%
Uganda	20%
Operations (including Ghana)	20%
Financial management	10%
EHS	10%
Corporate Governance	7.5%
HR	5%
Other	2.5%

Group Compliance

The newly appointed Group Compliance Manager has responsibility for Tullow's anti bribery and corruption and regulatory compliance programmes worldwide. The UK Bribery Act, which is due to be introduced this year, will place onerous requirements on UK companies to demonstrate the effectiveness of their anti-bribery measures. Tullow is introducing a new Code of Business Conduct, supporting policies and guidelines and detailed reporting requirements for staff. A comprehensive and mandatory training programme is under development which all management, employees and contractor staff will undertake. An online training programme is also planned for later in 2011. Tullow is also establishing a Compliance Committee to oversee the Group's compliance activities and report regularly to the Board on progress. We will outline these initiatives more fully in our Corporate Responsibility Report, to be published in June.

Stakeholder engagement

Tullow has strong stakeholder engagement programmes in place for shareholders and employees as well as increasing levels of engagement with local communities and suppliers, particularly local in-country suppliers. An area we are focusing on this year is our external stakeholder engagement to help us identify and analyse the major issues that impact on our ability to run our business and achieve our plans and strategic objectives. One of our main goals is to operate in a way that creates shared prosperity so that we understand what this means to our key external stakeholders. Our aim, over time, is to develop a best-in-class approach so that all our stakeholders see real benefits from our success.

Succession planning

As I outlined in my Chairman's Statement, I plan, after more than 12 very enjoyable years as a non-executive Director of Tullow, to step down as Chairman by next year's AGM. I have announced this early to enable Tullow to identify a successor and to ensure a smooth transition for the new Chairman. This is part of an overall process to develop and implement a succession plan for my role and the ongoing refreshment of the non-executive Directors.

Governance and culture

Achieving good governance and being a responsible company is inextricably linked with organisational culture and how we run and manage our business. Culture defines our values, how decisions are made and what we deem as acceptable risk. Equally, it is about what standards we apply in how we deal with people, whatever stakeholder group they might be. What we strive to do is to adopt and implement what is right for our business, while being open and transparent in all that we do. This helps us to create trust, demonstrate accountability and build our reputation, which in turn will create new opportunities for Tullow and for all our stakeholders.

Pat Plunkett, Chairman

2011 Board objectives

The following are the key objectives the Board has agreed for this year. A mid-year review of progress in each area will be undertaken by Graham Martin, (General Counsel and Company Secretary) and the nominated Executive Director.

Corporate strategy

Ensure sufficient Board time is given to strategic debate, listening to external views and the determination of new options to generate long-term value.

Formally review corporate strategy at least annually.

Corporate risk

Principal risks and uncertainties in relation to the Group's financial and operational performance in 2011 are set out in the risk management report on page 42. In addition the Board has an objective to ensure that major corporate risks continue to be identified and that adequate systems, processes and procedures are in place to monitor and mitigate them.

Specific corporate risks currently identified are:

1. External stakeholder relationships;
2. Health and safety, with particular emphasis on malaria awareness and prevention;
3. UK Bribery Act and Tullow's Code of Business Conduct;
4. Organisational capacity; and
5. Maintenance of Tullow culture.

Board Committees

Implement succession plan for Chairman and non-executive Directors.

Review and revise remuneration structure to align with current phase of growth.

Re-visit composition of Board Committees.

Board visibility and communications

Further improve Board visibility both as a whole and as individual Directors and examine the effectiveness of internal communications in assessing the views of employees, both long-serving and new joiners.

Training of Directors

The Chairman is to agree formal training and development plans with each Director and review progress in completing these plans.

Board administration

A more thorough review of electronic/web-based Board administration systems will be made in 2011 to enhance Board efficiency.

For more information on how we did in 2010 see **Governance highlights**

p17

Experienced leadership

The Board is well balanced in terms of composition, experience and length of tenure.

Executive Directors

Aidan Heavey ^
Chief Executive Officer (Age 58)
A founding Director and shareholder of the Company, Aidan Heavey has played a key role in the development of Tullow from its formation in 1985 to its current international status as a leading independent oil and gas exploration and production group. A Chartered Accountant, he previously held roles in the airline and engineering sectors in Ireland. Aidan is a director of Traidlinks, an Irish-based charity established to develop and promote enterprise and diminish poverty in the developing world, particularly Africa. In November 2010, he was appointed a member of the Irish Advisory Board of the UCD Michael Smurfit Graduate Business School, Dublin.

Ian Springett
Chief Financial Officer (Age 53)
A Chartered Accountant, Ian Springett, was appointed Chief Financial Officer and to the Board in 2008. Prior to joining Tullow, he worked at BP for 23 years where he gained a wealth of international oil and gas experience. Most recently at BP, he was the Group Vice President for Planning with other senior positions including Commercial Director of the Supply and Trading Business, Upstream CFO, Vice President of Finance, US CFO and a Business Unit leader in Alaska. Prior to joining BP, he qualified with Coopers & Lybrand.

Graham Martin
General Counsel and Company Secretary (Age 57)
Graham Martin is a UK solicitor and joined Tullow as Legal and Commercial Director in 1997 from Vinson & Elkins, a leading international law practice. Prior to that, he was a partner in Dickson Minto WS, a UK corporate law firm. He has over 30 years' experience of UK and international corporate and energy transactions and has been the principal legal adviser to Tullow since its formation in 1985. He was appointed General Counsel in 2004 and Company Secretary in 2008.

Angus McCoss
Exploration Director (Age 49)
Angus McCoss was appointed to the Board in December 2006. He is a geologist with a BP sponsored PhD and, prior to joining Tullow in April 2006 as General Manager Exploration, he had 21 years of wide-ranging exploration experience, working primarily with Shell in Africa, Europe, China, South America and the Middle East. He held a number of senior positions within Shell including Americas Regional Vice President Exploration and General Manager of Exploration in Nigeria. He is currently a non-executive Director of Ikon Science Limited and a member of the Advisory Board of the industry-backed Energy and Geoscience Institute of the University of Utah.

Paul McDade
Chief Operating Officer (Age 47)
Paul McDade was appointed to the Board in 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 25 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.

Non-executive Directors

Pat Plunkett ^#
Chairman (Age 60)
Pat Plunkett joined the Board as a non-executive Director in 1998 and was appointed non-executive Chairman in 2000. Mr Plunkett is an accountant with over 30 years' experience in the financial services sector, particularly in the areas of asset management, stockbroking and corporate finance. Since leaving ABN AMRO Bank in 1998, he has been providing strategic business advice to a number of private companies. He is a former director of The Irish Stock Exchange.

1. Steven McTiernan †^#
Senior Independent Director (Age 59)
Steven McTiernan was appointed as a non-executive Director in 2002 and was appointed Senior Independent Director in 2008. Mr McTiernan began his career as a petroleum engineer, working with BP, Amoco and Mesa in the Middle East and the UK. In 1979, he joined Chase Manhattan Bank, where he became Senior Vice-President and head of the bank's energy group based in New York. From 1996 to 2001 he held senior energy-related positions at NatWest Markets and CIBC World Markets. He is currently principal of Sandown Energy Consultants Limited, a natural resources advisory firm based in London, and a non-executive Director of First Quantum Minerals Limited.

2. David Williams †^#
Non-executive Director (Age 65)
David Williams was appointed as a non-executive Director in 2006. A Chartered Accountant, he brings a wealth of public company experience to Tullow from many years with Bunzl plc where he was Finance Director until he retired in 2006, and prior to that as Finance Director of Tootal Group plc. He is the Joint Chairman of Mondi plc. He is also the Senior Independent Director of Meggitt PLC and a non-executive Director of DP World Limited, a Dubai quoted company, and is Chairman of the audit committee at both companies. From 2007 to 2010, he was the Senior Independent Director of Taylor Wimpey plc.

3. Ann Grant †^#
Non-executive Director (Age 62)
Ann Grant was appointed as a non-executive Director in May 2008. She joined the UK Diplomatic Service in 1971; from 1998, she worked at the Foreign and Commonwealth Office in London as Director for Africa and the Commonwealth, and from 2000 to 2005 was British High Commissioner to South Africa. In 2005, she joined Standard Chartered Bank as Vice Chairman, Standard Chartered Capital Markets. She is a Board Member of the Overseas Development Institute and an independent Trustee on the UK Disasters Emergency Committee.

† Member of the Audit Committee.
^ Member of the Nominations Committee.
# Member of the Remuneration Committee.

4. Clare Spottiswoode CBE †^#
Non-executive Director (Age 58)
Clare Spottiswoode was appointed as a non-executive Director in 2002. A mathematician and an economist by training, Ms Spottiswoode began her career in the Treasury before starting her own software company. Between 1993 and 1998 she was Director General of Ofgas, the UK gas regulator. Currently, she is Chairman of Gas Strategies Limited and Energy Solutions Europe. She is also a non-executive Director of G4S plc, Ilika plc and Energy Solutions Inc. Previously, she was Deputy Chairman of British Energy from 2002 to 2007.

5. David Bamford †^#
Non-executive Director (Age 64)
David Bamford was appointed as a non-executive Director in 2004. With a PhD in Geological Sciences he has had over 23 years' exploration experience with BP where he was Chief Geophysicist from 1990 to 1995, General Manager for West Africa from 1995 to 1998, and acted as Vice President, Exploration, directing BP's global exploration programme, from 2001 to 2003. He is a director or adviser to several small companies, including his own consultancy, and he writes regularly for journals such as OilVoice and GeoExpro. He co-founded Finding Petroleum and OilEdge as vehicles for online communication in the oil and gas industry.

6. Tutu Agyare †^#
Non-executive Director (Age 47)
Tutu Agyare was appointed as a non-executive Director in August 2010. He is currently a Managing Partner at Nubuke Investments, an asset management firm focused solely on Africa, which he founded in 2007. Previously, he had a 21-year career with UBS Investment Bank, holding a number of senior positions, most recently as the Head of European Emerging Markets, and a member of the Investment Bank Board. Tutu brings a wealth of experience to the Tullow Board as the Group continues to expand its business in Africa. He has a degree in Mathematics and Computing and is a director of the Nubuke Foundation, a Ghanaian-based cultural and educational foundation.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Corporate governance compliance

The Board is committed to ensuring that high levels of corporate governance are achieved.

This is integral to the Board's overall aim to create a culture which places strong emphasis upon high standards of business conduct, ethics and integrity amongst the Company's employees, suppliers, contractors and other industry partners. This is embraced in Tullow's Code of Business Conduct, the current version of which is available on our website www.tullowoil.com. This Code is being updated to provide further guidance on a range of topics and to ensure compliance with the new UK Bribery Act. The Code will be issued after the UK Government has issued the Bribery Act 'Adequate Procedures' guidance which is required prior to the Act becoming law. The Company also believes in and promotes a policy of transparency in all its dealings to ensure that shareholders and other stakeholders are treated fairly.

For more information on Tullow's Code of Business Conduct visit:
www.tullowoil.com/code

The Combined Code

For the year under review, as a UK company with a premium listing on the London Stock Exchange, Tullow Oil plc is required to make certain statements relating to the way it is governed, covering issues laid down in the Combined Code on Corporate Governance published in June 2008. The Combined Code is publicly available on the Financial Reporting Council's website at: www.frc.org.uk. In compliance with these requirements, this report describes the manner in which the Company has applied the main principles of governance set out in Section 1 of the Combined Code and complied with the detailed Code provisions. It is the Board's view that the Company has fully complied with the Combined Code throughout 2010.

The UK Corporate Governance Code

In June 2010, the FRC published the UK Corporate Governance Code. This new Code replaces the Combined Code and applies to accounting periods beginning on or after 29 June 2010. The Board has considered the terms of the new Code and its potential impact on the Company's corporate governance procedures and will report on this next year.

The Board

Role of the Board

The Board sets the Group's strategy, ensuring that the necessary resources are in place to achieve the agreed strategic priorities, and reviews management and financial performance. It is accountable to shareholders for the creation and delivery of strong, sustainable financial performance and long-term shareholder value. To achieve this, the Board directs and monitors the Group's affairs within a framework of controls which enable risk to be assessed and managed effectively through clear procedures, lines of responsibility and delegated authorities. The Board also has responsibility for setting the Group's core values and standards of business conduct and for ensuring that these, together with the Group's obligations to its stakeholders, are widely understood throughout the Group. The Board has a formal schedule of matters reserved – see page 78.

Composition

The Board currently comprises a Chairman, Chief Executive Officer, four other Executive Directors and six independent non-executive Directors. Biographical details of the Board members are set out on pages 74 and 75. The only change in Board composition during the year was the appointment of Tutu Agyare who joined the Board as a non-executive Director in August 2010.

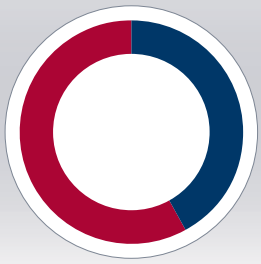
In June 2010, the Board renewed the contract of David Bamford who had served six years as a non-executive Director for a further three-year term and in December 2010 renewed the contract of Pat Plunkett for a further year.

Subsequent to the year end, the Board approved extensions to the terms of office for Steven McTiernan and Clare Spottiswoode for the periods described in the Nominations Committee report.

The Directors are of the view that the Board and its Committees consist of directors with an appropriate balance of skills, experience, independence and diverse backgrounds to enable them to discharge their duties and responsibilities effectively.

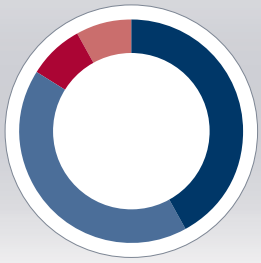
At the AGM to be held on 12 May 2011, shareholders will be asked to elect Tutu Agyare who was appointed to the Board during the year. In addition, Pat Plunkett and Steven McTiernan will be seeking annual re-election, having been in office for more than nine years. David Bamford and Graham Martin are also seeking re-election having been in office for three years since last being re-elected. Clare Spottiswoode is not seeking re-election and will step down from the Board at the AGM when David Bamford will assume the chairmanship of the Remuneration Committee. Each of the Directors being proposed for re-election at the 2011 AGM has been subject to a performance evaluation during the year. Further information is contained in the accompanying AGM circular. In March 2011, the Board approved the appointment of Simon Thompson as an additional non-executive Director with effect from 16 May 2011.

Composition of Board



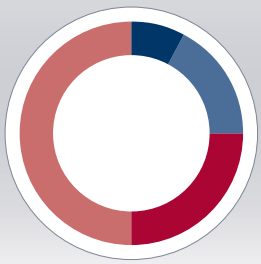
Executive Directors	42%
Non-executive Directors	58%

Board experience



Oil and gas	42%
Financial/Capital markets	42%
Foreign affairs	8%
Legal	8%

Length of tenure



15 years and over	8%
11-15 years	17%
6-10 years	25%
0-5 years	50%

How the Board operates

Board meetings

The Board holds scheduled meetings regularly during the year and also meets on an ad hoc basis as required. The Board has arranged to hold at least one Board meeting each year at one of the principal overseas offices of the Group. This provides senior managers from across the Group with the opportunity to present to the Board and to meet the Board members informally. It also provides the Board with an opportunity to meet a broad cross-section of staff and to assess senior managers at first hand. In 2010, the overseas Board meeting was held at our Ghana office in the lead-up to Ghana First Oil.

During 2010, the Board met on 14 occasions of which nine were scheduled meetings. Two formal strategy review meetings were also held with senior management present. In addition to the formal meetings of the Board, the Chairman and Chief Executive Officer maintain frequent contact with the other Directors to discuss any issues of concern they may have relating to the Group or their areas of responsibility, and to keep them fully briefed on the Group's operations.

Efforts are made to ensure that the non-executive Directors are briefed on the more technical and operational aspects of our activities, such as the Jubilee offshore development and our extensive exploration programme. Those non-executive Directors with particular expertise in these areas meet regularly with the Chief Operating Officer and the Exploration Director when they are able to contribute more fully at in-depth briefings.

Attendance at meetings

The attendance of Directors at the nine scheduled meetings of the Board during 2010 was as follows:

Meetings attended[1]:	
Pat Plunkett	9
Aidan Heavey	9
Tutu Agyare[2]	3
David Bamford	9
Ann Grant	8
Graham Martin	9
Angus McCoss	9
Paul McDade	9
Steven McTiernan	9
Clare Spottiswoode	9
Ian Springett	9
David Williams	9

1 This table shows attendance at scheduled Board meetings. In addition, five ad hoc meetings were held during the year primarily to enable the Board to be updated on current developments relating to the Heritage acquisition and proposed farm-down of its interests in Uganda.
2 Tutu Agyare was appointed on 25 August 2010 and has attended every scheduled Board meeting since his appointment.

Corporate governance continued

Matters reserved

The Board has a formal schedule of matters reserved that can only be decided by the Board. This schedule is reviewed by the Board each year. The key matters reserved are the consideration and approval of:

- The Group's overall strategy;
- Financial statements and dividend policy;
- Borrowings and treasury policy;
- Material acquisitions and disposals, material contracts, major capital expenditure projects and budgets;
- Risk management and internal controls (supported by the Audit Committee);
- Succession planning and appointments (supported by the Nominations Committee);
- The Group's corporate governance and compliance arrangements; and
- Corporate policies.

Summary of Board's work in the year

During 2010, the Board considered all relevant matters within its remit but focused, in particular, on the following key issues:

- Strategy and management with a particular focus on Ghana First Oil and the farm-down of its interests in Uganda;
- EHS with a particular focus on the impact of the Deepwater Horizon rig explosion;
- Financial Management;
- Regulatory/Compliance – including implications of the UK Bribery Act;
- Appointments and succession planning – this is dealt with more fully in the Nominations Committee report on page 84; and
- Stakeholder Relations.

Directors

Chairman and Chief Executive Officer

There is a defined separation of the responsibilities between the non-executive Chairman and the Chief Executive Officer which has been set out in writing and agreed by the Board. The Chairman is primarily responsible for the effective working of the Board whilst the Chief Executive Officer is responsible for the operational management of the business, for developing strategy in consultation with the Board and for implementation of the strategy.

Non-executive Directors

The non-executive Directors bring a broad range of business and commercial experience to the Company. The Board considers each of the non-executive Directors to be independent in character and judgement. Notwithstanding that the Senior Independent Director, Steven McTiernan, has served on the Board for more than nine years, the Board is fully satisfied that he demonstrates complete independence, robustness of character and judgement both in his designated role and as a Board member.

The non-executive Directors have a particular responsibility to challenge independently and constructively the performance of the executive management and to monitor the performance of the management team in the delivery of the agreed objectives and targets. As part of this responsibility, the non-executive Directors meet at least twice a year without the Executive Directors present. Separately, the Chairman and Chief Executive Officer hold informal meetings with the non-executive Directors to discuss current issues affecting the Group.

Non-executive Directors are initially appointed for a term of three years, which may, subject to satisfactory performance and re-election by shareholders, be extended by mutual agreement.

Senior Independent Director

As Senior Independent Director, Steven McTiernan is available to meet shareholders if they have concerns that cannot be resolved through discussion with the Chairman, Chief Executive Officer or Chief Financial Officer or for which such contact is inappropriate.

Delegated Authorities

Board Committees

The Board has established Audit, Nominations and Remuneration Committees. The memberships, roles and activities of these are detailed in separate reports: the Audit Committee on pages 82 and 83, the Nominations Committee on pages 84 and 85 and the Remuneration Committee on pages 86 to 94. Each Committee reports to and has its terms of reference reviewed and approved annually by the Board. Reports of the issues considered at meetings of the Committees are made to the Board by the respective Committee Chairmen. In addition to delegating certain matters to Board Committees, the Board has also delegated certain operational and management matters to individual Executive Directors.

Executive Committee

The Board delegates authority for the management of the day-to-day business and operational matters to the Chief Executive Officer and the other Executive Directors who form the Executive Committee. This Committee meets weekly and is responsible for implementing Group strategy and monitoring the detailed performance of all aspects of the business. The Executive Committee is assisted by the Senior Management Committee.

Senior Management Committee

This Committee is responsible for managing the Group's portfolio of assets and delivering against the approved budget and plan. It meets weekly with the Executive Directors, and enables the right level and quality of resources to deliver Tullow's business objectives. It is also responsible for identifying, evaluating and mitigating business risk as explained on pages 42 to 47. This Committee consists of Tullow's three Regional Business Unit Managers; the Group Adviser Africa, Business; the General Managers of Exploration and Finance; and the Group Heads of Planning & Economics, Commercial, HR and Risk & Marketing.

For more information on our structure see
How we're organised

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Other Governance matters

Independent advice

Directors have access to independent professional advice at the Company's expense on any matter relating to their responsibilities.

The Company Secretary

The Company Secretary is Graham Martin who is also an Executive Director and the General Counsel. He is available to Directors and responsible for ensuring that all Board procedures are complied with. As with all Board positions, this combined role is regularly reviewed. The Company Secretary is supported by a Deputy Company Secretary in the provision of company secretarial services to the Group. The Deputy Company Secretary acts as secretary to the Audit, Nominations and Remuneration Committees and has direct access to the Chairmen of these Committees.

Induction

All new Directors receive an induction as soon as practicable on joining the Board. This includes meetings with senior management, functional and business unit heads and, where appropriate, visits to the Group's principal offices and operations. 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. An induction was given to Tutu Agyare on his joining the Board in August 2010 and the process is ongoing.

Familiarisation and development

All members of the Board have access to appropriate professional development courses in respect of their obligations and duties as Directors, and during the year, Directors attended external seminars on relevant topics relating to the business. In addition to business updates, Directors (and Committees) receive ongoing briefings including updates on governance and regulatory issues to ensure Board members remain up to date with current regulations and developments.

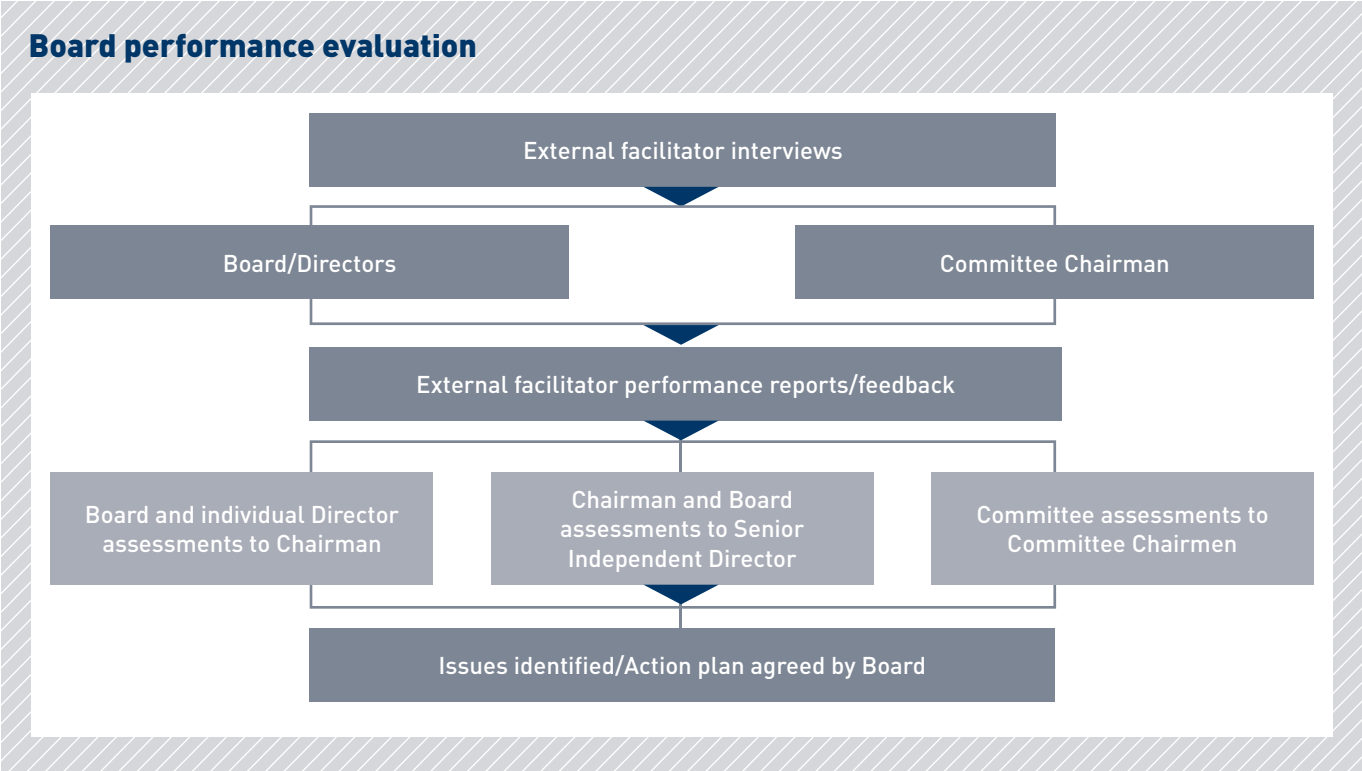
Conflicts of Interest

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

Board performance evaluation

The Board decided that the 2010 evaluation of the Board, its Committees and individual Directors should be externally facilitated as three years had elapsed since the last external facilitation was conducted.

Armstrong Bonham Carter LLP was appointed as the external facilitator and they conducted a review of the Board, including each of its Committees and individual Directors, via structured interviews following an agreed comprehensive agenda. At the time of the review, Armstrong Bonham Carter LLP had no other connection with the Company.



A report on the performance of the Board and the report on the performances of the individual Directors (excluding that of the Chairman) were provided to the Chairman. The Senior Independent Director also received the Board's performance report together with the Chairman's performance assessment. This latter report took into account the views of all the Directors of the Board. The Chairman of each Committee received their reports on the performance of their respective Committees. The facilitator also presented the Board's performance report and those of each Committee to the Board as a whole and an action plan has been agreed.

Overall, the Board performance report concluded that the Board had been effective in achieving its vision, aims and goals of the Company in 2010, but noted it had not achieved the strategic objective to deliver top quintile total shareholder return.

The performance report identified a number of areas for improvement to ensure the continued effectiveness of the Board. These included:

- Further enhancement of the strategy development process with an emphasis on more time being spent on considering alternative strategies to deliver the corporate objectives;
- That the work instigated by the Chief Executive Officer on building an external affairs function to manage wider stakeholder issues needed to be further developed in light of the issues faced by the Group;
- That the road map for the refreshment of the Board had been devised and its implementation had started successfully;
- That in light of the rapid development of the Group in terms of the number and range of operational activities, there was a continuing need to develop its internal communications to ensure all the additional skills and enthusiasm of the newly joined employees are integrated into the Group and that they are made aware of and aligned to the Group's culture. This will build on the work conducted by the Board in 2010 to improve its visibility and that of each of its Directors; and
- To continue the work on Directors' training with a greater mixture of sector specific training as well as general Director training, with the Chairman to agree formal training and development plans with each Director.

The review also noted that each of the Directors and, in particular, the non-executive Directors, committed sufficient time to discharge his or her duties effectively.

Finally, with respect to the Committees, each review concluded that each Committee had fulfilled its respective terms of reference effectively.

Shareholder relations

Communication and dialogue

Communication with all our shareholders is given a high priority. There is regular dialogue through meetings, presentations and conferences with institutional investors and sell-side analysts, general presentations to analysts and investors for the full-year and half-yearly results as well as other ad hoc investor events. Throughout 2010, Executive Directors and senior management met with institutional investors in the UK, Ireland, Germany and France as well as several other European countries. Three roadshows took place in North America and in total over 270 individual meetings were held in 2010. The Group also participated in ten UK and European conferences. In addition, during the year, Tullow hosted a Capital Markets Day in Ghana which was attended by 21 UK analysts. In 2011, Tullow plans to host a similar trip for a group of global institutional investors. In 2010, Tullow appointed Scott Harris as its Private Client Broking adviser and a programme of roadshows has already commenced. The Board receives regular investor relations reports covering key investor meetings and activities, as well as shareholder and investor feedback.

The Group issues its results and other news releases via the London Stock Exchange's Regulatory News Service. These are published on the Media and Investor Relations sections of the Group's website: www.tullowoil.com. Regular updates in relation to the Group and the status of exploration and development programmes are also included on the website. Shareholders and other interested parties can subscribe to receive these news updates by email by registering online on the website. The new corporate website, launched in February 2010, contains additional functionality to enhance the Group's communication with all stakeholders and over 500,000 visits have been made to the site so far. During 2010, additional event sites were added to the website for the Ghana Capital Markets Day and the First Oil celebrations in Ghana to allow global stakeholders access to live content.

The Chairman is available to meet with institutional shareholders to discuss any issues and address any concerns in relation to the Company's governance and strategy. Non-executive Directors have the opportunity to attend meetings with major shareholders and are available to attend if requested to do so. All of the Board members attended the Capital Markets event in Ghana, allowing them to meet with the UK analysts. Meetings are also held with the corporate governance representatives of institutional investors when requested. Tullow met with several Socially Responsible Investing (SRI) fund managers in 2010 and, in 2011, Tullow plans to organise its first SRI roadshow. The 2009 Corporate Responsibility Report was issued in May 2010 and was also made available in full HTML format on the corporate website.

Annual general meeting

At every AGM, a business presentation is provided for the benefit of shareholders. Individual shareholders are given the opportunity to put questions to the Chairman, the Chairmen of the Audit, Nominations and Remuneration Committees, and to other members of the Board. In addition, the Board is committed to maintaining strong links with its significant Irish shareholder base and holds a business presentation in Dublin following the AGM to allow these shareholders similar access to

the Company. Notice of the AGM is sent to shareholders at least 20 working days before the meeting. Details of proxy votes for and against each resolution, together with votes withheld, are announced to the London Stock Exchange and are published on the Company's website as soon as practicable after the meeting. All shareholders are offered the choice of receiving shareholder documentation, including the Annual Report, electronically or in paper format as well as the choice of submitting proxy votes either electronically or by post.

Internal controls

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

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

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

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

For more information on how we identify and manage risk see **Risk management**

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Going concern

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Group's producing assets and delays to development projects. The Group seeks to ensure that it has a minimum ongoing capacity of $500 million for a period of at least 12 months to safeguard the Group's ability to continue as a going concern.
In addition to the Group's operating cash flows, portfolio management opportunities are reviewed to potentially enhance the financial capacity and flexibility of the Group. The major assumption in current cash flow forecasts is that the receipt of disposal proceeds from the Uganda farm-down, which have been delayed longer than expected, will now be received in Q2 2011. On this basis, the Group's forecasts, taking into account reasonably possible changes as described above, show that the Group will be able to operate within its current debt facilities and have very significant financial headroom for the 12 months from the date of the 2010 Annual Report and Accounts. However, in the unlikely event that the Ugandan farm-down process is delayed beyond Q2 2011, the Directors are confident that the Group can manage its financial affairs (including the securing of additional funding, agreement with existing lenders, portfolio management and deferring of non-essential capital expenditure) so as to ensure that sufficient funding remains available for the next 12 months. Therefore, notwithstanding the above uncertainties, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future.

Pat Plunkett, Chairman

8 March 2011

Corporate governance continued

Audit Committee

"An important part of our role is to review the progress of the internal audit plan against agreed annual objectives."

David Williams, Chairman

Committee members

David Williams (Chairman)
Tutu Agyare (appointed 25 August 2010)
David Bamford
Ann Grant
Steven McTiernan
Clare Spottiswoode

Main responsibilities

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

The Committee comprises six non-executive Directors, and oversees the Group's financial reporting and internal controls and provides a formal reporting link with the external auditors. The full terms of reference for the Committee are available on the Group's website: www.tullowoil.com.

The Committee met four times during the year. The attendance of members at Committee meetings held in 2010 was as follows:

Meetings attended:	
David Williams (Chairman)	4
Tutu Agyare*	1
David Bamford	4
Ann Grant	4
Steven McTiernan	4
Clare Spottiswoode	3

* Appointed 25 August 2010

David Williams, who is Chairman of the Committee, is a Chartered Accountant and until his retirement in 2006 was Finance Director of Bunzl plc. It is a requirement of the Combined Code that at least one Committee member has recent and relevant financial experience. David Williams therefore meets this requirement. Tutu Agyare, who joined the Board and the Audit Committee during the year, brings extensive investment banking experience to the Committee.

The Group's external auditors are Deloitte LLP and the Committee closely monitors the level of audit and non-audit services they provide to the Group. Non-audit services are normally limited to assignments that are closely related to the annual audit or where the work is of such a nature that a detailed understanding of the Group is necessary. A policy for the engagement of the external auditors to supply non-audit services has been implemented to formalise these arrangements which requires Audit Committee approval for certain categories of work. 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 financial statements. In addition to processes put in place to ensure segregation of audit and non-audit roles, Deloitte LLP are required as part of the assurance process in relation to the audit, to confirm to the Committee that they have both the appropriate independence and the objectivity to allow them to continue to serve the members of the Company. This confirmation was given and no matters of concern were identified by the Committee.

The Chief Financial Officer, the Group Internal Audit Manager, the General Manager Finance, the Deputy Company Secretary and representatives of the external auditors are invited to attend each meeting of the Committee and participated in all of the meetings during 2010. The Chairman of the Board also attends meetings of the Committee by invitation and was present at all of the meetings in 2010. The external auditors have unrestricted access to the Committee Chairman. During the 2010 audit process, the Audit Committee Chairman met with Deloitte's audit engagement partner without the presence of management.

In 2010, the Audit Committee met on four occasions. The key work undertaken by the Committee was as follows:

- Consideration and review of full-year and half-yearly results
  - The Committee met with the external auditors as a part of the full-year and half-yearly accounts approval process.
  - During this exercise the Committee considered the most appropriate treatment and disclosure of any new or judgemental matters identified during the audit or half-yearly review, as well as any recommendations or observations made by the external auditors.
- Audit planning and update on relevant accounting developments
  - The Group prepares financial statements under International Financial Reporting Standards (IFRS). The adoption of new and revised Standards and Interpretations during 2010 and their impact on the financial statements are described on the accounting policies on page 106.
  - The Audit Committee approved the scope of the work to be undertaken by the external auditors for interim and year-end statutory audits.
- Consideration and approval of the risk management framework, annual Internal Audit Plan, internal audit resources and periodic reports from Internal Audit
  - The Group Internal Audit Manager has direct access and responsibility to the Audit Committee. His main responsibilities include: evaluating and developing the Group's overall control environment, operating efficiency and risk identification and management at operating, regional and corporate levels. In fulfilling his role, the Group Internal Audit Manager has direct access to the Committee without reference to executive management. During 2010, the Audit Committee Chairman met with the Group Internal Audit Manager without the presence of management to discuss the planning of Audit Committee meetings and to brief him on the results of audits completed. The Group Internal Audit Manager also supported the development of Audit Committee meeting agendas with the Chairman with input from the CFO and General Manager Finance.
  - The Committee approved the programme of 2010 internal audit work aimed at addressing both financial and overall risk management objectives identified within the Group. Thirty three internal audit reviews were undertaken during 2010, covering a range of financial and business processes in the Group's main business units in London, Cape Town and Dublin and the main operational locations in Ghana and Uganda. Detailed results from these reviews were reported to management and in summary to the Audit Committee during the year. Recommendations made as a result of the work of Internal Audit are tracked for timely implementation and reported to the Audit Committee periodically. No significant weaknesses were identified as a result of risk management and internal controls reviews undertaken by Internal Audit during 2010. The Group also undertook regular audits of non-operated joint ventures under the supervision of business unit management and the Group Internal Audit Manager.
  - In addition, the Committee oversees the work of the independent reserves auditors ERC and the arrangements in place for managing Information Technology risk relating to the Group's critical business systems.
- Review of the enhanced whistle-blowing arrangements implemented during the year

  In line with best practice and to ensure Tullow works to the highest ethical standards, an independent whistle-blowing procedure was implemented during the year to allow staff to confidentially raise any concerns about business practices. This procedure complements the established internal reporting process. The Committee considers these amended whistle-blowing procedures to be appropriate for the size and scale of the Group.
- Review and update of the Audit Committee terms of reference

  The Committee reviewed its terms of reference during the year and recommended a number of changes to reflect best practice as recommended by the Institute of Chartered Secretaries and Administrators. No substantive changes were required to bring the terms of reference into line with the best practice guidance. The new terms of reference can be accessed via the corporate website. The Board approved the revised terms of reference.
- Review of the effectiveness of the Audit Committee
  - During the year, the Audit Committee completed a review of the effectiveness of external audit, internal audit and of the Audit Committee itself through a series of questionnaires. Internal Audit coordinated the review. The review also incorporated the results of the independent Board evaluation with the combined results presented to the members of the Audit Committee. The Committee was considered to be operating effectively and in accordance with the guidance recommended by the Smith Committee included in the Combined Code.
  - Tullow's Internal Audit function was independently reviewed by Deloitte LLP in 2009 confirming the effectiveness of its operation. During the year, recommendations made as part of this review were implemented, including the recruitment of additional resources and the adoption of updated procedures.
  - In addition to the questionnaire-based review of effectiveness, the Audit Committee also assessed the qualification, expertise and resources, and independence of the external auditors and the effectiveness of the audit process. This covered all aspects of the audit service provided by Deloitte LLP, including obtaining a report on the audit firm's own internal quality control procedures and consideration of audit firms' annual transparency reports in line with the Combined Code. As a result of these reviews, the Audit Committee considered the external audit process to be operating effectively.
  - The Combined Code states that the Audit Committee should have primary responsibility for making a recommendation on the appointment, reappointment or removal of the external auditors. On the basis of the review of external audit effectiveness, the Committee recommended to the Board that it recommends to shareholders the re-appointment of the auditors at the 2011 AGM.

Nominations Committee

"Our role is to ensure that the composition of the Board and senior management has the right balance, skills and experience for Tullow."

Pat Plunkett, Chairman

Committee members

Pat Plunkett (Chairman)
Tutu Agyare (appointed 25 August 2010)
David Bamford
Ann Grant
Aidan Heavey
Steven McTiernan
Clare Spottiswoode
David Williams

Main responsibilities

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

The Committee comprises all the non-executive Directors and the Chief Executive Officer and meets as required. The Committee met twice during the year. The attendance of members at Committee meetings held in 2010 was as follows:

Meetings attended:	
Pat Plunkett (Chairman)	2
Tutu Agyare*	0
David Bamford	2
Ann Grant	2
Aidan Heavey	2
Steven McTiernan	2
Clare Spottiswoode	2
David Williams	2

* Appointed 25 August 2010

The Committee continually reviews the composition and balance of the Board and senior executive team to ensure that the Group has the right structure, skills and experience in place for the effective management of the Group's expanding business. Such review includes a forward-looking analysis of the skills and diversity required of Board members to take Tullow to the next stage of its development. This analysis is reviewed and discussed with the Board, the primary aim being to schedule a progressive refreshment of the Board.

Key matters considered by the Committee during the year and subsequent to the year end were:

- African profile – with the assistance of a specialist search consultancy, a formal process was agreed to identify potential candidates with an African background to fill a new non-executive Director position. This resulted in the recommendation to the Board to appoint Tutu Agyare as an additional non-executive Director which the Board subsequently approved. Tutu Agyare who was born in the UK and educated in Ghana is currently a Managing Partner at Nubuke Investments, an asset management firm focused solely on Africa.
- Board refreshment – in recognition that both Steve McTiernan and Clare Spottiswoode have both been in office for nine years, the Committee recommended to the Board that the renewal of their terms of appointment should be for shorter periods than the usual three-year term. This was with a view to considering appointing new non-executive Directors in their place. In January 2011, the Board agreed that the term of appointment for Clare Spottiswoode be extended to 31 May 2011 and that for Steven McTiernan be extended to 28 February 2012.

Subsequent to the year end, and with the assistance of a specialist search consultancy which had been supplied with an agreed role specification, the Committee agreed a shortlist of candidates for a non-executive Director position. Following an interview selection process, the Committee made a recommendation to the Board to appoint Simon Thompson as an additional non-executive Director. This recommendation was approved by the Board on 8 March 2011. Simon Thompson's appointment will be effective from 16 May 2011. Clare Spottiswoode will retire as a Director from the conclusion of the AGM on 12 May 2011.

- Chairman succession – the Chairman of the Board, Pat Plunkett, has advised the Board that he believes it is now timely to identify a successor Chairman to lead Tullow through the next phase of its growth. Pat has been Chairman since 2000, a period of exceptional growth and achievement for the Company. The Board expects to commence the search for a successor Chairman after this year's AGM and aims to make an appointment prior to the AGM in 2012.
- Director mentoring – the Committee agreed that given their current work commitments it was impractical for the Executive Directors to assume other non-executive director positions to broaden their experience. However, in order to enable nominated Executive Directors to develop their skills, including dealing with investors, the Committee recommended that a firm of mentoring consultants be engaged to provide such services. Currently, three of the Executive Directors have commenced a mentoring programme with a mentoring firm.
- Senior management succession planning – the Committee has been closely involved with Executive Directors in reviewing the management talent pool within Tullow. This is with the aim of ensuring that there is an agreed programme to identify those individuals who could be developed to take on newly created senior roles as the Group grows, or, who could be considered as suitable candidates to fill existing roles should the opportunity arise.

The performance of the Committee was evaluated as part of the Board performance evaluation process described on page 79.

Directors' remuneration report

Dear Shareholder

As explained in last year's report, certain changes were made to the remuneration packages of the Executive Directors, such as (i) modest increases to base salaries, (ii) re-alignment of pension provision to a more market competitive level, and (iii) a greater focus on performance-linked pay via a higher annual bonus opportunity.

The Committee was conscious that these changes increased the value of the Executive Directors' remuneration packages. The Committee considered this approach entirely appropriate, noting that – notwithstanding these increases – the remuneration packages of Tullow's highly regarded management team remained below median of comparable benchmarks.

However, in early 2011, the Committee commenced a thorough review of the senior executive remuneration package to help ensure it (i) aligns the interests of executives and shareholders, (ii) supports delivery of the business strategy, and (iii) is competitive. As at the date of this report the review had not been fully completed as the Committee, in line with good governance practices, had yet to complete its discussions of the proposals with its major shareholders. Consequently, full disclosure of the revisions will be made available in the 2011 Directors' Remuneration Report although the proposed changes to the long-term incentive arrangements will be detailed in the Notice of a General Meeting which it is currently intended will be held immediately after the 2011 AGM.

The Committee remains mindful of the need to ensure that the Company's executive remuneration policy does not encourage inappropriate risk-taking which may be to the long-term detriment of shareholders. The Committee is satisfied that risk is fully taken into account through (i) an annual bonus plan which includes targets that are set with due account taken of the Company's approach to operational risk, (ii) the significant compulsory share deferral feature in the annual bonus plan, (iii) the regular annual grant of awards of share incentives, (iv) the application of share ownership guidelines and (v) the use of Total Shareholder Return targets in both short and long-term incentives underpinned by Remuneration Committee discretion to reduce payouts if other factors, such as environmental or safety-related incidents, make it appropriate to do so.

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

Yours sincerely

Clare Spottiswoode,
Chairman of the Remuneration Committee

8 March 2011

Introduction

This Directors' remuneration report has been prepared in accordance with the requirements of the Companies Act 2006 and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts & Reports 2008 Regulations) 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 relevant legislation requires the auditors to report to the Company's members on the 'auditable part' of the Directors' remuneration report and to state whether, in their opinion, the part of the report that has been subject to audit has been properly prepared in accordance with the relevant legislation. This report is therefore divided into separate sections to disclose the audited and unaudited information.

Unaudited information

Remuneration Committee

"A review of senior executive remuneration is under way and in line with good practice, proposed changes will be discussed with major shareholders."

Clare Spottiswoode, Chairman

Committee members

Clare Spottiswoode (Chairman)
David Bamford (Chairman elect)
Tutu Agyare (appointed 25 August 2010)
Ann Grant
Steven McTiernan
Pat Plunkett
David Williams

Main responsibilities

- Determining and agreeing with the Board the remuneration policy for the Chief Executive Officer, Chairman, Executive Directors and senior executives;
- Approving the design of, and determining targets for, an annual performance-related pay scheme for the Executive Directors and senior executives;
- Reviewing the design of share incentive plans for approval by the Board and shareholders and determining the annual award policy to Executive Directors and senior executives under existing plans;
- 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; and
- Reviewing and noting the remuneration trends across the Group.

The Committee met four times during the year. The attendance of members at Committee meetings held in 2010 was as follows:

Meetings attended:	
Clare Spottiswoode (Chairman)	4
Tutu Agyare*	1
David Bamford	4
Ann Grant	2
Steven McTiernan	4
David Williams	3

* Appointed 25 August 2010

Committee's advisers

The Committee invites individuals to attend meetings to provide advice so as to ensure that the Committee's decisions are informed and take account of pay and conditions in the Group as a whole. These individuals include the Chief HR Officer. No Director takes part in any decision directly affecting his own remuneration. The Company Chairman, Pat Plunkett, also absents himself during discussion relating to his own fees. During the year under review, the Committee sought independent advice from Hewitt New Bridge Street ('HNBS'), a trading name of Aon Corporation, in relation to executive remuneration and technical advice in connection with the operation of the Company's share incentive arrangements. During this period, Aon Corporation provided certain insurance broking services to the Company, which the Committee did not believe prejudiced HNBS's position as its independent advisers. Going forward, the Committee has appointed Kepler Associates to provide independent advice in relation to executive remuneration. HNBS will continue to provide technical advice in connection with the operation of the Company's share incentive arrangements. Kepler Associates does not provide any other services to the Company. The Committee also consults with the Company's major investors and investor representative groups as appropriate.

Remuneration policy

The Group's policy is to maintain levels of remuneration so as to attract, motivate and retain Executive Directors and senior executives of the highest calibre who can contribute their experience to the Group's operations. The elements of the remuneration package for Executive Directors and senior management are base salary, annual bonus, taxable benefits, pension payments and participation in the Group's share incentive arrangements. A significant proportion (c.60% by fair value in 2010) of the Executive Director remuneration package is performance-linked.

When determining the total remuneration of the Executive Directors and senior management, the Committee predominantly takes into account the remuneration practices adopted by UK listed companies of a similar market capitalisation and overseas complexity to Tullow. Practice within other relevant Oil & Gas companies is also considered.

The key elements of the remuneration packages for the Executive Directors for the year under review and the following year are set out below. However, as noted above, the Committee has commenced a full review of the Company's executive remuneration policies, further details of which will be reported on at the appropriate time.

Executive Directors' remuneration

Base salary

Base salaries are reviewed annually with effect from 1 January, and are set primarily by reference to external benchmarking data for other UK listed companies of similar market capitalisation and overseas complexity with practice in the Oil & Gas sector also taken into account.

As highlighted earlier, the Committee has undertaken a review of the Company's remuneration arrangements for 2011. On completion of the consultation with major shareholders the Committee will be in a position to approve Executive Director 2011 salaries. Full disclosure will be provided in the 2011 Directors' Remuneration Report (DRR).

When setting Executive Director salaries, the Committee takes into account pay and conditions across the rest of the Group.

Annual bonus

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

2010 Annual Bonus Scheme

The key features of the Annual Bonus Scheme for the Executive Directors for 2010 were as follows:

- The maximum annual bonus potential for the Executive Directors was 200% of salary;
- For meeting target performance, a bonus of 80% of salary is payable (40% of the maximum);
- Any bonus earned in excess of 75% of salary is paid in shares and deferred for three years under the Deferred Share Bonus Plan (DSBP);
- Bonuses in 2010 were based:
  - 25% on Tullow's TSR performance relative to the same Oil & Gas group as is used to measure performance for the PSP awards made in 2010 (see page 88) – no bonus is paid unless median performance is delivered, with the full bonus for upper quartile performance;
  - 25% on growth in absolute TSR, with a full bonus payable if Tullow's TSR grows by 15% over the year;
  - 50% on certain corporate key performance indicators (KPIs) comprising Health & Safety, Operational & Financial and project-specific targets.

The Committee also has broad discretion before finalising any award level on the above parameters to take into account other factors and circumstances reflecting the general financial condition and the performance of the Group as it considers appropriate.

2010 was an exceptional year for the Company. Tullow achieved exceptional exploration success and together with our partners delivered First Oil on schedule in Ghana by year-end. In Uganda, while negotiations with the Government have taken longer than expected, they are progressing well. We also expanded our portfolio and restructured our finances to position the Group to deliver further growth. In recognition of the significant achievements made during 2010, the Committee awarded Executive Directors in 2010 a bonus of 57.6% of maximum (i.e. 115.2% of salary). Bonus in excess of 75% of salary is paid in shares, and deferred for three years under the DSBP.

2011 Annual Bonus Scheme

As highlighted earlier, the Committee has undertaken a review of the Company's remuneration arrangements for 2011 and is expecting to make changes to the annual bonus structure following consultation with major shareholders. Full disclosure will be provided in the 2011 DRR.

Pension and other benefits

Each Executive Director is entitled to receive a payment of 25% of his base salary into the Company's group personal pension plan or his private pension arrangements. Each Executive Director is entitled to 30 days' annual leave, permanent health insurance, private medical insurance and life assurance benefits. The Group also reimburses the Executive Directors in respect of all expenses reasonably incurred by them in the proper performance of their duties.

Share incentive arrangements

Performance Share Plan (PSP)

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

PSP awards vest subject to a TSR-based performance condition under which the Company's TSR performance is measured over a fixed three-year period commencing on 1 January in the financial year in which the award is granted, with no opportunity to re-test.

For the awards made in 2008, 2009 and 2010, half are subject to performance against the constituents of the FTSE 100 Index at the start of the performance period (of which Tullow is a constituent) and the other half are subject to performance against a comparator group of international Oil & Gas companies. The group used for the awards made in 2008 and 2009 is as follows:

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

For the awards made in 2010, the group is as follows:

Anadarko	Marathon Oil Corporation
Apache Corporation	Nexen Inc
BG Group	Niko Resources
Cairn Energy	Noble Energy Inc
Canadian Natural Resources	Pioneer National Resources
Dana Petroleum	Premier Oil
EOG Resources	Santos
Forest Oil Corporation	Talisman Energy Inc
Hess Corporation	Woodside Petroleum
Lundin Petroleum	

TSR is calculated, in common currency, in line with best practice.

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

Company's ranking in comparator group	Vesting percentage %
Below median	0
Median	30
Upper quintile (top 20%)	100
Intermediate performance	Pro rata between 30 and 100

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

This approach has served the Company well, as it encourages the Executive Directors to generate returns to shareholders in excess of both the market generally and a group of sector peers, and is a robust reflection of management's success in achieving the strategic targets required to ensure the Group's continued growth.

As highlighted earlier, the Committee has undertaken a review of the Company's long-term incentives for 2011 and future cycles and is expecting to make changes to the PSP structure following consultation with major shareholders. Full disclosure will be provided in the 2011 DRR.

Share Ownership Guidelines

To further align their interests with shareholders, the Executive Directors are required to retain at least 50% of the shares that vest under the PSP and DSBP (after selling sufficient shares to pay tax liabilities) until they have built up a shareholding worth at least 200% of base salary (with existing holdings taken into account).

Share Option Scheme

Before the introduction of the PSP in 2005, Executive Directors were eligible for grants of options under the 2000 Executive Share Option Scheme (the '2000 Scheme'). The 2000 Scheme expired in the year under review, with shareholder approval obtained for a replacement scheme – the 2010 Share Option Plan – at the 2010 AGM. It is intended that Executive Directors (and other PSP participants) will not be granted options under the 2010 Share Option Plan.

All-employee Share Incentive Plans

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

Sourcing of shares and dilution

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

As at 31 December 2010, the headroom under the Company's 5% and 10% limits was 6.7 million and 44.4 million shares respectively, out of an issued share capital of 888.2 million shares.

As at 31 December 2010, the Tullow Oil Employee Trust held 0.81 million shares.

Non-executive Directors' fees

A Committee of the Board comprising the Chairman and Executive Directors sets the remuneration of non-executive Directors. The fees paid are set at a level to attract individuals with the necessary experience and ability to make a significant contribution to the Group's activities, while also reflecting the time commitment and responsibility of the role. Each non-executive Director currently receives an annual fee of £63,000. Steven McTiernan receives an additional annual fee of £14,000 to reflect his responsibilities as Senior Independent Director and Clare Spottiswoode and David Williams each receive an additional annual fee of £14,000 to reflect their responsibilities as Chairman of the Remuneration and Audit Committees respectively. Each non-executive Director is also entitled to reimbursement of necessary travel and other expenses.

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

The Remuneration Committee, with the Chairman absenting himself from discussions, sets the remuneration of the Chairman, whose annual fee is currently £220,000.

Performance graph

The graph below shows Tullow's TSR against the FTSE 100 Index over the five-year period from 1 January 2006 to 31 December 2010. Over this period Tullow outperformed the index by 363%. The FTSE 100 has been chosen as it is the Index that the Company has been a member of for the majority of the five-year period.

This graph shows the value, by the end of 2010, of £100 invested in Tullow Oil on 31 December 2005 compared with the value of £100 invested in the FTSE 100. The other points plotted are the values at intervening financial year ends.

Service agreements and letters of appointment

Each Executive Director has entered into a service agreement with Tullow Group Services Limited (dated 2 September 2002 in the case of Aidan Heavey and Graham Martin, dated 29 March 2006 in the case of Paul McDade, dated 18 April 2006 in the case of Angus McCoss and dated 1 September 2008 in the case of Ian Springett). Aidan Heavey has also entered into a service agreement with Tullow Oil International Limited on 16 September 2002 on similar terms.

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

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

The above reflects the Committee's policy that service contracts should be structured to reflect the interests of the Group and the individuals concerned, while also taking due account of market and best practice. It is also the Committee's policy that, on any 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.

Non-executive Director Terms of Appointment

Non-executive Director	Year appointed Director	Number of complete years on the Board	Date of current engagement letter	Expiry of current term
Pat Plunkett	1998	12	07.12.10	31.12.11
Steven McTiernan	2002	9	18.01.11	28.02.12
Clare Spottiswoode	2002	9	18.01.11	31.05.11
David Bamford	2004	6	30.06.10	30.06.13
David Williams	2006	4	08.12.09	31.05.12
Ann Grant	2008	2	14.05.08	14.05.11
Tutu Agyare	2010	0	24.08.10	24.08.13

In each case, the appointment is renewable thereafter if agreed by the Director and the Board. The appointments for each of the non-executive Directors may be terminated by either party on three months' notice. There are no arrangements under which any non-executive Director is entitled to receive compensation upon the early termination of his or her appointment.

Material contracts

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

External appointments

The Board has not introduced a formal policy in relation to the number of external directorships that an Executive Director may hold. Currently, the only Executive Directors who hold external directorships are Aidan Heavey and Angus McCoss. Aidan is a director of Traidlinks, a charity promoting enterprise in the developed world, especially Africa. He receives no fee for this position. Angus 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.

Audited information

Directors' remuneration

The remuneration of the Directors for the year ended 31 December 2010 payable by Group companies was as follows:

	Salary/ fees £	Bonuses Cash £	Bonuses Shares[1] £	Pensions £	Taxable benefits[2] £	**2010 Total £**	2009 Total £
Executive Directors							
Aidan Heavey	679,450	509,588	273,138	169,863	38,870	**1,670,909**	1,659,855
Graham Martin	384,250	288,188	154,468	96,063	3,652	**926,621**	923,073
Angus McCoss	384,250	288,188	154,468	96,063	2,361	**925,330**	902,665
Paul McDade	384,250	288,188	154,468	96,063	8,955	**931,924**	903,300
Ian Springett	408,000	306,000	164,016	102,000	4,081	**984,097**	978,928
Subtotal	2,240,200	1,680,152	900,558	560,052	57,919	**5,438,881**	5,367,821
Non-executive Directors							
Pat Plunkett	200,000	–	–	–	–	**200,000**	180,000
David Bamford	57,000	–	–	–	–	**57,000**	56,000
Ann Grant	57,000	–	–	–	–	**57,000**	56,000
Steven McTiernan	69,000	–	–	–	–	**69,000**	67,000
Clare Spottiswoode	69,000	–	–	–	–	**69,000**	67,000
David Williams	69,000	–	–	–	–	**69,000**	67,000
Tutu Agyare[3]	20,096	–	–	–	–	**20,096**	–
Subtotal	541,096	–	–	–	–	**541,096**	493,000
Total	2,781,296	1,680,152	900,558	560,052	57,919	**5,979,977**	5,860,821

1. These figures represent that part of the bonus required to be deferred into shares as explained on page 87.
2. The amounts disclosed under Taxable benefits for Aidan Heavey include car benefits.
3. Tutu Agyare was appointed as a non-executive Director on 25 August 2010.

Directors' interests in the share capital of the Company

The interests of the Directors (all of which were beneficial), who held office at 31 December 2010, are set out in the table below. The table also shows the holdings at the date of this report and reflect changes since 31 December 2010, as summarised in the note following the table:

Director	Ordinary shares 31.12.10	Ordinary shares 01.01.10
Aidan Heavey	6,401,511	6,240,500
Graham Martin	1,527,320	1,435,687
Angus McCoss	112,396	59,053
Paul McDade	260,801	203,181
Ian Springett	12,000	12,000
Pat Plunkett	761,326	761,326
David Bamford	13,445	13,445
Ann Grant	2,371	2,371
Steven McTiernan	–	–
Clare Spottiswoode	990	–
David Williams	5,000	5,000
Tutu Agyare	–	–

These interests do not include those set out in the table below. Other than as detailed in the table below there have been no changes in the interests of any Director between 1 January 2011 and the date of this report.

Tullow Oil UK Share Incentive Plan (UK SIP)

Details of shares purchased and awarded to Executive Directors under the UK SIP. A brief description of the UK SIP is set out on page 89.

Director	Shares held 01.01.10	Partnership shares acquired in year	Matching shares awarded in year	Total shares held 31.12.10	SIP shares that became unrestricted in the year	Total unrestricted shares held at 31.12.10
Graham Martin	6,778	139	139	7,056	1,834	4,182
Angus McCoss	1,808	139	139	2,086	–	–
Paul McDade	6,778	139	139	7,056	1,834	4,182
Ian Springett	286	138	138	562	–	–

1. Graham Martin, Angus McCoss and Paul McDade each acquired 30 partnership shares and were awarded 30 matching shares and Ian Springett acquired 29 partnership shares and was awarded 29 matching shares on 5 January 2011.
2. Unrestricted shares (which are included in the total shares held at 31 December 2010) are those held until there is no longer a tax liability if they are withdrawn from the plan.

Performance Share Plan 2005 (PSP)

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

Director	Award grant date	As at 01.01.10	Granted in year	Shares vested in year	As at 31.12.10	Earliest date shares can be acquired	Latest date shares can be acquired
Aidan Heavey	22.03.07	230,567	–	230,567	–	–	–
	15.05.08	141,939	–	–	141,939	15.05.11	14.05.18
	18.03.09	173,916	–	–	173,916	18.03.12	17.03.19
	17.03.10	–	106,496	–	106,496	17.03.13	16.03.20
		546,422	**106,496**	**230,567**	**422,351**		
Graham Martin	22.03.07	130,402	–	130,402	–	–	–
	15.05.08	80,277	–	–	80,277	15.05.11	14.05.18
	18.03.09	98,355	–	–	98,355	18.03.12	17.03.19
	17.03.10	–	60,227	–	60,227	17.03.13	16.03.20
		309,034	**60,227**	**130,402**	**238,859**		
Angus McCoss	22.03.07	90,539	–	90,539	–	–	–
	15.05.08	80,277	–	–	80,277	15.05.11	14.05.18
	18.03.09	98,355	–	–	98,355	18.03.12	17.03.19
	17.03.10	–	60,227	–	60,227	17.03.13	16.03.20
		269,171	**60,227**	**90,539**	**238,859**		
Paul McDade	22.03.07	90,539	–	90,539	–	–	–
	15.05.08	80,277	–	–	80,277	15.05.11	14.05.18
	18.03.09	98,355	–	–	98,355	18.03.12	17.03.19
	17.03.10	–	60,227	–	60,227	17.03.13	16.03.20
		269,171	**60,227**	**90,539**	**238,859**		
Ian Springett	01.09.08	68,873	–	–	68,873	01.09.11	31.08.18
	18.03.09	104,438	–	–	104,438	18.03.12	17.03.19
	17.03.10	–	63,949	–	63,949	17.03.13	16.03.20
		173,311	**63,949**	**–**	**237,260**		

1. The awards of conditional shares made on 17 March 2010 equated to shares worth 200% of salary for each Executive Director based on the average of the share prices for the five dealing days preceding the date of grant. The Tullow share price on the date of grant of those awards was 1281p.
2. Awards granted on 22 March 2007 were granted as conditional awards that vested on 22 March 2010. All other awards under PSP have been granted as, or converted into nil exercise price options. To the extent that they vest they are exercisable from 3 to 10 years from grant.
3. Under the PSP 2007 awards, 50% of each award was subject to a condition that compared Tullow's TSR to the constituents of the FTSE 250 Index (excluding investment trusts). The other 50% of the award was subject to a condition that compared Tullow's TSR to a comparator group of specific oil and gas companies. For median performance, 30% of the relevant part of the award would vest, with full vesting for upper quartile performance. Details of the conditions applying to the awards made in 2008, 2009 and 2010 are set out on page 88.
4. The PSP awards made in March 2007 reached the end of their performance period on 31 December 2009. The Remuneration Committee determined that both parts of the relevant performance condition were met in full, as the Company was ranked in the upper quartile compared to both the relevant comparator groups, and the underlying performance of the Company was determined to be a fair reflection of the Company's TSR. Accordingly, these awards vested in full on 22 March 2010, the third anniversary of the grant.
5. The PSP awards made in May 2008 reached the end of their performance period on 31 December 2010. The Remuneration Committee determined that both parts of the relevant performance condition were met in full, as the Company was ranked in the upper quintile compared to both the relevant comparator groups, and the underlying performance of the Company was determined to be a fair reflection of the Company's TSR. Accordingly, these awards will vest in full on 15 May 2011, the third anniversary of grant, subject to continued employment.
6. On 22 March 2010, being the date on which awards made in March 2007 vested, the market price of a Tullow share was 1239p.

Deferred Share Bonus Plan (DSBP)

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

Director	Award grant date	As at 01.01.10	Granted in year	Shares vested in year	As at 31.12.10	Earliest date shares can be acquired	Latest date shares can be acquired
Aidan Heavey	18.01.07	42,714	–	42,714	–	–	–
	13.03.08	28,328	–	–	28,328	01.01.11	12.03.18
	18.03.09	50,169	–	–	50,169	01.01.12	17.03.19
	17.03.10	–	28,189	–	28,189	01.01.13	16.03.20
		121,211	**28,189**	**42,714**	**106,686**		
Graham Martin	18.01.07	25,126	–	25,126	–	–	–
	13.03.08	16,021	–	–	16,021	01.01.11	12.03.18
	18.03.09	28,374	–	–	28,374	01.01.12	17.03.19
	17.03.10	–	15,941	–	15,941	01.01.13	16.03.20
		69,521	**15,941**	**25,126**	**60,336**		
Angus McCoss	13.03.08	14,686	–	–	14,686	01.01.11	12.03.18
	18.03.09	28,374	–	–	28,374	01.01.12	17.03.19
	17.03.10	–	15,941	–	15,941	01.01.13	16.03.20
		43,060	**15,941**	**–**	**59,001**		
Paul McDade	18.01.07	7,260	–	7,260	–	–	–
	13.03.08	14,686	–	–	14,686	01.01.11	12.03.18
	18.03.09	28,374	–	–	28,374	01.01.12	17.03.19
	17.03.10	–	15,941	–	15,941	01.01.13	16.03.20
		50,320	**15,941**	**7,260**	**59,001**		
Ian Springett	17.03.10	–	16,927	–	16,927	01.01.13	16.03.20
		–	**16,927**	**–**	**16,927**		

1. The awards of shares made on 17 March 2010 equated to shares worth the amount of bonus deferred into shares for 2009, based on the share prices for the five dealing days preceding the date of grant. The Tullow share price on the date of grant of those awards was 1281p.
2. Awards granted on 18 January 2007 were granted as conditional awards that vested on 4 January 2010. All other awards under the DSBP have been granted as, or converted into, nil exercise price options. To the extent that they vest, they are exercisable from 3 to 10 years from grant.
3. Further details of the DSBP are set out in the Annual bonus section of this report on page 87.

2000 Executive Share Option Scheme (ESOS)

Details of share options granted to Executive Directors for nil consideration under the ESOS:

Director	Grant date	As at 01.01.10	Granted during year	Exercised during year	As at 31.12.10	Exercise price	Date from which exercisable	Last date exercisable
Graham Martin	10.10.01	380,000	–	–	380,000	80p	10.10.04	09.10.11
	06.10.03	400,000	–	–	400,000	85p	06.10.06	05.10.13
	20.09.04	190,000	–	–	190,000	131p	20.09.07	19.09.14
		970,000	–	–	**970,000**			

1. The performance condition attached to the above options granted under the 2000 Scheme required Tullow's TSR to have exceeded that of the median company of the FTSE 250 (excluding investment trusts) over three years from the date of grant. It has been satisfied for all the options which are therefore fully exercisable.
2. During 2010, the highest mid-market price of the Company's shares was 1369p and the lowest was 991.5p. The year-end price was 1261p.

Results and dividends

The profit on ordinary activities after taxation of the Group for the year ended 31 December 2010 amounted to $72.5 million (2009: $30.6 million).

An interim dividend of Stg2.0p (2009: Stg2.0p) per ordinary share was paid on 4 November 2010. The Directors recommend a final dividend of Stg4.0p (2009: Stg4.0p) per ordinary share which, if approved at the 2011 AGM, will be paid on 20 May 2011 to shareholders whose names are on the Register of Members on 15 April 2011.

Subsequent events

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

In January 2011, the Group announced the Tweneboa-3 appraisal well in the Deepwater Tano licence offshore Ghana had successfully encountered gas condensate in excellent high quality sandstone reservoirs. The results of drilling, wireline logs and samples of reservoir fluids, together with the well's down-dip position, confirms the Greater Tweneboa Area resource base potential.

In March 2011, the Group announced the Enyenra-2A appraisal well in the Deepwater Tano licence offshore Ghana had successfully encountered oil in excellent quality sandstone reservoirs. Good evidence of communication with Owo-1 confirms that the Owo oil discovery, now re-named Enyenra, is a major light oil field.

Share capital

As at 8 March 2011, the Company had an allotted and fully paid up share capital of 888,445,501 ordinary shares of Stg10p each with an aggregate nominal value of £88,844,550.10.

Substantial shareholdings

As at 8 March 2011, the Company had been notified of the following significant holdings (being 3% or more) in the Company's ordinary share capital.

Shareholder	Number of shares	% of issued capital
BlackRock Inc	106,568,436	11.99%
Prudential plc	72,123,865	8.12%
IFG International Trust Company Limited	38,960,366	4.38%
Legal & General Group plc	35,414,975	3.98%

Shareholders' rights

The rights and obligations attaching to the Company's shares are as follows:

- Dividend rights – holders of the Company's ordinary shares may, by ordinary resolution, declare dividends but may not declare dividends in excess of the amount recommended by the Directors. The Directors may also pay interim dividends. No dividend may be paid other than out of profits available for distribution. Subject to shareholder approval, payment or satisfaction of a dividend may be made wholly or partly by distribution of specific assets.
- Voting rights – voting at any general meeting is by a show of hands unless a poll is duly demanded. On a show of hands every shareholder who is present in person at a general meeting (and every proxy or corporate representative appointed by a shareholder and present at a general meeting) has one vote regardless of the number of shares held by the shareholder (or represented by the proxy or corporate representative). If a proxy has been appointed by more than one shareholder and has been instructed by one or more of those shareholders to vote 'for' the resolution and by one or more of those shareholders to vote 'against' a particular resolution, the proxy shall have one vote for and one vote against that resolution. On a poll, every shareholder who is present in person has one vote for every share held by that shareholder and a proxy has one vote for every share in respect of which he has been appointed as proxy (the deadline for exercising voting rights by proxy is set out in the form of proxy). On a poll, a corporate representative may exercise all the powers of the company that has authorised him. A poll may be demanded by any of the following: (a) the Chairman of the meeting; (b) at least five shareholders entitled to vote and present in person or by proxy or represented by duly authorised corporate representative at the meeting; (c) any shareholder or shareholders present in person or by proxy or represented by a duly authorised corporate representative and holding shares or being a representative in respect of a holder of shares representing in the aggregate not less than one-tenth of the total voting rights of all shareholders entitled to attend and vote at the meeting; or (d) any shareholder or shareholders present in person or by proxy or represented by a duly authorised corporate representative and holder of shares or being a representative in respect of a holding or shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.
- Return of capital – in the event of the liquidation of the Company, after payment of all liabilities and deductions taking priority, the balance of assets available for distribution will be distributed among the holders of ordinary shares according to the amounts paid up on the shares held by them. A liquidator may, with the authority of a special resolution, divide among the shareholders the whole or any part of the Company's assets; or vest the Company's assets in whole or in part in trustees upon such trusts for the benefit of shareholders, but no shareholder is compelled to accept any property in respect of which there is a liability.
- Control rights under employee share schemes. The Company operates a number of employee share schemes. Under some of these arrangements, shares are held by trustees on behalf of employees. The employees are not entitled to exercise directly any voting or other control rights. The trustees will generally vote in accordance with employees' instructions and abstain where no instructions are received. Unallocated shares are generally voted at the discretion of the trustees.
- Restrictions on holding securities. There are no restrictions under the Company's Articles of Association or under UK law that either restrict the rights of UK resident shareholders to hold shares or limit the rights of non-resident or foreign shareholders to hold or vote the Company's ordinary shares.

There are no UK foreign exchange control restrictions on the payment of dividends to US persons on the Company's ordinary shares.

Material agreements containing 'change of control' provisions

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

- US$2.285 billion senior secured revolving credit facility agreement between, among others, the Company and certain subsidiaries of the Company, BNP Paribas, Bank of Scotland plc, The Royal Bank of Scotland plc, Standard Chartered Bank, Lloyds TSB Bank plc and Credit Agricole Corporate and Investment Bank and the lenders specified therein pursuant to which each lender thereunder may demand repayment of all outstanding amounts owed by the Company and certain subsidiaries of the Company to it under the agreement and any connected finance document, which amount will become immediately due and payable and, in respect of each letter of credit issued under the agreement, full cash cover will be required immediately, in the event that any person (or group of persons acting in concert) gains control of the Company;
- US$100 million junior secured revolving credit facility agreement between, among others, the Company and certain subsidiaries of the Company, BNP Paribas, Bank of Scotland plc, The Royal Bank of Scotland plc and Lloyds TSB Bank plc and the lenders specified therein pursuant to which each lender thereunder may demand repayment of all outstanding amounts owed by the Company and certain subsidiaries of the Company to it under the agreement and any connected finance document, which amount will become immediately due and payable, in the event that any person (or group of persons acting in concert) gains control of the Company;
- US$115 million finance contract in respect of a senior secured revolving credit facility agreement between, among others, the Company and certain subsidiaries of the Company and International Finance Corporation and the lenders specified therein pursuant to which each lender thereunder may demand repayment of all outstanding amounts owed by the Company and certain subsidiaries of the Company to it under the agreement and any connected finance document, which amount will become immediately due and payable, in the event that any person (or group of persons acting in concert) gains control of the Company;
- US$650 million secured revolving credit facility agreement between, among others, the Company and certain subsidiaries of the Company, BNP Paribas, Bank of Scotland plc, Credit Agricole Corporate and Investment Bank, Standard Chartered Bank and The Royal Bank of Scotland plc and the lenders specified therein pursuant to which each lender thereunder may demand repayment of all outstanding amounts owed by the Company and certain subsidiaries of the Company to it under the agreement and any connected finance document, which amount will become immediately due and payable, in the event that any person (or group of persons acting in concert) gains control of the Company; and
- US$1.55 billion secured irrevocable guarantee facility agreement between, among others, the Company and certain subsidiaries of the Company, Standard Chartered Bank, Credit Agricole Corporate and Investment Bank, BNP Paribas and The Royal Bank of Scotland plc and the lenders specified therein pursuant to which each lender thereunder may demand that full cash cover is provided immediately in respect of outstanding amounts or the buyer guarantee provided thereunder is otherwise repaid immediately and repayment of all outstanding amounts owed by the Company and certain subsidiaries of the Company to it under the agreement and any connected finance document, which amount will become immediately due and payable, in the event that any person (or group of persons acting in concert) gains control of the Company.

Under the terms of each of these agreements, a 'change of control' occurs if any person, or group of people acting in concert (as defined in the City Code on Takeovers) gains control of the Company.

Contractual or other arrangements

The Group does not have any contractual or other arrangements that are essential to the business of the Group as described by section 417 (5)(c) of the Companies Act 2006.

Directors

The biographical details of the Directors of the Company at the date of this report are given on pages 74 and 75.

Details of Directors' service agreements and letters of appointment are set out on pages 89 and 90. Details of the Directors' interests in the ordinary shares of the Company and in the Group's long-term incentive and other share option schemes are set out on pages 92 to 94 in the Directors' remuneration report.

Directors' indemnities and insurance cover

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

Powers of Directors

The general powers of the Company's Directors are set out in Article 104 of the Articles of Association of the Company. It provides that the business of the Company shall be managed by the Board which may exercise all the powers of the Company whether relating to the management of the business of the Company or not. This power is subject to any limitations imposed on the Company by applicable legislation. It is also limited by the provisions of the Memorandum and Articles of Association of the Company and any directions given by special resolution of the shareholders of the Company which are applicable on the date that any power is exercised.

Please note the following specific provisions relevant to the exercise of power by the Directors:

- Pre-emptive rights and new issues of shares – the holders of ordinary shares have no pre-emptive rights under the Articles of Association of the Company. However, the ability of the Directors to cause the Company to issue shares,

securities convertible into shares or rights to shares, otherwise than pursuant to an employee share scheme, is restricted under the Companies Act 2006 which provides that the directors of a company are, with certain exceptions, unable to allot any equity securities without express authorisation, which may be contained in a company's articles of association or given by its shareholders in general meeting, but which in either event cannot last for more than five years. Under the Companies Act 2006, the Company may also not allot shares for cash (otherwise than pursuant to an employee share scheme) without first making an offer on a pre-emptive basis to existing shareholders, unless this requirement is waived by a special resolution of the shareholders. The Company received authority at the last Annual General Meeting to allot shares for cash on a non pre-emptive basis up to a maximum nominal amount of £4,432,879. The authority lasts until the earlier of the Annual General Meeting of the Company in 2011 or 30 June 2011;

- Repurchase of shares – subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Companies Act 2006. Any shares which have been bought back may be held as treasury shares or must be cancelled immediately upon completion of the purchase. The Company does not currently have shareholder authority to buy back shares; and
- Borrowing powers – the net external borrowings of the Group outstanding at any time shall not exceed an amount equal to four times the aggregate of the Group's adjusted capital and reserves calculated in the manner prescribed in Article 105 of the Company's Articles of Association, unless sanctioned by an ordinary resolution of the Company's shareholders.

Appointment and replacement of Directors

The Company shall appoint (disregarding Alternate Directors) not less than two nor more than 15 Directors. The appointment and replacement of Directors may be made as follows:

- The members may by ordinary resolution elect any person who is willing to act to be a Director;
- The Board may elect any person who is willing to act to be a Director. Any Director so appointed shall hold office only until the next Annual General Meeting and shall then be eligible for election;
- Each Director shall retire from office at the third Annual General Meeting after the Annual General Meeting at which he was last elected or re-elected but he may be re-elected by ordinary resolution if eligible and willing;
- The Company may by special resolution remove any Director before the expiration of his period of office or may, by ordinary resolution, remove a Director where special notice has been given and the necessary statutory procedures are complied with; and
- There are a number of other grounds on which a Director's office may cease, namely voluntary resignation, where all the other Directors (being at least three in number) request his resignation, where he suffers physical or mental incapacity, becomes bankrupt or compounds with his creditors or is prohibited by law from being a Director.

Charitable and political donations

The Group made charitable, social and community-related donations during the year totalling $2.6 million (2009: £$2.2 million). In line with Group policy, no donations were made for political purposes.

Corporate responsibility

The Group is fully committed to high standards of environmental, health and safety management. A review, together with an outline of the Group's involvement in the community, is set out in the Corporate Responsibility section on pages 64 to 69. In addition, Tullow publishes annually a separate Corporate Responsibility Report which is available on the Group website: www.tullowoil.com.

Supplier payment policy

It is Company and Group policy to settle all debts with creditors on a timely basis and in accordance with the terms of credit agreed with each supplier. The Company had no trade creditors outstanding at 31 December 2010.

Auditors and disclosure of relevant audit information

Having made the requisite enquiries, so far as the Directors are aware, there is no relevant audit information (as defined by Section 418(3) of the Companies Act 2006) of which the Company's auditors are unaware and each Director has taken all steps that ought to have been taken to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

Annual General Meeting

Your attention is drawn to the Notice of Meeting accompanying this Annual Report which sets out the resolutions to be proposed at the forthcoming AGM. The meeting will be held at Haberdashers' Hall, 18 West Smithfield, London EC1A 9HQ on Thursday 12 May 2011 at 11.00 a.m.

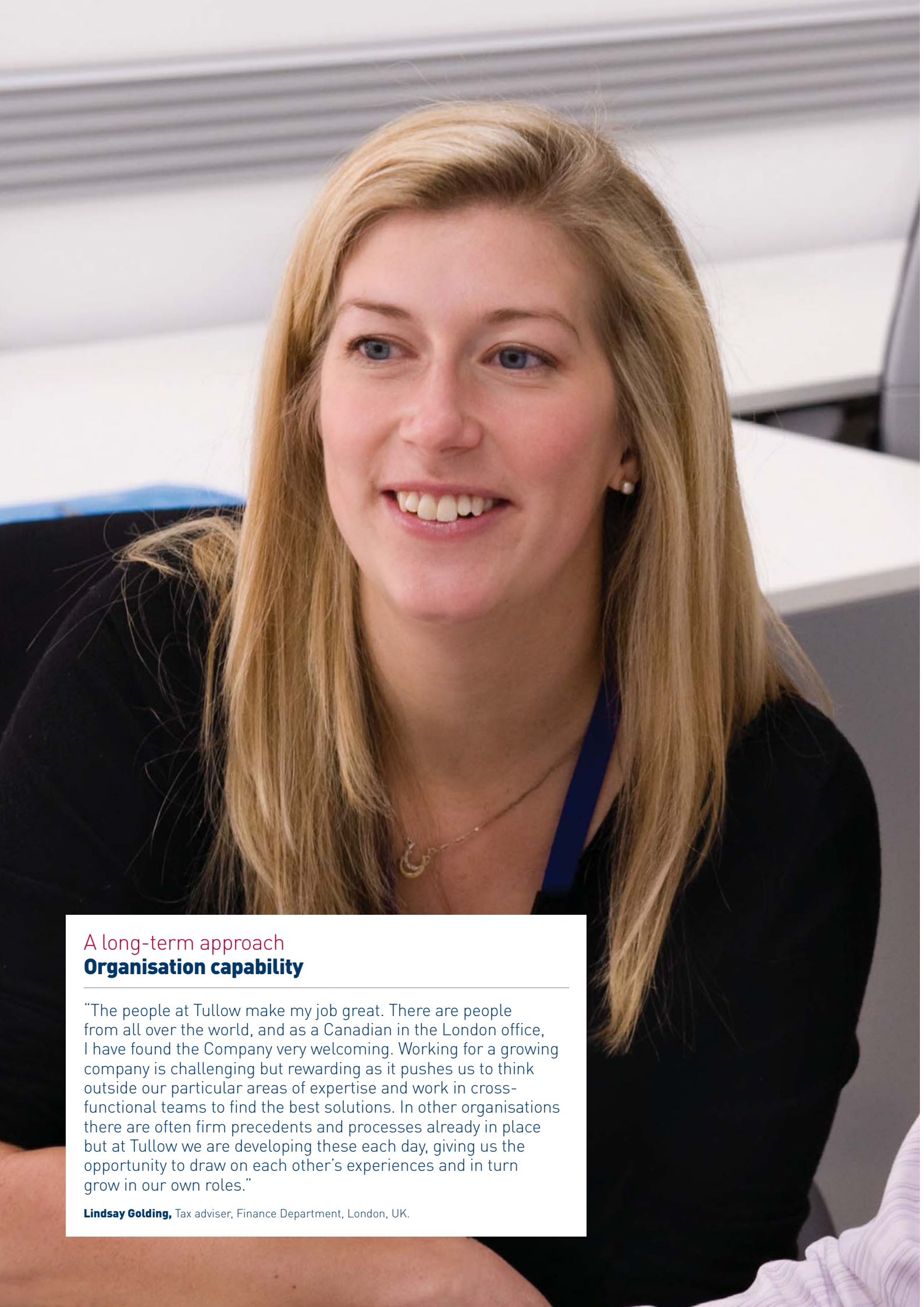
This Directors' Report comprising pages 4 to 97 and the information referred to therein has been approved by the Board and signed on its behalf by:

Graham Martin,
General Counsel and Company Secretary

8 March 2011

Registered office:
9 Chiswick Park
566 Chiswick High Road
London W4 5XT

Company registered in England and Wales No. 3919249



A long-term approach

Organisation capability

"The people at Tullow make my job great. There are people from all over the world, and as a Canadian in the London office, I have found the Company very welcoming. Working for a growing company is challenging but rewarding as it pushes us to think outside our particular areas of expertise and work in cross-functional teams to find the best solutions. In other organisations there are often firm precedents and processes already in place but at Tullow we are developing these each day, giving us the opportunity to draw on each other's experiences and in turn grow in our own roles."

Lindsay Golding, Tax adviser, Finance Department, London, UK.

6 Financial statements

With effect from 1 January 2010 Tullow presents its financial statements in US dollars. We have decided it is now appropriate to change the presentational currency from sterling as the majority of our activities are in Africa where oil revenue and costs are dollar denominated.

Statement of Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the Group financial statements under International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they 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.

Company

In preparing these financial statements, the Directors are required to:

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

Group

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- 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 IFRSs 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
- Make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

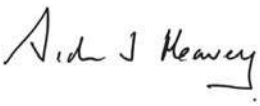
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The management report, which is incorporated into the Directors' report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board



Aidan Heavey
Chief Executive Officer

8 March 2011

Ian Springett
Chief Financial Officer

8 March 2011

Independent Auditor's 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 2010 which comprise the Group income statement, the Group statement of comprehensive income and expense, the Group balance sheet, the Group statement of changes in equity, the Group cash flow statement, the accounting policies and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- Give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the accounting policies to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- The Directors' statement contained within the Directors' report in relation to going concern; and
- The part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- Certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matters

We have reported separately on the parent company financial statements of Tullow Oil plc for the year ended 31 December 2010 and on the information in the Directors' remuneration report that is described as having been audited.

Matthew Donaldson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, UK

8 March 2011

Group income statement

Year ended 31 December 2010

	Notes	2010 $m	2009 $m
Sales revenue	2	**1,089.8**	915.9
Cost of sales		**(611.4)**	(625.5)
Gross profit		**478.4**	290.4
Administrative expenses		**(89.6)**	(77.6)
Profit on disposal of subsidiaries	25	**–**	16.0
Profit on disposal of oil and gas assets		**0.5**	4.9
Exploration costs written off	9	**(154.7)**	(82.7)
Operating profit	3	**234.6**	151.0
Loss on hedging instruments	18	**(27.7)**	(59.8)
Finance revenue	2	**15.1**	2.1
Finance costs	5	**(70.1)**	(60.8)
Profit from continuing activities before tax		**151.9**	32.5
Income tax expense	6	**(79.4)**	(1.9)
Profit for the year from continuing activities		**72.5**	30.6
Attributable to:			
Owners of the parent		**54.0**	25.2
Non-controlling interest	23	**18.5**	5.4
		72.5	30.6
Earnings per ordinary share	8	**¢**	¢
Basic		**6.1**	3.2
Diluted		**6.1**	3.1

Group statement of comprehensive income and expense

Year ended 31 December 2010

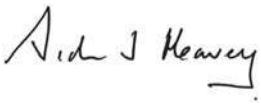
	Notes	2010 $m	2009 $m
Profit for the year		**72.5**	30.6
Cash flow hedges			
Losses arising in the year	18	**(26.8)**	(18.0)
Reclassification adjustments for losses included in profit on realisation	18	**(10.3)**	(13.3)
		(37.1)	(31.3)
Exchange differences on translation of foreign operations		**(11.4)**	42.0
Other comprehensive income		**(48.5)**	10.7
Tax relating to components of other comprehensive income	18	**8.2**	(12.4)
Other comprehensive income for the year		**(40.3)**	(1.7)
Total comprehensive income for the year		**32.2**	28.9
Attributable to:			
Owners of the parent		**13.7**	23.5
Non-controlling interest		**18.5**	5.4
		32.2	28.9

Group balance sheet

As at 31 December 2010

	Notes	2010 $m	2009 $m	2008 $m
ASSETS				
Non-current assets				
Intangible exploration and evaluation assets	9	**4,001.2**	2,121.6	2,052.8
Property, plant and equipment	10	**2,974.4**	2,199.8	1,428.2
Investments	11	**1.0**	1.0	0.6
Deferred tax assets	20	**110.7**	50.4	–
Derivative financial instruments	18	**–**	–	42.4
		7,087.3	4,372.8	3,524.0
Current assets				
Inventories	13	**138.2**	109.6	54.8
Trade receivables	12	**158.9**	92.4	100.4
Other current assets	14	**655.3**	296.0	87.2
Cash and cash equivalents	15	**338.3**	252.2	450.3
Derivative financial instruments	18	**–**	2.3	28.9
		1,290.7	752.5	721.6
Total assets		**8,378.0**	5,125.3	4,245.6
LIABILITIES				
Current liabilities				
Trade and other payables	16	**(1,008.2)**	(557.1)	(478.1)
Other financial liabilities	17	**(309.8)**	–	(304.8)
Current tax liabilities		**(120.0)**	(73.8)	(154.1)
Derivative financial instruments	18	**(47.1)**	–	–
		(1,485.1)	(630.9)	(937.0)
Non-current liabilities				
Trade and other payables	16	**(354.0)**	(31.8)	(8.8)
Other financial liabilities	17	**(1,890.0)**	(1,314.6)	(708.1)
Deferred tax liabilities	20	**(466.1)**	(473.5)	(503.8)
Provisions	20	**(278.6)**	(223.5)	(194.0)
Derivative financial instruments	18	**(35.3)**	(20.0)	–
		(3,024.0)	(2,063.4)	(1,414.7)
Total liabilities		**(4,509.1)**	(2,694.3)	(2,351.7)
Net assets		**3,868.9**	2,431.0	1,893.9
EQUITY				
Called up share capital	21	**143.5**	130.1	119.7
Share premium	21	**251.5**	242.3	231.1
Other reserves	22	**574.2**	614.5	607.8
Retained earnings		**2,839.1**	1,402.0	898.6
Equity attributable to equity holders of the parent		**3,808.3**	2,388.9	1,857.2
Non-controlling interest	23	**60.6**	42.1	36.7
Total equity		**3,868.9**	2,431.0	1,893.9

Approved by the Board and authorised for issue on 8 March 2011



Aidan Heavey
Chief Executive Officer

Ian Springett
Chief Financial Officer

Group statement of changes in equity

Year ended 31 December 2010

	Share capital $m	Share premium $m	Other reserves (note 23) $m	Retained earnings $m	Total $m	Non-controlling interest $m	Total equity $m
At 1 January 2008	117.4	178.0	541.9	555.0	1,392.3	31.0	1,423.2
Total recognised income and expense for the year	–	–	73.2	423.5	496.7	5.7	502.4
Purchase of treasury shares	–	–	(20.9)	–	(20.9)	–	(20.9)
New shares issued in respect of employee share options	1.3	11.1	–	–	12.4	–	12.4
New shares issued in respect of royalty obligation	1.0	42.0	–	–	43.0	–	43.0
Vesting of PSP shares	–	–	13.6	(13.6)	–	–	–
Share-based payment charges	–	–	–	14.6	14.6	–	14.6
Dividends paid (note 7)	–	–	–	(80.9)	(80.9)	–	(80.9)
At 1 January 2009	119.7	231.1	607.8	898.6	1,857.2	36.7	1,893.9
Total recognised income and expense for the year	–	–	(1.7)	25.2	23.5	5.4	28.9
Purchase of treasury shares	–	–	(5.7)	–	(5.7)	–	(5.7)
Issue of equity shares (note 22)	9.7	–	–	549.3	559.0	–	559.0
New shares issued in respect of employee share options	0.7	11.2	–	–	11.9	–	11.9
Vesting of PSP shares	–	–	14.1	(14.1)	–	–	–
Share-based payment charges	–	–	–	18.3	18.3	–	18.3
Dividends paid (note 7)	–	–	–	(75.3)	(75.3)	–	(75.3)
At 1 January 2010	**130.1**	**242.3**	**614.5**	**1,402.0**	**2,388.9**	**42.1**	**2,431.0**
Total recognised income and expense for the year	**–**	**–**	**(40.3)**	**54.0**	**13.7**	**18.5**	**32.2**
Purchase of treasury shares	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Issue of equity shares (note 22)	**13.1**	**2.1**	**–**	**1,432.9**	**1,448.1**	**–**	**1,448.1**
New shares issued in respect of employee share options	**0.3**	**7.1**	**–**	**–**	**7.4**	**–**	**7.4**
Vesting of PSP shares	**–**	**–**	**–**	**(0.2)**	**(0.2)**	**–**	**(0.2)**
Share-based payment charges	**–**	**–**	**–**	**29.6**	**29.6**	**–**	**29.6**
Dividends paid (note 7)	**–**	**–**	**–**	**(79.2)**	**(79.2)**	**–**	**(79.2)**
At 31 December 2010	**143.5**	**251.5**	**574.2**	**2,839.1**	**3,808.3**	**60.6**	**3,868.9**

Group cash flow statement

Year ended 31 December 2010

	Notes	2010 $m	2009 $m
Cash flows from operating activities			
Cash generated from operations	24	818.0	463.6
Income taxes paid		(85.6)	(187.1)
Net cash from operating activities		732.4	276.5
Cash flows from investing activities			
Disposal of subsidiaries	25	–	5.1
Disposal of oil and gas assets		6.7	12.3
Purchase of intangible exploration and evaluation assets		(2,006.1)	(668.4)
Purchase of property, plant and equipment		(625.6)	(520.9)
Advances to contractors		(172.4)	–
Finance revenue		5.4	1.2
Net cash used in investing activities		(2,792.0)	(1,170.7)
Cash flows from financing activities			
Net proceeds from issue of share capital		1,453.3	570.6
Debt arrangement fees		(16.7)	(100.5)
Repayment of bank loans		(20.9)	(376.3)
Drawdown of bank loan		907.0	701.9
Finance costs		(94.2)	(49.2)
Dividends paid	7	(79.2)	(75.3)
Purchase of treasury shares		–	(5.5)
Net cash generated by financing activities		2,149.3	665.7
Net increase/(decrease) in cash and cash equivalents		89.7	(228.5)
Cash and cash equivalents at beginning of year		252.2	450.3
Foreign exchange		(3.6)	30.4
Cash and cash equivalents at end of year	15	338.3	252.2

(a) General information

Tullow Oil plc is a company incorporated in Great Britain under the Companies Act 2006. The address of the registered office is given on page 160. The nature of the Group's operations and its principal activities are set out in the operations and finance reviews on pages 36 to 61.

(b) Adoption of new and revised standards

In the current year, the following new and revised Standards and Interpretations have been adopted and have affected the amounts reported in these financial statements.

Standards not affecting the reported results or the financial position

The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.

Amendment to IFRS 3 (2008) Business Combinations, IAS 27 (2008) Consolidated and Separate Financial Statements and IAS 28 (2008) Investments in Associates

These standards have introduced a number of changes in the accounting for business combinations when acquiring a subsidiary or an associate. IFRS 3 (2008) has also introduced additional disclosure requirements for acquisitions. These changes have had no impact on these financial statements because the Group has not effected any business combinations or investments in associates during 2010.

Amendment to IFRS 2 Share-based Payments

IFRS 2 has been amended, following the issue of IFRS 3(2008), to confirm that the contribution of a business on the formation of a joint venture and common control transactions is not within the scope of IFRS 2.

Amendment to IAS 17 Leases

IAS 17 has been amended such that it may be possible to classify a lease of land as a finance lease if it meets the criteria for that classification under IAS 17.

Amendment to IAS 39 Financial Instruments: Recognition and Measurement

IAS 39 has been amended to state that options contracts between an acquirer and a selling shareholder to buy or sell an acquiree that will result in a business combination at a future acquisition date are not excluded from the scope of the standard.

IFRIC 17 Distributions of Non-cash Assets to Owners

The Interpretation provides guidance on when an entity should recognise a non-cash dividend payable, how to measure the dividend payable and how to account for any difference between the carrying amount of the assets distributed and the carrying amount of the dividend payable when the payable is settled.

IFRS 2 (amended) Group Cash-settled Share-based Payment Transactions

The amendment clarifies the accounting for share-based payment transactions between group entities.

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	Financial Instruments
IAS 24 (amended)	Related Party Disclosures
IAS 32 (amended)	Classification of Rights Issues
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments
IFRIC 14 (amended)	Prepayments of Minimum Funding Requirement

Improvements to IFRSs (May 2010)

The adoption of IFRS 9 which the Group plans to adopt for the year beginning on 1 January 2013 will impact both the measurement and disclosures of financial instruments.

The Directors do not expect that the adoption of the other standards listed above will have a material impact on the financial statements of the Group in future periods.

(c) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). The financial statements have also been prepared in accordance with IFRSs adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

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

Following its announcement on 6 July 2010, Tullow Oil plc (the Company, together with its subsidiaries, the Group) has changed its presentational currency from sterling to US dollars with effect from 1 January 2010, due to the majority of oil revenues and costs being dollar-denominated. These are the first financial statements to be presented in US dollars and all comparative information has been restated in accordance with the requirements set out in IAS 21, The Effects of Changes in Foreign Exchange Rates with respect to translation of results to presentational currency:

a. assets and liabilities denominated in non-US dollar currencies were translated into US dollars at the closing rate prevailing at the balance sheet dates;

b. non-US dollar income and expenses were translated into US dollars at an exchange rate which approximates to the exchange rate ruling at the date of transactions; and

c. all resulting exchange rate differences have been recognised in other comprehensive income, within the foreign currency translation reserve.

In light of the ever-increasing operations of the Group being conducted in US dollars and the majority of the Group's external funding being provided in US dollars the Directors have reviewed the functional currency of Tullow Oil Plc (Company only) and have concluded that it is appropriate for the functional currency of the Company to be converted from sterling to US dollars (effective date of 1 January 2010).

The financial statements have been prepared on a going concern basis (see note 17 for further details).

(d) Basis of consolidation

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

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

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

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

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

Business combinations

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

Joint ventures

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

(e) Non-current assets held for sale

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

(f) Revenue

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

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

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

(g) Over/underlift

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

(h) Inventory

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the first-in first-out method and comprises direct purchase costs, cost of production, transportation and manufacturing expenses. Net realisable value is determined by reference to prices existing at the balance sheet date.

(i) Foreign currencies

The US dollar is the presentation currency of the Group. For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's non USD denominated operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the date of transactions are used. Currency translation adjustments arising on the restatement of opening net assets of non US dollar 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 US dollars at the exchange rate ruling at the balance sheet date, with a corresponding charge or credit to the income statement. However, exchange gains and losses arising on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment. In addition, exchange gains and losses arising on long-term foreign currency borrowings which are a hedge against the Group's overseas investments, are dealt with in reserves.

(j) 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 and directly attributable administration costs are initially capitalised in cost centres by well, field or exploration area, as appropriate. Interest payable is capitalised insofar as it relates to specific development activities. Pre-licence costs are expensed in the period in which they are incurred.

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

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

(k) Commercial reserves

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

(l) Depletion and amortisation – discovery fields

All expenditure carried within each field is amortised from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves at the end of the period plus the production in the period, generally on a field-by-field basis. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

Where there has been a change in economic conditions that indicates a possible impairment in a discovery field, the recoverability of the net book value relating to that field is assessed by comparison with the estimated discounted future cash flows based on management's expectations of future oil and gas prices and future costs. Where there is evidence of economic interdependency between fields, such as common infrastructure, the fields are grouped as a single cash generating unit for impairment purposes.

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

(m) 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.

(n) Property, plant and equipment

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

(o) 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.

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

(q) Taxation
Current and deferred tax, including UK corporation tax and overseas corporation tax, are provided at amounts expected to be paid using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred corporation tax is recognised on all temporary differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or right to pay less, tax in the future have occurred at the 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.

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

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

Derivative financial instruments are stated at fair value.

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

For the purpose of hedge accounting, hedges are classified as either fair value hedges, when they hedge the exposure to changes in the fair value of a recognised asset or liability, or 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.

(t) 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.

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

All share-based awards of the Group 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.

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

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

(w) Cash and cash equivalents

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

(x) Loans and receivables

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

(y) Effective interest method

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

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

(z) Financial liabilities and equity instruments

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

(aa) Equity instruments

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

(ab) Other financial liabilities

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

(ac) Critical accounting judgements and key sources of estimation uncertainty

Details of the Group's significant accounting judgements and critical accounting estimates are set out in these financial statements and include:

- Carrying value of intangible exploration and evaluation fixed assets (note 9);

Where a project is sufficiently advanced the recoverability of intangible exploration assets is assessed by comparing the carrying value to internal and operator estimates of the net present value of projects. Intangible exploration assets are inherently judgemental to value and further details on the accounting policy is included in accounting note (j). 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.

- Carrying value of property, plant and equipment (note 10);

Management perform impairment tests on the Group's property, plant and equipment assets at least annually with reference to indicators in IAS 36. Key assumptions in the impairment models relate to prices that are based on forward curves for two years and the long-term corporate assumptions thereafter and discount rates that are risked to reflect conditions specific to individual assets.

- Commercial reserves estimates (note 10);

Proven and probable reserves are estimated using standard recognised evaluation techniques. The estimate is reviewed at least twice annually and is regularly reviewed by independent consultants. Future development costs are estimated taking into account the level of development required to produce the reserves by reference to operators, where applicable, and internal engineers.

- Presumption of going concern (note 17);

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Group's portfolio of producing fields and delays in development projects. The Group normally seeks to ensure that it has a minimum ongoing capacity of $500 million for a period of at least 12 months to safeguard the Group's ability to continue as a going concern.

The major assumption in current cash flow forecasts is that the receipt of disposal proceeds from the Uganda farm-down, which have been delayed longer than expected, will now be received in Q2 2011. On this basis, the Group's forecasts, taking into account reasonably possible changes as described above, show that the Group will be able to operate within its current debt facilities and have very significant financial headroom for the 12 months from the date of the approval of the 2010 Annual Report and Accounts. However, in the unlikely event that the Ugandan farm-down process is delayed beyond Q2 2011, the Directors are confident that the Group can manage its financial affairs, including the securing of additional funding, agreement with existing lenders,

portfolio management and deferring of non-essential capital expenditure, so as to ensure that sufficient funding remains available for the next 12 months.

After taking account of the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

- Derivative financial instruments (note 18);

The Group's derivative financial instruments are marked to market.

- Decommissioning costs (note 20);

The costs of decommissioning are reviewed twice annually and are estimated by reference to operators, where applicable, and internal engineers.

During 2010 a review of all decommissioning estimates was undertaken by an independent specialist and the 2010 financial statements now include estimates in accordance with this study.

Provision for environmental clean-up and remediation costs is based on current legal and constructive requirements, technology and price levels.

- Recoverability of deferred tax assets (note 20).

Note 1. Segmental reporting

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

The following tables present revenue, profit and certain asset and liability information regarding the Group's business segments. All sales are to external customers.

	Africa $m	Europe $m	South Asia $m	South America $m	Unallocated $m	Total $m
2010						
Sales revenue by origin	850.4	218.3	21.1	–	–	1,089.8
Segment result	328.9	(6.8)	4.9	(3.3)	–	323.7
Profit on disposal of subsidiaries						–
Profit on disposal of oil and gas assets						0.5
Unallocated corporate expenses						(89.6)
Operating profit						234.6
Loss on hedging instruments						(27.7)
Finance revenue						15.1
Finance costs						(70.1)
Profit before tax						151.9
Income tax expense						(79.4)
Profit after tax						72.5
Total assets	7,438.1	584.5	88.8	166.3	100.3	8,378.0
Total liabilities	(1,928.6)	(291.4)	(26.6)	(39.2)	(2,223.3)	(4,509.1)
Other segment information						
Capital expenditure:						
Property, plant and equipment	1,041.7	104.7	2.9	–	3.1	1,152.4
Intangible exploration and evaluation assets	2,007.5	22.2	9.2	8.8	–	2,047.7
Depletion, depreciation and amortisation	(230.3)	(125.5)	(10.3)	–	(1.2)	(367.3)
Impairment losses recognised in income statement	(4.3)	–	–	–	–	(4.3)
Exploration costs written off	(128.7)	(22.0)	(0.7)	(3.3)	–	(154.7)

	Africa $m	Europe $m	South Asia $m	South America $m	Unallocated $m	Total $m
2009						
Sales revenue by origin	645.4	248.6	21.9	–	–	915.9
Segment result	212.4	(10.7)	8.0	(2.0)	–	207.7
Profit on disposal of subsidiaries						16.0
Profit on disposal of oil and gas assets						4.9
Unallocated corporate expenses						(77.6)
Operating profit						151.0
Loss on hedging instruments						(59.8)
Finance revenue						2.1
Finance costs						(60.8)
Profit before tax						32.5
Income tax expense						(1.9)
Profit after tax						30.6
Total assets	4,162.7	654.1	78.1	185.9	44.5	5,125.3
Total liabilities	(992.4)	(266.0)	(18.1)	(49.2)	(1,368.6)	(2,694.3)
Other segment information						
Capital expenditure:						
Property, plant and equipment	498.6	47.5	5.2	–	9.4	560.7
Intangible exploration and evaluation assets	640.8	27.3	4.0	10.1	2.5	684.7
Depletion, depreciation and amortisation	(215.8)	(126.8)	(8.1)	–	(8.5)	(359.2)
Impairment losses recognised in income statement	(12.5)	–	–	–	–	(12.5)
Exploration costs written off	(20.7)	(56.3)	(1.6)	(2.0)	(2.1)	(82.7)

Note 1. Segmental reporting continued

	Africa $m	Europe $m	South Asia $m	South America $m	Unallocated $m	Total $m
2008						
Sales revenue by origin	909.9	379.6	21.1	–	–	1,310.6
Segment result	244.1	93.9	(59.1)	(74.6)	–	204.3
Profit on disposal of subsidiaries						395.6
Profit on disposal of oil and gas assets						57.8
Unallocated corporate expenses						(79.2)
Operating profit						578.5
Loss on hedging instruments						66.6
Finance revenue						7.3
Finance costs						(87.5)
Profit before tax						564.9
Income tax expense						(135.7)
Profit after tax						429.2
Total assets	3,227.5	717.8	94.5	145.7	60.1	4,245.6
Total liabilities	(944.7)	(308.5)	(28.2)	(46.0)	(1,024.3)	(2,351.7)
Other segment information						
Capital expenditure:						
Property, plant and equipment	196.8	74.2	8.2	–	13.1	292.3
Intangible exploration and evaluation assets	551.4	63.9	21.5	22.5	–	659.3
Depletion, depreciation and amortisation	(210.6)	(152.1)	(10.7)	–	(7.3)	(380.7)
Impairment losses recognised in income statement	(33.5)	–	(15.0)	–	–	(48.5)
Exploration costs written off	(271.5)	(23.3)	(49.6)	(74.6)	–	(419.0)

Included in revenue arising from Africa are revenues of approximately $546.1 million (2009: $269.2 million, 2008: $484.5 million) which arose from sales to the Group's largest customers.

Unallocated expenditure and net liabilities include amounts of a corporate nature and not specifically attributable to a geographic area. The liabilities comprise the Group's external debt and other non-attributable corporate liabilities.

Note 2. Total revenue

	2010 $m	2009 $m
Sales revenue (excluding tariff income)		
Oil and gas revenue from the sale of goods	**1,074.3**	881.4
Profit on realisation of cash flow hedges	**3.4**	23.8
	1,077.7	905.2
Tariff income	**12.1**	10.7
Total sales revenue	**1,089.8**	915.9
Finance revenue	**15.1**	2.1
Total revenue	**1,104.9**	918.0

Note 3. Operating profit

	2010 $m	2009 $m
Operating profit is stated after charging:		
Staff costs (see note 4)	55.4	36.3
Depletion and amortisation	355.9	350.7
Impairment of property, plant and equipment	4.3	12.5
Depreciation of other fixed assets	11.4	8.5
Write down of inventory recognised as an expense	0.2	–
Exploration write off	154.7	82.7
Share-based payment charge (including provisions for NI)	11.9	17.8
Loss on hedging instruments	27.7	59.8
Operating lease rentals	6.5	3.8
Auditors' remuneration (see below)	2.9	2.2

	2010 $m	2009 $m
Fees payable to the Company's auditors for:		
The audit of the Company's annual accounts	0.2	0.1
The audit of the Company's subsidiaries pursuant to legislation	1.0	0.9
Other services pursuant to legislation	0.2	0.2
Other services – assurance	0.2	0.2
Total audit and other assurance services	1.6	1.4
Non-audit services:		
Tax services	0.4	0.1
Information technology services	0.3	0.3
Corporate finance services	0.3	–
Other services – non assurance	0.3	0.4
Total non-audit excluding assurance services	1.3	0.8
Total	2.9	2.2

All assurance and other non-audit services are in compliance with UK ethical standards on independence and the Group's non-audit services policy. The level of such fees reflects a period of significant expansion for the Group.

Taxation services include tax compliance services and assistance in connection with enquiries from local fiscal authorities. Information technology services includes IT security analysis and assistance provided to management in the selection of new systems. The auditors are not involved in the design or implementation of IT systems.

Other non-assurance services include assistance to management in assessing changes to the finance function resulting from the Group's expansion, and subscription fees for upstream data.

Note 4. Staff costs

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

	2010 Number	2009 Number
Administration	567	292
Technical	323	268
Total	890	560

Staff costs in respect of those employees were as follows:

	2010 $m	2009 $m
Salaries	105.4	74.4
Social security costs	12.1	10.4
Pension costs	7.2	4.4
	124.7	89.2

A proportion of the Group's staff costs shown above is recharged to the Group's joint venture partners and a proportion is capitalised into the cost of fixed assets under the Group's accounting policy for exploration, evaluation and production assets. The net staff costs recognised in the income statement were $55.4 million (2009: $36.3 million).

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 which forms part of these financial statements.

Note 5. Finance costs

	2010 $m	2009 $m
Interest on bank overdrafts and loans	103.4	44.6
Interest on obligations under finance leases	3.1	0.3
Total borrowing costs	106.5	44.9
Less amounts included in the cost of qualifying assets	(78.2)	(39.7)
	28.3	5.2
Finance and arrangement fees	28.5	37.8
Foreign exchange losses	–	3.1
Unwinding of discount on decommissioning provision (note 20)	13.3	14.7
	70.1	60.8

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 4.51% (2009: 3.89%) to cumulative expenditure on such assets.

Note 6. Taxation on profit on ordinary activities

(a) Analysis of charge in period

The tax charge comprises:

	2010 $m	2009 $m
Current tax		
UK corporation tax	**23.6**	32.7
Foreign tax	**98.3**	76.6
Total corporate tax	**121.9**	109.3
UK petroleum revenue tax	**10.2**	(4.4)
Total current tax	**132.1**	104.9
Deferred tax		
UK corporation tax	**1.0**	(71.3)
Foreign tax	**(47.7)**	(31.9)
Total corporate tax	**(46.7)**	(103.2)
UK petroleum revenue tax	**(6.0)**	0.2
Total deferred tax (note 20)	**(52.7)**	(103.0)
Total tax expense	**79.4**	1.9

(b) Factors affecting tax charge for period

The tax rate applied to profit on ordinary activities in preparing the reconciliation below is the upstream UK corporation tax applicable to the Group's oil and gas activities plus the rate of Supplementary corporation tax (SCT).

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

	2010 $m	2009 $m
Group profit on ordinary activities before tax	**151.9**	32.5
Tax on Group profit on ordinary activities at a combined standard UK corporation tax and SCT rate of 50% (2009: 50%)	**76.0**	16.3
Effects of:		
Expenses not deductible for tax purposes	**64.5**	12.0
Utilisation of tax losses not previously recognised	**(2.7)**	(16.7)
Net losses not recognised	**39.2**	60.3
Petroleum revenue tax (PRT)	**3.2**	(4.2)
UK corporation tax deductions for current PRT	**(1.6)**	2.1
Adjustments relating to prior years	**0.9**	(8.2)
Income taxed at a different rate	**(28.2)**	9.3
Income not subject to corporation tax	**(71.9)**	(69.0)
Group total tax expense for the year	**79.4**	1.9

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.

Note 6. Taxation on profit on ordinary activities continued

The Group has tax losses of $840.1 million (2009: $412.3 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.

The Group has recognised $184.0 million in deferred tax assets in relation to taxable losses (2009: $38.9 million).

No deferred tax liability is recognised on temporary differences of $485.6 million (2009: $433.8 million) relating to unremitted earnings of overseas subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future.

Note 7. Dividends

	2010 $m	2009 $m
Declared and paid during year		
Final dividend for 2009: Stg4p (2008: Stg4p) per ordinary share	51.6	50.2
Interim dividend for 2010: Stg2p (2009: Stg2p) per ordinary share	27.6	25.1
Dividends paid	79.2	75.3
Proposed for approval by shareholders at the AGM		
Final dividend for 2010: Stg4p (2009: Stg4p) per ordinary share	54.9	51.3

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

Note 8. Earnings per ordinary share

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

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

	2010 $m	2009 $m
Earnings		
Net profit attributable to equity shareholders	54.0	25.2
Effect of dilutive potential ordinary shares	–	–
Diluted net profit attributable to equity shareholders	54.0	25.2

	2010	2009
Number of shares		
Basic weighted average number of shares	879,788,671	796,431,613
Dilutive potential ordinary shares	7,952,123	9,006,048
Diluted weighted average number of shares	887,740,794	805,437,661

Note 9. Intangible exploration and evaluation assets

	2010 $m	2009 $m	2008 $m
At 1 January	2,121.6	2,052.8	1,910.6
Additions	2,047.7	684.7	659.3
Disposals	(6.2)	–	(74.6)
Amounts written off	(154.7)	(82.7)	(419.0)
Transfer (to)/from property, plant and equipment (note 10)	(7.0)	(542.1)	0.7
Currency translation adjustments	(0.2)	8.9	(24.2)
At 31 December	4,001.2	2,121.6	2,052.8

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.

Additions include $1,450 million in relation to the acquisition of a 50% stake in Blocks 1 and 3A in Uganda (2009: $nil, 2008: $nil) and capitalised interest of $30.7 million (2009: $17.5 million, 2008: $nil million). The Group only capitalises interest in respect of intangible exploration and evaluation assets where it is considered that development is highly likely and advanced appraisal and development is ongoing.

In 2008 amounts written off included an impairment charge calculated in accordance with IAS 36 – Impairment of Assets – of $111.5 million, determined by estimating value in use. The impairment resulted from lower reserves estimates following a change in the most likely development plans and lower assumed oil prices following the fall in oil prices in the second half of 2008. In calculating this impairment, management used a range of assumptions, including a long-term oil price of $80 per barrel and a 15% pre-tax discount rate.

Note 10. Property, plant and equipment

	Oil and gas assets $m	Other fixed assets $m	Total $m
Cost			
At 1 January 2008	3,040.0	28.8	3,068.8
Additions	279.2	13.1	292.3
Disposals	(62.6)	(0.5)	(63.1)
Transfer to intangible exploration and evaluation fixed assets (note 9)	(0.7)	–	(0.7)
Currency translation adjustments	(410.6)	(9.4)	(420.0)
At 1 January 2009	2,845.3	32.0	2,877.3
Additions	551.7	9.0	560.7
Disposals	(29.3)	–	(29.3)
Transfer from intangible exploration and evaluation fixed assets (note 9)	542.1	–	542.1
Currency translation adjustments	108.0	4.4	112.4
At 1 January 2010	**4,017.8**	**45.4**	**4,063.2**
Additions	**1,112.9**	**39.5**	**1,152.4**
Transfer from intangible exploration and evaluation fixed assets (note 9)	**7.0**	**–**	**7.0**
Currency translation adjustments	**(35.3)**	**(0.3)**	**(35.6)**
At 31 December 2010	**5,102.4**	**84.6**	**5,187.0**
Depreciation, depletion and amortisation			
At 1 January 2008	(1,275.4)	(14.8)	(1,290.2)
Charge for the year	(373.4)	(7.3)	(380.7)
Impairment loss	(48.5)	–	(48.5)
Disposals	48.1	0.2	48.3
Currency translation adjustments	216.8	5.2	222.0
At 1 January 2009	(1,432.4)	(16.7)	(1,449.1)
Charge for the year	(350.7)	(8.5)	(359.2)
Impairment loss	(12.5)	–	(12.5)
Disposals	21.8	–	21.8
Currency translation adjustments	(62.0)	(2.4)	(64.4)
At 1 January 2010	**(1,835.8)**	**(27.6)**	**(1,863.4)**
Charge for the year	**(355.9)**	**(11.4)**	**(367.3)**
Impairment loss	**(4.3)**	**–**	**(4.3)**
Currency translation adjustments	**22.3**	**0.1**	**22.4**
At 31 December 2010	**(2,173.7)**	**(38.9)**	**(2,212.6)**
Net book value			
At 31 December 2010	**2,928.7**	**45.7**	**2,974.4**
At 31 December 2009	2,182.0	17.8	2,199.8
At 31 December 2008	1,412.9	15.3	1,428.2

Additions include capitalised interest of $47.4 million (2009: $22.8 million, 2008: $11.4 million).

The carrying amount of the Group's oil and gas assets includes an amount of $346.7 million (2009: $13.5 million, 2008: $14.1 million) in respect of assets held under finance leases.

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

The 2010 impairment loss relates to the Chinguetti field in Mauritania (2009: Chinguetti field in Mauritania, 2008: Chinguetti field in Mauritania). The recoverable amount was determined by estimating its value in use. In calculating this impairment, management used a production profile based on proven and probable reserves estimates and a range of assumptions, including an oil price assumption equal to the forward curve in 2011 and 2012 and $80 per barrel thereafter and a pre-tax discount rate assumption of 15%.

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

Note 11. Investments

	2010 $m	2009 $m	2008 $m
Unlisted investments	1.0	1.0	0.6

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

Details of the subsidiaries which the Directors consider are the most important subsidiaries as at 31 December 2010 and the percentage of share capital owned by the Company are set out below. All of these subsidiaries are included in the consolidated Group statements. A complete list of investments in subsidiary undertakings will be attached to the Company's annual return made to the Registrar of Companies:

Name	%	Country of operation	Country of registration
Directly held			
Tullow Oil SK Limited	100	United Kingdom	England & Wales
Tullow Oil SPE Limited	100	United Kingdom	England & Wales
Tullow Group Services Limited	100	United Kingdom	England & Wales
Tullow Oil Limited	100	Ireland	Ireland
Tullow Overseas Holdings B.V.	100	Netherlands	Netherlands
Tullow Gabon Holdings Limited (50% held indirectly)	100	Gabon	Isle of Man
Indirectly held			
Tullow (EA) Holdings Limited	100	Isle of Man	British Virgin Islands
Tullow Oil International Limited	100	Channel Islands	Jersey
Tullow Pakistan (Developments) Limited	100	Pakistan	Jersey
Tullow Bangladesh Limited	100	Bangladesh	Jersey
Tullow Côte d'Ivoire Limited	100	Côte d'Ivoire	Jersey
Tullow Côte d'Ivoire Exploration Limited	100	Côte d'Ivoire	Jersey
Tullow Ghana Limited	100	Ghana	Jersey
Tullow Kenya B.V.	100	Kenya	Netherlands
Tullow Ethiopia B.V.	100	Ethiopia	Netherlands
Tullow Tanzania B.V.	100	Tanzania	Netherlands
Tullow Netherlands B.V.	100	Netherlands	Netherlands
Tullow Guyane B.V.	100	Guyana	Netherlands
Tullow Liberia B.V.	100	Liberia	Netherlands
Tullow Sierra Leone B.V.	100	Sierra Leone	Netherlands
Tullow Suriname B.V.	100	Suriname	Netherlands
Tullow Congo Limited	100	Congo	Isle of Man
Tullow Equatorial Guinea Limited	100	Equatorial Guinea	Isle of Man
Tullow Kudu Limited	100	Namibia	Isle of Man
Tullow Uganda Limited	100	Uganda	Isle of Man
Tullow Oil Gabon SA	100	Gabon	Gabon
Tulipe Oil SA*	50	Gabon	Gabon
Tullow Chinguetti Production (Pty) Limited	100	Mauritania	Australia
Tullow Petroleum (Mauritania) (Pty) Limited	100	Mauritania	Australia
Tullow Oil (Mauritania) Limited	100	Mauritania	Guernsey
Tullow Uganda Operations (Pty) Limited	100	Uganda	Australia
Tullow Hardman Holdings B.V.	100	Netherlands	Netherlands
Tullow South Africa (Pty) Limited	100	South Africa	South Africa
Hardman Petroleum France SAS	100	French Guiana	France

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

* The Group is deemed to control Tulipe Oil SA in accordance with IAS 27 as it has a majority of the voting rights on the board of Tulipe Oil SA.

Note 12. Trade receivables

Trade receivables comprises amounts due for the sale of oil and gas. No receivables have been impaired and no allowance for doubtful debt has been recognised (2009: $nil, 2008: $nil).

Note 13. Inventories

	2010 $m	2009 $m	2008 $m
Warehouse stocks and materials	118.6	93.4	40.5
Oil stocks	19.6	16.2	14.3
	138.2	109.6	54.8

Inventories includes a provision of $3.8 million (2009: $3.8 million, 2008: $3.5 million) for warehouse stock and materials where it is considered that the net realisable value is lower than the original cost.

Note 14. Other current assets

	2010 $m	2009 $m	2008 $m
Other debtors	604.4	232.1	66.0
Prepayments	12.5	45.9	8.0
VAT recoverable	38.4	18.0	13.2
	655.3	296.0	87.2

Included within other debtors are amounts due from joint venture partners of $58.0 million (2009: $120.4 million, 2008: $43.7 million), advances to contractors for the Jubilee FPSO $433.2 million (2009: $80.4 million, 2008: $nil), deferred expenses of $2.8 million (2009: $9.6 million, 2008: $12.5 million) and other sundry debtors of $110.4 million (2009: $21.7 million, 2008: $9.8 million).

Note 15. Cash and cash equivalents

	2010 $m	2009 $m	2008 $m
Cash at bank and in hand	338.3	241.2	349.7
Short-term deposits	–	11.0	100.6
	338.3	252.2	450.3

Cash and cash equivalents includes an amount of $nil (2009: $2.4 million, 2008: $52.1 million) which is a reserve held on fixed term deposit in support of a Letter of Credit facility which relates to the Group's share of certain decommissioning costs and an amount of $279.0 million (2009: $152.9 million, 2008: $221.5 million) which the Group holds as operator in joint venture bank accounts.

Note 16. Trade and other payables

Current liabilities

	2010 $m	2009 $m	2008 $m
Trade payables	68.3	132.2	187.8
Other payables	229.1	53.1	44.8
Deferred income (take or pay)	–	–	1.0
Accruals	657.8	321.8	200.2
PAYE and social security	–	28.4	25.3
VAT and other similar taxes	37.3	17.2	14.8
Current portion of finance lease (note 19)	15.7	4.4	4.2
	1,008.2	557.1	478.1

The other payables balance primarily contains payables in relation to operated licences (shown gross in the Group consolidated accounts).

Non-current liabilities

	2010 $m	2009 $m	2008 $m
Other payables	27.3	27.4	–
Non-current portion of finance lease (note 19)	326.7	4.4	8.8
	354.0	31.8	8.8
– After one year but within five years	115.4	31.8	8.8
– After five years	238.6	–	–
	354.0	31.8	8.8

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

Note 17. Financial liabilities

	2010 $m	2009 $m	2008 $m
Current			
Short-term borrowings	309.8	–	304.8
Non-current			
Term loans repayable			
– After one year but within two years	192.5	989.0	569.4
– After two years but within five years	1,697.5	325.6	138.7
	1,890.0	1,314.6	708.1

Group bank loans are stated net of unamortised arrangement fees of $81.3 million (2009: $81.6 million, 2008: $17.1 million).

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

Capital management

The Group defines capital as the total equity of the Group. Capital is managed in order to provide returns for shareholders and benefits to stakeholders and to safeguard the Group's ability to continue as a going concern. Tullow is not subject to any externally-imposed capital requirements.

To maintain or adjust the capital structure, the Group may put in place new debt facilities, issue new shares for cash, repay debt, engage in active portfolio management, adjust the dividend payment to shareholders, or other such restructuring activities as appropriate.

No significant changes were made in the objectives, policies or processes during the year ended 31 December 2010.

The Group monitors capital on the basis of the net debt ratio, that is, the ratio of net debt to net debt plus equity. Net debt is calculated as gross debt, as shown in the balance sheet, less cash and cash equivalents.

	2010 $m	2009 $m	2008 $m
External borrowings	2,281.2	1,396.1	1,030.0
Less cash and cash equivalents	(338.3)	(252.2)	(450.3)
Net debt	1,942.9	1,143.9	579.7
Equity	3,868.9	2,431.0	1,893.9
Net debt ratio	50%	47%	31%

The movement from 2009 is attributable to higher external borrowings during 2010, principally as a result of the Group's $2,630 million investment in development, appraisal and exploration activities which is offset by an increase in equity attributable to the equity raise in January 2010.

Interest rate risk

The interest rate profile of the Group's financial assets and liabilities, excluding trade and other receivables and trade and other payables, at 31 December 2010 was as follows:

	US$ $m	Euro $m	Stg $m	Other $m	Total $m
Cash at bank at floating interest rate	224.5	5.7	18.7	12.0	260.9
Cash at bank on which no interest is received	74.8	0.4	0.3	1.9	77.4
Fixed rate debt	(386.4)	–	(158.4)	–	(544.8)
Floating rate debt	(1,655.0)	–	–	–	(1,655.0)
	(1,742.1)	6.1	(139.4)	13.9	(1,861.5)

The profile at 31 December 2009 for comparison purposes was as follows:

	US$ $m	Euro $m	Stg $m	Other $m	Total $m
Cash at bank at floating interest rate	34.4	1.0	194.9	9.7	240.0
Cash at bank on which no interest is received	–	–	11.4	0.8	12.2
Fixed rate debt	–	–	(544.8)	–	(544.8)
Floating rate debt	(58.9)	–	(710.9)	–	(769.8)
	(24.5)	1.0	(1,049.4)	10.5	(1,062.4)

The profile at 31 December 2008 for comparison purposes was as follows:

	US$ $m	Euro $m	Stg $m	Other $m	Total $m
Cash at bank at floating interest rate	80.7	1.8	347.7	13.7	443.9
Cash at bank on which no interest is received	–	–	5.8	0.6	6.4
Fixed rate debt	–	–	(50.0)	–	(50.0)
Floating rate debt	–	–	(962.9)	–	(962.9)
	80.7	1.8	(659.4)	14.3	(562.6)

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

Note 17. Financial liabilities continued

The $2.5 billion Reserves Based Lending Facility incurs interest on outstanding debt at sterling or US dollar LIBOR plus an applicable margin. The outstanding debt is repayable in variable amounts (determined semi-annually) over the period to 31 December 2015, or such time as is determined by reference to the remaining reserves of the assets, whichever is earlier.

The $650 million Revolving Credit Facility is repayable in full on 31 December 2011. The facility incurs interest on outstanding debt at US dollar LIBOR plus an applicable margin.

At the end of December 2010, the headroom under the two facilities amounted to $685 million; $175 million under the $2.5 billion Reserves Based Lending Facility and $510 million under the Revolving Credit Facility. At the end of December 2009, the headroom under the two facilities was $620 million; $370 million under the $2 billion Reserves Based Lending Facility and $250 million under the Revolving Corporate Facility.

The Group is exposed to floating rate interest rate risk as entities in the Group borrow funds at floating interest rates. The Group hedges its floating rate interest rate exposure on an ongoing basis through the use of interest rate derivatives, namely interest rate swaps, interest rate collars and interest rate caps. The mark-to-market position of the Group's interest rate portfolio as at 31 December 2010 is $13.6 million out of the money (2009: $8.9 million out of the money, 2008: $3.0 million out of the money). The interest rate hedges are included in the fixed rate debt in 2010, in the above table, and also included in the fixed rate debt in 2009 and 2008.

Foreign currency risk

Wherever possible, the Group conducts and manages its business in sterling (UK) and US dollars (all other countries), the operating currencies of the industry in the areas in which it operates. The Group's borrowing facilities are also denominated in sterling and US dollars, which further assists in foreign currency risk management. From time to time the Group undertakes certain transactions denominated in foreign currencies. These exposures are managed by executing foreign currency financial derivatives, typically to manage exposures arising on corporate transactions such as acquisitions and disposals. There were no foreign currency financial derivatives in place at the 2010 year end. Cash balances are held in other currencies to meet immediate operating and administrative expenses or to comply with local currency regulations.

As at 31 December 2010, the only material monetary assets or liabilities of the Group that were not denominated in the functional currency of the respective subsidiaries involved were £106.0 million ($164.0 million) cash drawings under the Group's borrowing facilities. As at 31 December 2009, the only material monetary assets or liabilities of the Group that were not denominated in the functional currency of the respective subsidiaries involved were $1,337 million cash drawings under Group's borrowing facilities.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are net liabilities of $164.0 million (2009: net liabilities of $1,337 million).

Foreign currency sensitivity analysis

The Group is mainly exposed to fluctuations in the US dollar. The Group measures its market risk exposure by running various sensitivity analyses including 20% favourable and adverse changes in the key variables. The sensitivity analyses include only outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 20% change in foreign currency rates.

As at 31 December 2010, a 20% increase in foreign exchange rates against the functional currencies of entities in the Group would have resulted in a decrease in foreign currency denominated liabilities and equity of $27.3 million (2009: $226.7 million) and a 20% decrease in foreign exchange rates against the functional currencies of entities in the Group would have resulted in an increase in foreign currency denominated liabilities and equity of $32.8 million (2009: $339.9 million).

Liquidity risk

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

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Group's portfolio of producing fields and delays in development projects. The Group normally seeks to ensure that it has a minimum ongoing capacity of $500 million for a period of at least 12 months to safeguard the Group's ability to continue as a going concern.

The major assumption in current cash flow forecasts is that the receipt of disposal proceeds from the Uganda farm-down, which has been delayed longer than expected, will now be received in Q2 2011. On this basis, the Group's forecasts, taking into account reasonably possible changes as described above, show that the Group will be able to operate within its current debt facilities and have very significant financial headroom for the 12 months from the date of the 2010 Annual Report and Accounts. However, in the unlikely event that the Ugandan farm-down process is delayed beyond Q2 2011, the Directors are confident that the Group can manage its financial affairs, including the securing of additional funding, agreement with existing lenders, portfolio management and deferring of non-essential capital expenditure, so as to ensure that sufficient funding remains available for the next 12 months.

After taking account of the above, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Weighted average effective interest rate	Less than 1 month $m	1-3 months $m	3 months to 1 year $m	1-5 Years $m	5+ years $m	Total $m
31 December 2010							
Non-interest bearing	0%	100.4	188.5	15.4	30.4	–	334.7
Finance lease liability	14%	4.5	14.3	43.8	232.5	401.2	696.3
Variable interest rate instruments	4.7%	7.9	16.3	400.9	2,256.7	–	2,681.8
Total		112.8	219.1	460.1	2,519.6	401.2	3,712.8

	Weighted average effective interest rate	Less than 1 month $m	1-3 months $m	3 months to 1 year $m	1-5 Years $m	5+ years $m	Total $m
31 December 2009							
Non-interest bearing	0%	163.3	54.5	13.1	–	–	230.9
Finance lease liability	2.8%	–	–	4.6	4.6	–	9.2
Variable interest rate instruments	4.7%	5.4	11.0	49.0	1,247.5	343.2	1,656.1
Total		168.7	65.5	66.7	1,252.1	343.2	1,896.2

	Weighted average effective interest rate	Less than 1 month $m	1-3 months $m	3 months to 1 year $m	1-5 Years $m	5+ years $m	Total $m
31 December 2008							
Non-interest bearing	0%	256.2	5.8	1.0	10.7	–	273.7
Finance lease liability	2.8%	–	–	4.5	9.2	–	13.7
Variable interest rate instruments	4.4%	2.5	5.1	333.5	745.7	–	1,086.8
Total		258.7	10.9	339.0	765.6	–	1,374.2

Note 18. Financial instruments

Financial risk management objectives

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

Fair values of financial assets and liabilities

The Group considers the carrying value of all the financial assets and liabilities to be materially the same as the fair value. The Group has no material financial assets that are past due. The Group predominantly sells to large oil and gas multinationals and no financial assets are impaired at the balance sheet date and all are considered to be fully recoverable.

Fair values of derivative instruments

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

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

31 December 2010 Liabilities	**Less than one year $m**	One to three years $m	Total 2010 $m
Cash flow hedges			
Oil derivatives	**(12.7)**	(4.9)	(17.6)
Gas derivatives	**(7.0)**	(7.3)	(14.3)
Interest rate derivatives	**(8.4)**	(5.2)	(13.6)
	(28.1)	(17.4)	(45.5)
Deferred premium			
Oil derivatives	**(18.7)**	(17.8)	(36.5)
Gas derivatives	**(0.3)**	(0.1)	(0.4)
	(19.0)	(17.9)	(36.9)
Total assets/(liabilities)	**(47.1)**	(35.3)	(82.4)

31 December 2009 Liabilities	**Less than one year $m**	One to three years $m	Total 2009 $m
Cash flow hedges			
Oil derivatives	**12.7**	2.4	15.1
Gas derivatives	**13.4**	0.1	13.5
Interest rate derivatives	**(6.0)**	(2.9)	(8.9)
	20.1	(0.4)	19.7
Deferred premium			
Oil derivatives	**(17.8)**	(19.6)	(37.4)
Gas derivatives	**–**	–	–
	(17.8)	(19.6)	(37.4)
Total assets	**2.3**	(20.0)	(17.7)

31 December 2008 Assets/(liabilities):	Less than one year $m	One to three years $m	Total 2008 $m
Cash flow hedges			
Oil derivatives	38.4	51.7	90.1
Gas derivatives	(8.2)	(7.5)	(15.7)
Interest rate derivatives	(1.3)	(1.8)	(3.1)
	28.9	42.4	71.3
Deferred premium			
Oil derivatives	–	–	–
Gas derivatives	–	–	–
	–	–	–
Total assets	28.9	42.4	71.3

The derivatives' maturity and the timing of the recycling into income or expense coincide.

The following provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Level 1 to 3 based on the degree to which the fair value is observable:

All derivative financial instruments of the Group are Level 2 (2009: Level 2, 2008: Level 2).

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between Level 1 and 2 during the year.

Market risk

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

Oil and gas prices

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

At 31 December 2010, the Group's oil hedge position was summarised as follows:

Oil hedges	H1 2011	H2 2011	2012	2013
Volume – bopd	16,500	16,500	10,500	7,500
Average Price* – $/bbl	93.56	93.73	94.44	93.88

* Average hedge prices are based on market prices as at 31 December 2010 and represent the current value of hedged volumes at that date.

At 31 December 2010, the Group's gas hedge position was summarised as follows:

Gas hedges	H1 2011	H2 2011	2012	2013
Volume – mmscfd	47.90	30.80	19.75	7.35
Average Price* – p/therm	57.55	56.69	59.79	61.89

* Average hedge prices are based on market prices as at 31 December 2010 and represent the current value of hedged volumes at that date.

Note 18. Financial instruments continued

At 31 December 2009, the Group's oil hedge position was summarised as follows:

Oil hedges	H1 2010	H2 2010	2011	2012
Volume – bopd	14,500	14,500	10,500	6,500
Average price* – $/bbl	81.39	83.83	85.77	88.02

* Average hedge prices are based on market prices as at 31 December 2009 and represent the current value of hedged volumes at that date.

At 31 December 2009, the Group's gas hedge position was summarised as follows:

Gas hedges	H1 2010	H2 2010	2011	2012
Volume – mmscfd	32.73	19.71	10.43	4.31
Average price* – p/therm	42.56	45.22	49.11	50.50

* Average hedge prices are based on market prices as at 31 December 2009 and represent the current value of hedged volumes at that date.

As at 31 December 2010 and 31 December 2009, all of the Group's oil and gas derivatives have been designated as cash flow hedges. The Group's oil and gas hedges have been assessed to be 'highly effective' within the range prescribed under IAS 39 using regression analysis. There is, however, the potential for a degree of ineffectiveness inherent in the Group's oil hedges arising from, among other factors, the discount on the Group's underlying African crude relative to Brent and the timing of oil liftings relative to the hedges. There is also the potential for a degree of ineffectiveness inherent in the Group's gas hedges which arises from, among other factors, field production performance on any day.

Income statement hedge summary

Gains from settlements during the period amounted to $3.4 million (2009:$23.8 million) (note 2) and these are included in the revenue line.

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

(Loss)/gain on hedging instruments:	2010 $m	2009 $m	2008 $m
Cash flow hedges			
Gas derivatives			
Ineffectiveness	–	–	0.2
Time value	(11.9)	6.0	10.6
	(11.9)	6.0	10.8
Oil derivatives			
Ineffectiveness	(0.2)	(6.9)	11.8
Time value	(15.6)	(58.9)	44.0
	(15.8)	(65.8)	55.8
Total net (loss)/gain for the year in the income statement	(27.7)	(59.8)	66.6

Hedge reserve summary

The hedge reserve represents the portion of deferred gains and losses on hedging instruments deemed effective in cash flow hedges. The movement for the period in the hedge reserve is recognised in other comprehensive income.

Revaluation losses on open contracts arising during the year amounted to $26.8 million while reclassification adjustments for losses included in profit on realisation amounted to $10.3 million. After tax effects of $8.2 million the total movement in the hedge reserve amounts to ($28.9 million) (note 22):

Deferred amounts in the hedge reserve	2010 $m	2009 $m	2008 $m
At 1 January	3.2	46.9	(263.6)
Revaluation losses arising in the year	(26.8)	(18.0)	(66.6)
Reclassification adjustments for (losses)/gains included in profit on realisation	(10.3)	(13.3)	384.1
Movement in deferred tax	8.2	(12.4)	(7.0)
	(28.9)	(43.7)	310.5
At 31 December	(25.7)	3.2	46.9

The following table summarises the deferred (losses)/gains on derivative instruments in the hedge reserve, by type of commodity and net of tax effects:

Deferred amounts in the hedge reserve net of tax effects	2010 $m	2009 $m	2008 $m
Cash flow hedges			
Gas derivatives	1.2	9.4	(5.3)
Oil derivatives	(13.3)	2.7	54.4
Interest rate derivatives	(13.6)	(8.9)	(2.2)
	(25.7)	3.2	46.9

Financial derivatives

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

Oil and gas sensitivity analysis

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

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

As at 31 December 2010, a 10% increase in the dated Brent oil price curve would have decreased equity by approximately $21.8 million (2009: $16.4 million, 2008: $31.9 million), a 10% decrease would have increased equity by approximately $5.9 million (2009: $10.5 million, 2008: $39.1 million).

As at 31 December 2010, a 10% increase in the UK D-1 Heren and M-1 Heren natural gas price curves would have decreased equity by approximately $8.6 million (2009: $4.6 million, 2008: $15.2 million), a 10% decrease would have increased equity by approximately $3.4 million (2009: $5.1 million, 2008: $14.9 million).

Interest rate sensitivity analysis

As at 31 December 2010, the interest rate derivative position was out-of-the-money to an amount of $13.6 million (2009: $8.9 million, 2008: $3.9 million); a 25bps increase in the underlying interest rate would increase equity by approximately $1.2 million (2009: $2.4 million, 2008: $0.8 million).

Credit risk

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

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The maximum financial exposure due to credit risk on the Group's financial assets, representing the sum of cash and cash equivalents, investments, derivative assets, trade receivables and other current assets, as at 31 December 2010 was $1,153.0 million (2009: $643.9 million, 2008: $709.7 million).

Note 19. Obligations under finance leases

	2010 $m	2009 $m	2008 $m
Amounts payable under finance leases:			
– Within one year	62.5	4.6	4.5
– Within two to five years	232.5	4.6	9.2
– After five years	401.3	–	–
	696.3	9.2	13.7
Less future finance charges	(353.9)	(0.4)	(0.7)
Present value of lease obligations	342.4	8.8	13.0
Amount due for settlement within 12 months (note 16)	15.7	4.4	4.2
Amount due for settlement after 12 months (note 16)	326.7	4.4	8.8

The fair value of the Group's lease obligations approximates the carrying amount. The average remaining lease term is 10 years (2009: two years, 2008: three years). For the year ended 31 December 2010, the effective borrowing rate was 14% (2009: 2.8%, 2008: 2.8%).

The significant increase in the year is due to the Jubilee FPSO (Kwame Nkrumah) being recognised as a finance lease in accordance with IAS 17, Leases.

Note 20. Provisions

(i) Decommissioning costs

	2010 $m	2009 $m	2008 $m
At 1 January	223.5	194.0	269.9
New provisions and changes in estimates	55.5	6.6	18.8
Disposal of subsidiaries (note 26)	–	(2.2)	(70.3)
Decommissioning payments	(10.3)	(2.0)	(0.4)
Unwinding of discount (note 5)	13.3	14.7	18.8
Currency translation adjustment	(3.4)	12.4	(42.8)
At 31 December	278.6	223.5	194.0

The decommissioning provision represents the present value of decommissioning costs relating to the UK, African and Asian oil and gas interests, which are expected to be incurred up to 2035. During 2010 a review of all decommissioning estimates was undertaken by an independent specialist and the 2010 financial statements now include estimates in accordance with this study.

Assumptions, based on the current economic environment, have been made which management believe are a reasonable basis upon which to estimate the future liability. These estimates are reviewed regularly to take into account any material changes to the assumptions. However, actual decommissioning costs will ultimately depend upon future market prices for the necessary decommissioning works required which will reflect market conditions at the relevant time. Furthermore, the timing of decommissioning is likely to depend on when the fields cease to produce at economically viable rates. This in turn will depend upon future oil and gas prices, which are inherently uncertain.

(ii) Deferred taxation

	Accelerated tax depreciation $m	Decommissioning $m	Revaluation of financial assets $m	Other timing differences $m	PRT $m	Total $m
At 1 January 2008	(766.2)	102.5	21.1	31.1	(2.7)	(614.2)
Charge/(credit) to income statement	137.0	(8.3)	(5.4)	(28.6)	(7.1)	87.6
Credit to other comprehensive income	–	–	(7.0)	–	–	(7.0)
Credit directly to equity	(13.7)	–	–	–	–	(13.7)
Exchange differences	98.0	(50.2)	–	(6.6)	2.3	43.5
At 1 January 2009	(544.9)	44.0	8.7	(4.1)	(7.5)	(503.8)
Charge/(credit) to income statement	39.2	21.5	(2.9)	45.4	(0.2)	103.0
Credit to other comprehensive income	–	–	(12.4)	–	–	(12.4)
Credit directly to equity	–	–	–	1.3	–	1.3
Exchange differences	(16.0)	4.7	–	0.9	(0.8)	(11.2)
At 1 January 2010	**(521.7)**	**70.2**	**(6.6)**	**43.5**	**(8.5)**	**(423.1)**
Charge/(credit) to income statement	**(106.8)**	**(5.3)**	**6.0**	**152.8**	**6.0**	**52.7**
Credit to other comprehensive income	**–**	**–**	**8.2**	**–**	**–**	**8.2**
Charge directly to equity	**–**	**–**	**–**	**3.7**	**–**	**3.7**
Exchange differences	**5.9**	**(1.9)**	**(0.2)**	**(0.9)**	**0.2**	**3.1**
At 31 December 2010	**(622.6)**	**63.0**	**7.4**	**199.1**	**(2.3)**	**(355.4)**

	2010 $m	2009 $m	2008 $m
Deferred tax liabilities	**(466.1)**	(473.5)	(503.8)
Deferred tax assets	**110.7**	50.4	–

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

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

Note 21. Called up equity share capital and share premium account

Allotted equity share capital and share premium

	Equity share capital allotted and fully paid		Share premium
	Number	$m	$m
Ordinary shares of Stg10p each			
At 1 January 2008	719,610,522	117.4	178.0
Issues during the year			
– Exercise of share options	6,926,931	1.3	11.1
– New shares issued in respect of royalty obligation	6,352,114	1.0	42.0
At 1 January 2009	732,889,567	119.7	231.1
Issues during the year			
– Shares issued	66,938,141	9.7	–
– Exercise of share options	4,486,268	0.7	11.2
At 1 January 2010	**804,313,976**	**130.1**	**242.3**
Issues during the year			
– Shares issued	**82,004,589**	**13.1**	**2.1**
– Exercise of share options	**1,918,305**	**0.3**	**7.1**
At 31 December 2010	**888,236,870**	**143.5**	**251.5**

Following the passing of a special resolution at the Company's 2009 AGM, the Company no longer has an authorised share capital.

Note 22. Other reserves

	Merger reserve $m	Foreign currency translation reserve $m	Hedge reserve $m	Treasury shares $m	Total $m
At 1 January 2008	755.1	65.7	(263.6)	(15.3)	541.9
Hedge movement (note 18)	–	–	310.5	–	310.5
Currency translation adjustment	–	(237.3)	–	–	(237.3)
Vesting of PSP shares	–	–	–	13.6	13.6
Purchase of treasury shares	–	–	–	(20.9)	(20.9)
At 1 January 2009	755.1	(171.6)	46.9	(22.6)	607.8
Hedge movement (note 18)	–	–	(43.7)	–	(43.7)
Currency translation adjustment	–	42.0	–	–	42.0
Vesting of PSP shares	–	–	–	14.1	14.1
Purchase of treasury shares	–	–	–	(5.7)	(5.7)
At 1 January 2010	**755.1**	**(129.6)**	**3.2**	**(14.2)**	**614.5**
Hedge movement (note 18)	**–**	**–**	**(28.9)**	**–**	**(28.9)**
Currency translation adjustment	**–**	**(11.4)**	**–**	**–**	**(11.4)**
At 31 December 2010	**755.1**	**(141.0)**	**(25.7)**	**(14.2)**	**(574.2)**

During 2010 the Company issued 80,431,796 ordinary shares via an equity placing. In accordance with the provisions of Section 612 of the Companies Act 2006, the Company has transferred the premium on the shares issued of $1,464.8 million ($1,432.9 million net of expenses) (2009: $565.0 million, $549.3 million net of expenses), using the market value at the date of acquisition, to retained earnings as the premium is considered to be realised.

The foreign currency translation reserve represents exchange gains and losses arising on translation of foreign currency subsidiaries, monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and exchange gains or losses arising on long-term foreign currency borrowings which are a hedge against the Group's overseas investments.

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

The treasury shares reserve represents the cost of shares in Tullow Oil plc purchased in the market and held by the Tullow Oil Employee Trust to satisfy awards held under the Group's share incentive plans (see note 26).

Note 23. Non-controlling interest

	2010 $m	2009 $m	2008 $m
At 1 January	42.1	36.7	31.0
Share of profit for the year	18.5	5.4	5.7
At 31 December	60.6	42.1	36.7

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

Note 24. Cash flows from operating activities

	2010 $m	2009 $m
Profit before taxation	151.9	32.5
Adjustments for:		
Depletion, depreciation and amortisation	367.3	359.2
Impairment loss	4.3	12.5
Exploration costs written off	154.7	82.7
Profit on disposal of subsidiaries	–	(16.0)
Profit on disposal of oil and gas assets	(0.5)	(4.9)
Decommissioning expenditure	(10.3)	(2.0)
Share-based payment charge	11.9	5.4
Loss on hedging instruments	27.7	59.8
Finance revenue	(15.1)	(2.1)
Finance costs	70.1	60.8
Operating cash flow before working capital movements	762.0	587.9
Increase in trade and other receivables	(66.7)	(185.9)
Increase in inventories	(29.0)	(52.7)
Increase in trade payables	151.7	114.3
Cash generated from operations	818.0	463.6

Note 25. Disposal of subsidiaries

Tullow completed the sale of Tullow Oil UK Limited incorporating the 51.68% interest in the Hewett-Bacton complex to ENI in November 2008, recognising a profit of $395.6 million.

An additional $16.0 million has been recognised on this sale during 2009 following the settlement of tax and other working capital adjustments.

Note 26. Share-based payments

2005 Performance Share Plan (PSP)

Under the PSP, senior executives can be granted nil exercise price options (normally exercisable three to ten years following grant) over shares worth up to 200% of salary p.a. (300% in exceptional circumstances). Awards made before 8 March 2010 were made as conditional awards to acquire free shares on vesting. To provide flexibility to participants, those awards have been converted into nil exercise price options. Awards granted in 2010 vest subject to a Total Shareholder Return (TSR) performance condition. Half of an award is tested against constituents of the FTSE 100 index (excluding investment trusts) and the other half against a comparator group of oil and gas companies. Performance is measured over a fixed three-year period starting on 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 over the vesting period. There are further details of PSP award measurement in the Directors' Remuneration Report on pages 86 to 94.

The shares outstanding under the PSP are as follows:

	2010 PSP shares	2010 Average weighted share price at grant p	2009 PSP shares	2009 Average weighted share price at grant p	2008 PSP shares	2008 Average weighted share price at grant p
Outstanding at 1 January	4,305,486	687.0	3,856,913	552.9	4,451,474	293.3
Granted	1,274,971	1281.0	1,572,567	785.8	1,328,692	917.6
Exercised during the year	(1,441,136)	371.2	(1,095,350)	354.1	(1,747,750)	187.5
Forfeited/expired during the year	(37,445)	1120.7	(28,644)	780.3	(175,503)	365.8
Outstanding at 31 December	4,101,876	978.6	4,305,486	687.0	3,856,913	552.9
The inputs of the option valuation model were:						
Risk free interest rate		1.9% pa		1.9% pa		4.4%-4.7% pa
Expected volatility		52%		54%		39%-41%
Dividend yield		0.5% pa		0.8% pa		0.7%-0.8% pa

The expected life is the period from date of grant to vesting. Expected volatility was determined by calculating the historical volatility of the Company's share price over a period commensurate with the expected life of the awards. The weighted average fair value of the awards granted in 2010 was 700.8p per award (2009: 579.9p).

The Group recognised a total charge of $12.6 million (2009: $9.4 million) in respect of the PSP.

2005 Deferred Share Bonus Plan (DSBP)

Under the DSBP, the portion of any annual bonus above 75% of the base salary (60% for bonuses paid for 2007 and earlier years) of a senior executive nominated by the Remuneration Committee is deferred into shares. Awards normally vest following the end of three financial years commencing with that in which they are granted. They are granted as nil exercise price options, normally exercisable from when they vest until 10 years from grant. Awards granted before 8 March 2010 as conditional awards to acquire free shares have been converted into nil exercise price options to provide flexibility to participants.

The shares outstanding under the DSBP are as follows:

	2010 DSBP shares	2010 Share price at grant p	2009 DSBP shares	2009 Share price at grant p	2008 DSBP shares	2008 Share price at grant
Outstanding at 1 January	231,457	716.3	200,633	507.9	184,254	375.4p
Granted	92,939	1281.0	135,291	778.0	96,166	629.5p
Exercised during the year	(22,445)	629.5	(104,467)	396.0	(79,787)	348.5p
Outstanding at 31 December	301,951	896.6	231,457	716.3	200,633	507.9p
The inputs of the option valuation model were:						
Dividend yield		0.5% pa		1.0% pa		1.0% pa

The expected life is the period from the date of grant to the vesting date. The fair value of the awards granted in 2010 was 1,263.1p per award (2009: 760.2p).

The Group recognised a total charge of $1.3 million (2009: $0.8 million) in respect of the DSBP.

2000 Executive Share Option Scheme (ESOS)

The only share option scheme operated by the Company during the year was the 2000 ESOS. Options normally only become exercisable from the third anniversary of the date of the grant and if the performance condition has been met. The awards are tested against constituents of an index and 100% of awards will vest if the Company's TSR is above the median of the index over three years following grant. For awards from March 2008 the Index is the FTSE 100 index (excluding investment trusts); for awards before March 2008, the Index is the FTSE 250 index (excluding investment trusts).

Options granted under the previous 1998 ESOS had all been exercised at 31 December 2009. All awards under the 1998 ESOS were made prior to 7 November 2002 and therefore, under the IFRS transitional provisions, they have not been accounted for in accordance with IFRS 2, Share-based payments.

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

	2010 Number	2010 WAEP p	2009 Number	2009 WAEP p	2008 Number	2008 WAEP p
Outstanding as at 1 January	13,257,841	436.6	14,688,105	282.1	19,216,684	166.0
Granted during the year	2,814,218	1274.33	3,155,150	781.0	2,475,251	647.3
Exercised during the year	(1,918,305)	247.83	(4,486,268)	168.4	(6,926,931)	91.5
Forfeited/expired during the year	(211,785)	939.04	(99,146)	643.1	(76,899)	210.4
Outstanding at 31 December	13,941,969	623.87	13,257,841	436.6	14,688,105	282.1
Exercisable at 31 December	6,062,182	246.13	5,700,412	177.8	7,971,074	121.5

The weighted average share price at exercise for options exercised in 2010 was 1,231.9p (2009: 1,000.5p).

Options outstanding at 31 December 2010 had exercise prices of 79p to 1,299.9p (2009: 63.0p to 1,179.0p) and remaining contractual lives of 1 to 10 years.

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

Risk-free interest rate	1.8-2.5% pa
Expected volatility	49%
Dividend yield	0.5% pa
Employee turnover	5% pa
Early exercise	At rates dependent upon potential gain from exercise

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

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

Award date	Weighted average exercise price p	Weighted average fair value p	Weighted average expected life from grant date years
Jan – Dec 2007	396.9	123.4	4.8
Jan – Dec 2008	647.3	205.8	4.3
Jan – Dec 2009	781.0	283.5	4.0
Jan – Dec 2010	1274.3	456.2	4.3

The Group recognised a total charge of $11.5 million (2009: $7.6 million) in respect of the ESOS.

Note 26. Share-based payments continued

UK & Irish Share Incentive Plans (SIPs)

These are all-employee plans set up in the UK and Ireland, to enable employees to save out of salary up to prescribed monthly limits. Contributions are used by the Plan trustees to buy Tullow shares ('Partnership Shares') at the end of each three-month accumulation period. The Company makes a matching contribution to acquire Tullow shares ('Matching Shares') on a one-for-one basis. Matching Shares are subject to time-based forfeiture over three years on leaving employment in certain circumstances or if the related Partnership Shares are sold.

The fair value of a Matching Share is its market value at 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 (which is treated as a three-month share option for IFRS 2 purposes). For the Irish plan, shares are bought at the market price at the purchase date which does not result in any IFRS 2 accounting charge.

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

The Group recognised a total charge of $0.2 million (2009: $0.2 million) for the UK SIP Plan and $0.2 million (2009: $0.2 million) for the Irish SIP plan.

Note 27. Operating lease arrangements

	2010 $m	2009 $m
Minimum lease payments under operating leases recognised in income for the year	6.5	3.8

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:

	2010 $m	2009 $m
Minimum lease payments under operating leases		
Due within one year	17.1	12.3
After one year but within two years	16.3	19.3
After two years but within five years	23.2	11.9
Due after five years	66.8	–
	123.4	43.5

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

Note 28. Capital commitments

Capital commitments as at 31 December 2010 are $876.3 million (2009: $1,270.0 million, 2008: $877.7 million).

Note 29. Contingent liabilities

At 31 December 2010 there existed contingent liabilities amounting to $221.0 million (2009: $239.4 million, 2008: $106.1 million) in respect of performance guarantees for abandonment obligations, committed work programmes and certain financial obligations.

Note 30. Related party transactions

The Directors of Tullow Oil plc are considered to be the only key management personnel as defined by IAS 24 – Related Party Disclosures.

	2010 $m	2009 $m
Short-term employee benefits	7.0	6.8
Post employment benefits	0.9	0.5
Amounts awarded under long-term incentive schemes	1.4	1.9
Share-based payments	5.6	4.4
	14.9	13.6

Short-term employee benefits

These amounts comprise fees paid to the Directors in respect of salary and benefits earned during the relevant financial year, plus bonuses awarded for the year.

Post employment benefits

These amounts comprise amounts paid into the pension schemes of the Directors.

Amounts awarded under long-term incentive schemes

These amounts relate to the shares granted under the annual bonus scheme that is deferred for three years under the Deferred Share Bonus Plan (DSBP).

Share-based payments

This is the cost to the Group of Directors' participation in share-based payment plans, as measured by the fair value of options and shares granted, accounted for in accordance with IFRS 2, Share-based Payments.

There are no other related party transactions. Further details regarding transactions with the Directors of Tullow Oil plc are disclosed in the Remuneration Report on pages 86 to 94.

Note 31. Subsequent events

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

In January 2011 the Group announced the Tweneboa-3 appraisal well in the Deepwater Tano licence offshore Ghana had successfully encountered gas condensate in excellent high quality sandstone reservoirs. The results of drilling, wireline logs and samples of reservoir fluids, together with the well's down-dip position, confirm the Greater Tweneboa Area resource base potential.

In March 2011 the Group announced the Enyenra-2A appraisal well in the Deepwater Tano licence offshore Ghana had successfully encountered oil in excellent quality sandstone reservoirs. Good evidence of communication with Owo-1 confirms that the Owo oil discovery, now renamed Enyenra, is a major light oil field.

Note 32. 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 $4.5 million (2009: $5.2 million). At 31 December 2010, there was a liability of $0.3 million (2009: $1.0 million) for contributions payable included in creditors.

Independent Auditor's Report

to the members of Tullow Oil plc

We have audited the Parent Company financial statements of Tullow Oil plc for the year ended 31 December 2010 which comprise the balance sheet, the accounting policies and the related notes 1 to 13. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the Parent Company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- Give a true and fair view of the state of the Company's affairs as at 31 December 2010;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the Parent Company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of Tullow Oil plc for the year ended 31 December 2010.

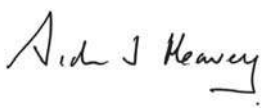
Matthew Donaldson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, UK

8 March 2011

Company balance sheet
As at 31 December 2010

	Notes	2010 $m	2009 $m
Fixed assets			
Investments	1	**3,433.8**	1,828.0
Deferred tax assets	3	**41.4**	38.9
		3,475.2	1,866.9
Current assets			
Debtors	4	**2,349.2**	1,962.4
Cash at bank and in hand		**23.3**	13.3
		2,372.5	1,975.7
Creditors – amounts falling due within one year			
Trade and other creditors	5	**(31.1)**	(18.1)
Bank loans	6	**(309.8)**	–
		(340.9)	(18.1)
Net current assets		**2,031.6**	1,957.6
Total assets less current liabilities		**5,506.8**	3,824.5
Creditors – amounts falling due after more than one year			
Bank loans	6	**(1,890.0)**	(1,314.7)
Loans from subsidiary undertakings	7	**(1.1)**	(249.0)
Net assets		**3,615.7**	2,260.8
Capital and reserves			
Called up equity share capital	8	**143.5**	130.1
Share premium account	8	**251.5**	242.3
Other reserves	10	**850.8**	850.8
Profit and loss account	9	**2,369.9**	1,037.6
Shareholders' funds	9	**3,615.7**	2,260.8

Approved by the Board and authorised for issue on 8 March 2011.



Aidan Heavey
Chief Executive Officer

Ian Springett
Chief Financial Officer

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 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 light of the ever-increasing operations of the Group being conducted in US dollars and the majority of the Group's external funding being provided in US dollars the Directors have reviewed the functional currency of Tullow Oil plc (Company only) and have concluded that it is appropriate for the functional currency of the Company to be converted from sterling to US dollars (effective date of 1 January 2010).

In addition the Directors have deemed it appropriate to change the presentational currency of the Company from sterling to US dollars effective from 1 January 2010.

These are the first financial statements to be presented in US dollars and all comparative information has been restated in accordance with the requirements set out in FRS 23, The Effects of Changes in Foreign Exchange Rates with respect to translation of results to presentational currency:

a. assets and liabilities denominated in non-US dollar currencies were translated into US dollars at the closing rate prevailing at the balance sheet dates;

b. non-US dollar income and expenses were translated into US dollars at an exchange rate which approximates to the exchange rate ruling at the date of transactions; and

c. all resulting exchange rate differences have been recognised in other comprehensive income, within the foreign currency translation reserve.

In accordance with the provisions of Section 408 of the Companies Act, the profit and loss account of the Company is not presented separately. During the year the Company made a loss of $47.1 million. 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 105.

In accordance with the exemptions available under FRS 8 'Related party transactions', the Company has not separately presented related party transactions with other Group companies.

The Company closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Group's portfolio of producing fields and delays in development projects. The Company normally seeks to ensure that it has a minimum ongoing capacity of $500 million for a period of at least 12 months to safeguard the Company's ability to continue as a going concern.

The major assumption in current cash flow forecasts is that the receipt of disposal proceeds from the Uganda farm-down, which has been delayed longer than expected, will now be received in Q2 2011. On this basis, the Company's forecasts, taking into account reasonably possible changes as described above, show that the Company will be able to operate within its current debt facilities and have very significant financial headroom for the 12 months from the date of the approval of the 2010 Annual Report and Accounts. However, in the unlikely event that the Ugandan farm-down process is delayed beyond Q2 2011, the Directors are confident that the Company can manage its financial affairs, including the securing of additional funding, agreement with existing lenders, portfolio management and deferring of non-essential capital expenditure, so as to ensure that sufficient funding remains available for the next 12 months.

After taking account of the above, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

(b) Investments

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

(c) Finance costs and debt

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

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

(d) Financial liabilities and equity

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

(e) Foreign currencies

The US dollar 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 US dollars at the rates of exchange ruling at the balance sheet date, with a corresponding charge or credit to the profit and loss account. However, exchange gains and losses arising on long-term foreign currency borrowings, which are a hedge against the Company's overseas investments, are dealt with in reserves.

(f) Share issue expenses

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

(g) Taxation

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

(h) Share-based payments

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

All share-based awards of the Company are equity settled as defined by FRS 20. The fair value of these awards has

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

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

(i) Capital management

The Company defines capital as the total equity of the Company. Capital is managed in order to provide returns for shareholders and benefits to stakeholders and to safeguard the Company's ability to continue as a going concern. Tullow is not subject to any externally-imposed capital requirements. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital, issue new shares for cash, repay debt, and put in place new debt facilities.

Note 1. Investments

	2010 $m	2009 $m
Shares at cost in subsidiary undertakings	3,432.8	1,827.0
Unlisted investments	1.0	1.0
	3,433.8	1,828.0

The increase in the year is attributable to additional investments in the Company's subsidiary companies.

Principal subsidiary undertakings

At 31 December 2010 the Company's principal subsidiary undertakings were:

Name	%	Country of operation	Country of registration
Directly held			
Tullow Oil SK Limited	100	United Kingdom	England & Wales
Tullow Oil SPE Limited	100	United Kingdom	England & Wales
Tullow Group Services Limited	100	United Kingdom	England & Wales
Tullow Oil Limited	100	Ireland	Ireland
Tullow Overseas Holdings B.V.	100	Netherlands	Netherlands
Tullow Gabon Holdings Limited (50% held indirectly)	100	Gabon	Isle of Man
Indirectly held			
Tullow (EA) Holdings Limited	100	Isle of Man	British Virgin Islands
Tullow Oil International Limited	100	Channel Islands	Jersey
Tullow Pakistan (Developments) Limited	100	Pakistan	Jersey
Tullow Bangladesh Limited	100	Bangladesh	Jersey
Tullow Côte d'Ivoire Limited	100	Côte d'Ivoire	Jersey
Tullow Côte d'Ivoire Exploration Limited	100	Côte d'Ivoire	Jersey
Tullow Ghana Limited	100	Ghana	Jersey
Tullow Kenya B.V.	100	Kenya	Netherlands
Tullow Ethiopia B.V.	100	Ethiopia	Netherlands
Tullow Tanzania B.V.	100	Tanzania	Netherlands
Tullow Netherlands B.V.	100	Netherlands	Netherlands
Tullow Guyane B.V.	100	Guyana	Netherlands
Tullow Liberia B.V.	100	Liberia	Netherlands
Tullow Sierra Leone B.V.	100	Sierra Leone	Netherlands
Tullow Suriname B.V.	100	Suriname	Netherlands
Tullow Congo Limited	100	Congo	Isle of Man
Tullow Equatorial Guinea Limited	100	Equatorial Guinea	Isle of Man
Tullow Kudu Limited	100	Namibia	Isle of Man
Tullow Uganda Limited	100	Uganda	Isle of Man
Tullow Oil Gabon SA	100	Gabon	Gabon
Tulipe Oil SA*	50	Gabon	Gabon
Tullow Chinguetti Production (Pty) Limited	100	Mauritania	Australia
Tullow Petroleum (Mauritania) (Pty) Limited	100	Mauritania	Australia
Tullow Oil (Mauritania) Limited	100	Mauritania	Guernsey
Tullow Uganda Operations (Pty) Limited	100	Uganda	Australia
Tullow Hardman Holdings B.V.	100	Netherlands	Netherlands
Tullow South Africa (Pty) Limited	100	South Africa	South Africa
Hardman Petroleum France SAS	100	French Guiana	France

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

* The Company is deemed to control Tulipe Oil SA in accordance with FRS 2 as it has a majority of the voting rights on the board of Tulipe Oil SA.

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

Note 2. Dividends

	2010 $m	2009 $m
Declared and paid during year		
Final dividend for 2009: Stg4.0p (2008: Stg4.0p) per ordinary share	51.6	50.2
Interim dividend for 2010: Stg2.0p (2009: Stg2.0p) per ordinary share	27.6	25.1
Dividends paid	79.2	75.3
Proposed for approval by shareholders at the AGM		
Final dividend for 2010: Stg4.0p (2009: Stg4.0p)	54.9	51.3

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

Note 3. Deferred tax

The Company has tax losses of $147.8 million (2009: $136.4 million) that are available indefinitely for offset against future non-ring-fence taxable profits in the Company. A deferred tax asset of $41.4million (2009: $38.9 million) has been recognised in respect of these losses on the basis that the Company anticipates making non-ring-fence profits in the foreseeable future.

Note 4. Debtors

Amounts falling due within one year

	2010 $m	2009 $m
Other debtors	2.9	4.4
Due from subsidiary undertakings	2,346.3	1,958.0
	2,349.2	1,962.4

The amounts due from subsidiary undertakings include $2,118.5 million (2009: $292.1 million) that incurs interest at LIBOR plus 1.7%-2.7%. The remaining amounts due from subsidiaries accrue no interest. All amounts are repayable on demand.

Note 5. Trade and other creditors

Amounts falling due within one year

	2010 $m	2009 $m
Other creditors	4.5	6.1
Accruals	26.6	11.8
VAT	–	0.2
	31.1	18.1

Note 6. Bank loans

	2010 $m	2009 $m
Current		
Short-term borrowings	309.8	–
Non-current		
Term loans repayable		
– After one year but within two years	192.5	989.0
– After two years but within five years	1,697.5	325.7
	1,890.0	1,314.7

Company bank loans are stated net of unamortised arrangement fees of $81.3 million (2009: $81.6 million).

Term loans and guarantees are secured by fixed and floating charges over the oil and gas assets (note 10) of the Group financial statements.

Interest rate risk

The interest rate profile of the Company's financial assets and liabilities at 31 December 2010 was as follows:

	$ $m	Stg $m	Total $m
Fixed rate debt	(386.4)	(158.4)	(544.8)
Floating rate debt	(1,655.0)	–	(1,655.0)
Cash at bank at floating interest rate	20.6	2.7	23.3
Amounts due from subsidiaries at LIBOR + 1.7%	2,118.5	–	2,118.5
Net cash/(debt)	97.7	(155.7)	(58.0)

The profile at 31 December 2009 for comparison purposes was as follows:

	$ $m	Stg $m	Total $m
Fixed rate debt	(544.8)	–	(544.8)
Floating rate debt	(710.9)	(58.9)	(769.8)
Cash at bank at floating interest rate	13.1	0.2	13.3
Amounts due from subsidiaries at LIBOR + 1.7%	–	292.1	292.1
Net cash/(debt)	(1,242.6)	233.4	(1,009.2)

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

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

The $2.5 billion Reserves Based Lending Facility incurs interest on outstanding debt at sterling or US dollar LIBOR plus an applicable margin. The outstanding debt is repayable in variable amounts (determined semi-annually) over the period to 31 December 2015, or such time as is determined by reference to the remaining reserves of the assets, whichever is earlier.

The $650 million Revolving Credit Facility is repayable in full on 31 December 2011. The facility incurs interest on outstanding debt at US dollar LIBOR plus an applicable margin.

At the end of December 2010, the headroom under the two facilities amounted to $685 million; $175 million under the $2.5 billion Reserves Based Lending Facility and $510 million under the Revolving Credit Facility. At the end of December 2009, the headroom under the two facilities was $620 million; $370 million under the $2 billion Reserves Based Lending Facility and $250 million under the Revolving Corporate Facility.

The Group is exposed to floating rate interest rate risk as entities in the Group borrow funds at floating interest rates. The Group hedges its floating rate interest rate exposure on an ongoing basis through the use of interest rate derivatives, namely interest rate swaps, interest rate collars and interest rate caps. The mark-to-market position of the Group's interest rate portfolio as at 31 December 2010 was $13.6 million out of the money (2009: $8.9 million out of the money, 2008: $3.0 million out of the money). The interest rate hedges are included in the fixed rate debt in 2010, in the above table, and also included in the fixed rate debt in 2009 and 2008.

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are net liabilities of $164.0 million (2009: net liabilities of $1,337 million).

Foreign currency sensitivity analysis

The Company is mainly exposed to fluctuations in the US dollar. The Company measures its market risk exposure by running various sensitivity analyses including 20% favourable and adverse changes in the key variables. The sensitivity analyses include only outstanding foreign currency denominated monetary items and adjust their translation at the period end for a 20% change in foreign currency rates.

As at 31 December 2010, a 20% increase in foreign exchange rates against the US dollar would have resulted in a decrease in foreign currency denominated liabilities of $27.3 million (2009: $226.7 million) and a 20% decrease in foreign exchange rates against the US dollar would have resulted in an increase in foreign currency denominated liabilities and equity of $32.8 million (2009: $339.9 million).

Note 7. Loans from subsidiary undertakings

Amounts falling due after more than one year

	2010 $m	2009 $m
Loans from subsidiary companies	1.1	249.0

The amounts due from subsidiaries do not accrue interest. All loans from subsidiary companies are not due to be repaid within five years.

Note 8. Called up equity share capital and share premium account

Allotted equity share capital and share premium

	Equity share capital allotted and fully paid Number	Share Capital $m	Share premium $m
At 1 January 2009	732,889,567	119.7	231.1
Issues during the year			
– Exercise of share options	4,486,268	0.7	11.2
– New shares issued	66,938,141	9.7	–
At 1 January 2010	804,313,976	130.1	242.3
Issues during the year			
– Exercise of share options	1,918,305	0.3	7.1
– New shares issued	82,004,589	13.1	2.1
At 31 December 2010	**888,236,870**	**143.5**	**251.5**

Following the passing of a special resolution at the Company's 2009 AGM, the Company no longer has an authorised share capital.

Note 9. Shareholders' funds

	Share capital $m	Share premium $m	Other reserves (note 10) $m	Profit and loss account $m	Total $m
At 1 January 2009	119.7	231.1	789.6	582.2	1,722.6
Total recognised income and expense for the year	–	–	–	(22.8)	(22.8)
Issue of share capital	9.7	–	–	549.3	559.0
Purchase of treasury shares	–	–	(5.7)	–	(5.7)
New shares issued in respect of employee share options	0.7	11.2	–	–	11.9
Vesting of PSP shares	–	–	14.1	(14.1)	–
Share-based payment charges	–	–	–	18.3	18.3
Dividends paid	–	–	–	(75.3)	(75.3)
Translation reserve	–	–	52.8	–	52.8
At 1 January 2010	**130.1**	**242.3**	**850.8**	**1,037.6**	**2,260.8**
Total recognised income and expense for the year	**–**	**–**	**–**	**(47.1)**	**(47.1)**
Issue of share capital	**13.1**	**2.1**	**–**	**1,432.9**	**1,448.1**
New shares issued in respect of employee share options	**0.3**	**7.1**	**–**	**–**	**7.4**
Vesting of PSP shares	**–**	**–**	**–**	**(0.2)**	**(0.2)**
Share-based payment charges	**–**	**–**	**–**	**25.9**	**25.9**
Dividends paid	**–**	**–**	**–**	**(79.2)**	**(79.2)**
At 31 December 2010	**143.5**	**251.5**	**850.8**	**2,369.9**	**3,615.7**

During 2010 the Company issued 80,431,796 ordinary shares via an equity placing. In accordance with the provisions of Section 612 of the Companies Act 2006, the Company has transferred the premium on the shares issued of $1,464.8 million ($1,432.9 million net of expenses) (2009: $565.0 million, $549.3 million net of expenses), using the market value at the date of acquisition, to retained earnings as the premium is considered to be realised.

Note 10. Other reserves

	Merger reserve $m	Treasury shares $m	Foreign currency translation reserve $m	Total $m
At 1 January 2009	671.6	(22.6)	140.6	789.6
Purchase of treasury shares	–	(5.7)	–	(5.7)
Vesting of PSP shares	–	14.1	–	14.1
Currency translation adjustment	–	–	52.8	52.8
At 1 January 2010 and 31 December 2010	**671.6**	**(14.2)**	**193.4**	**850.8**

The treasury shares reserve represents the cost of shares in Tullow Oil plc purchased in the market and held by the Tullow Oil Employee Trust to satisfy options held under the Group's share incentive plans (see note 11).

Note 11. Share-based payments

2005 Performance Share Plan (PSP)

Under the PSP, senior executives can be granted nil exercise price options (normally exercisable three to ten years following grant) over shares worth up to 200% of salary p.a. (300% in exceptional circumstances). Awards made before 8 March 2010 were made as conditional awards to acquire free shares on vesting. To provide flexibility to participants, those awards have been converted into nil exercise price options. Awards granted in 2010 vest subject to a Total Shareholder Return (TSR) performance condition. Half of an award is tested against constituents of the FTSE 100 index (excluding investment trusts) and the other half against a comparator group of oil and gas companies. Performance is measured over a fixed three-year period starting on 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 over the vesting period. There are further details of PSP award measurement in the Directors' remuneration report on pages 86 to 94.

The shares outstanding under the PSP are as follows:

	2010 PSP shares	2010 Average weighted share price at grant p	2009 PSP shares	2009 Average weighted share price at grant p	2008 PSP shares	2008 Average weighted share price at grant p
Outstanding at 1 January	4,305,486	687.0	3,856,913	552.9	4,451,474	293.3
Granted	1,274,971	1281.0	1,572,567	785.8	1,328,692	917.6
Exercised during the year	(1,441,136)	371.2	(1,095,350)	354.1	(1,747,750)	187.5
Forfeited/expired during the year	(37,445)	1120.7	(28,644)	780.3	(175,503)	365.8
Outstanding at 31 December	4,101,876	978.6	4,305,486	687.0	3,856,913	552.9
The inputs of the option valuation model were:						
Risk free interest rate		1.9% pa		1.9% pa		4.4%-4.7% pa
Expected volatility		52%		54%		39%-41%
Dividend yield		0.5% pa		0.8% pa		0.7%-0.8% pa

The expected life is the period from date of grant to vesting. Expected volatility was determined by calculating the historical volatility of the Company's share price over a period commensurate with the expected life of the awards. The weighted average fair value of the awards granted in 2010 was 700.8p per award (2009: 579.9p).

The Company recognised a total charge of $12.6million (2009: $9.4 million) in respect of the PSP.

2005 Deferred Share Bonus Plan (DSBP)

Under the DSBP, the portion of any annual bonus above 75% of the base salary (60% for bonuses paid for 2007 and earlier years) of a senior executive nominated by the Remuneration Committee is deferred into shares. Awards normally vest following the end of three financial years commencing with that in which they are granted. They are granted as nil exercise price options, normally exercisable from when they vest until 10 years from grant. Awards granted before 8 March 2010 as conditional awards to acquire free shares have been converted into nil exercise price options to provide flexibility to participants.

The shares outstanding under the DSBP are as follows:

	2010 DSBP shares	2010 Share price at grant p	2009 DSBP shares	2009 Share price at grant p	2008 DSBP shares	2008 Share price at grant
Outstanding at 1 January	231,457	716.3	200,633	507.9	184,254	375.4
Granted	92,939	1281.0	135,291	778.0	96,166	629.5
Exercised during the year	(22,445)	629.5	(104,467)	396.0	(79,787)	348.5
Outstanding at 31 December	301,951	896.6	231,457	716.3	200,633	507.9
The inputs of the option valuation model were:						
Dividend yield		0.5% pa		1.0% pa		1.0% pa

The expected life is the period from the date of grant to the vesting date. The fair value of the awards granted in 2010 was 1,263.1p per award (2009: 760.2p).

The Company recognised a total charge of $1.3 million (2009: $0.8 million) in respect of the DSBP.

Note 11. Share-based payments (continued)

2000 Executive Share Option Scheme (ESOS)

The only share option scheme operated by the Company during the year was the 2000 ESOS. Options normally only become exercisable from the third anniversary of the date of the grant and if the performance condition has been met. The awards are tested against constituents of an index and 100% of awards will vest if the Company's TSR is above the median of the index over three years following grant. For awards from March 2008 the Index is the FTSE 100 index (excluding investment trusts); for awards before March 2008, the Index is the FTSE 250 index (excluding investment trusts).

Options granted under the previous 1998 ESOS had all been exercised at 31 December 2009. All awards under the 1998 ESOS were made prior to 7 November 2002 and therefore, under the FRS transitional provisions, they have not been accounted for in accordance with FRS 20 – Share-based Payments.

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

	2010 Number	2010 WAEP p	2009 Number	2009 WAEP p	2008 Number	2008 WAEP p
Outstanding as at 1 January	13,257,841	436.6	14,688,105	282.1	19,216,684	166.0
Granted during the year	2,814,218	1274.33	3,155,150	781.0	2,475,251	647.3
Exercised during the year	(1,918,305)	247.83	(4,486,268)	168.4	(6,926,931)	91.5
Forfeited/expired during the year	(211,785)	939.04	(99,146)	643.1	(76,899)	210.4
Outstanding at 31 December	13,941,969	623.87	13,257,841	436.6	14,688,105	282.1
Exercisable at 31 December	6,062,182	246.13	5,700,412	177.8	7,971,074	121.5

The weighted average share price at exercise for options exercised in 2010 was 1,231.9p (2009: 1,000.5p).

Options outstanding at 31 December 2010 had exercise prices of 79p to 1,299.9p (2009: 63.0p to 1,179.0p) and remaining contractual lives of 1 to 10 years.

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

Risk free interest rate	1.8-2.5% pa
Expected volatility	49%
Dividend yield	0.5% pa
Employee turnover	5% pa
Early exercise	At rates dependent upon potential gain from exercise

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

The fair values and expected lives of the options valued in accordance with FRS 20 were:

Award date	Weighted average exercise price p	Weighted average fair value p	Weighted average expected life from grant date years
Jan – Dec 2007	396.9	123.4	4.8
Jan – Dec 2008	647.3	205.8	4.3
Jan – Dec 2009	781.0	283.5	4.0
Jan – Dec 2010	1274.3	456.2	4.3

The Company recognised a total charge of $11.5 million (2009: $7.6 million) in respect of the ESOS.

UK & Irish Share Incentive Plans (SIPs)

These are all-employee plans set up in the UK and Ireland, to enable employees to save out of salary up to prescribed monthly limits. Contributions are used by the Plan trustees to buy Tullow shares ('Partnership Shares') at the end of each three-month accumulation period. The Company makes a matching contribution to acquire Tullow shares ('Matching Shares') on a one-for-one basis. Matching Shares are subject to time-based forfeiture over three years on leaving employment in certain circumstances or if the related Partnership Shares are sold.

The fair value of a Matching Share is its market value at 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 (which is treated as a three-month share option for FRS 20 purposes). For the Irish plan, shares are bought at the market price at the purchase date which does not result in any FRS 20 accounting charge.

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

The Company recognised a total charge of $0.2 million (2009: $0.2 million) for the UK SIP Plan and $0.2 million (2009: $0.2 million) for the Irish SIP plan.

Note 12. Related party transactions

The Directors of Tullow Oil plc are considered to be the only key management personnel as defined by FRS 8 – Related Party Disclosures.

	2010 Sm	2009 Sm
Short-term employee benefits	7.0	6.8
Post employment benefits	0.9	0.5
Amounts awarded under long-term incentive schemes	1.4	1.9
Share-based payments	5.6	4.4
	14.9	13.6

Short-term employee benefits

These amounts comprise fees paid to the Directors in respect of salary and benefits earned during the relevant financial year, plus bonuses awarded for the year.

Post employment benefits

These amounts comprise amounts paid into the pension schemes of the Directors.

Amounts awarded under long-term incentive schemes

These amounts relate to the shares granted under the annual bonus scheme that is deferred for three years under the Deferred Share Bonus Plan (DSBP).

Share-based payments

This is the cost to the Group of Directors' participation in share-based payment plans, as measured by the fair value of options and shares granted accounted for in accordance with FRS 20, Share-based Payments.

There are no other related party transactions. Further details regarding transactions with the Directors of Tullow Oil plc are disclosed in the Remuneration Report on pages 86 to 94.

Note 13. Subsequent events

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

In January 2011 the Group announced the Tweneboa-3 appraisal well in the Deepwater Tano licence offshore Ghana had successfully encountered gas condensate in excellent high quality sandstone reservoirs. The results of drilling, wireline logs and samples of reservoir fluids, together with the well's down-dip position, confirms the Greater Tweneboa Area resource base potential.

In March 2011 the Group announced the Enyenra-2A appraisal well in the Deepwater Tano licence offshore Ghana had successfully encountered oil in excellent quality sandstone reservoirs. Good evidence of communication with Owo-1 confirms that the Owo oil discovery, now renamed Enyenra, is a major light oil field.

Five year financial summary

	2010 $m	2009 $m	2008 $m	2007 (as restated*) $m	2006 $m
Group income statement					
Sales revenue	**1,089.8**	915.9	1,310.6	1,279.5	1,066.7
Cost of sales	**(611.4)**	(625.5)	(687.3)	(708.0)	(481.6)
Gross profit	**478.4**	290.4	623.3	571.5	585.1
Administrative expenses	**(89.6)**	(77.6)	(79.2)	(63.3)	(41.5)
Profit/(loss) on disposal of subsidiaries	**–**	16.0	395.6	(1.2)	–
Profit on disposal of oil and gas assets	**0.5**	4.9	57.8	–	–
Exploration costs written off	**(154.7)**	(82.7)	(419.0)	(128.5)	(59.8)
Operating profit	**234.6**	151.0	578.5	378.5	483.8
(Loss)/profit on hedging instruments	**(27.7)**	(59.8)	66.6	(58.7)	28.9
Finance revenue	**15.1**	2.1	7.3	6.2	5.5
Finance costs	**(70.1)**	(60.8)	(87.5)	(97.4)	(33.1)
Profit from continuing activities before taxation	**151.9**	32.5	564.9	228.6	485.1
Taxation	**(79.4)**	(1.9)	(135.7)	(123.3)	(195.2)
Profit for the year from continuing activities	**72.5**	30.6	429.2	105.3	289.9
Earnings per share					
Basic – ¢	**6.1**	3.2	58.8	14.2	44.7
Diluted – ¢	**6.1**	3.1	58.1	13.9	43.6
Dividends paid	**79.2**	75.3	80.9	78.9	59.9
Group balance sheet					
Non-current assets	**7,087.3**	4,372.8	3,524.0	3,689.8	3,438.8
Net current assets /(liabilities)	**(194.4)**	121.6	(215.4)	(134.8)	(570.0)
Total assets less current liabilities	**6,892.9**	4,494.4	3,308.6	3,555.0	2,868.8
Long-term liabilities	**(3,024.0)**	(2,063.4)	(1,414.7)	(2,131.7)	(1,367.3)
Net assets	**3,868.9**	2,431.0	1,893.9	1,423.3	1,501.5
Called up equity share capital	**143.5**	130.1	119.7	117.4	104.1
Share premium	**251.5**	242.3	231.1	178.0	173.3
Other reserves	**574.2**	614.5	607.8	541.9	695.7
Retained earnings	**2,839.1**	1,402.0	898.6	555.0	528.4
Equity attributable to equity holders of the parent	**3,808.3**	2,388.9	1,857.2	1,392.3	1,501.5
Non-controlling interest	**60.6**	42.1	36.7	31.0	–
Total equity	**3,868.9**	2,431.0	1,893.9	1,423.3	1,501.7

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

Commercial reserves and contingent resources summary (unaudited) working interest basis

Year ended 31 December 2010

	Africa		Europe		South Asia		Total		
	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Petroleum mmboe
Commercial reserves									
1 Jan 2010	255.6	23.4	1.2	139.0	–	99.0	256.8	261.4	300.4
Revisions	2.9	–	0.4	38.9	0.3	16.8	3.6	55.7	12.9
Acquisitions	0.3	–	–	–	–	–	0.3	–	0.3
Additions	1.1	–	–	–	–	4.8	1.1	4.8	1.9
Production	(14.0)	(1.3)	(0.2)	(27.6)	–	(12.5)	(14.2)	(41.4)	(21.1)
31 December 2010	**245.9**	**22.1**	**1.4**	**150.3**	**0.3**	**108.1**	**247.6**	**280.5**	**294.4**
Contingent resources									
1 Jan 2010	385.2	1,117.6	–	114.9	–	16.2	385.2	1,248.7	593.3
Revisions	0.9	7.2	–	(20.9)	–	(4.2)	0.9	(17.9)	(2.1)
Acquisitions	300.8	11.6	–	–	–	–	300.8	11.6	302.8
Additions	219.5	301.9	–	–	–	–	219.5	301.9	269.9
Disposals	(13.2)	(338.5)	–	(7.1)	–	–	(13.2)	(345.6)	(70.8)
31 December 2010	**893.2**	**1,099.8**	**–**	**86.9**	**–**	**12.0**	**893.2**	**1,198.7**	**1,093.1**
Total									
31 December 2010	**1,139.1**	**1,121.9**	**1.4**	**237.2**	**0.3**	**120.1**	**1,140.8**	**1,479.2**	**1,387.5**

1. Proven and Probable Commercial Reserves are based on a Group reserves report produced by an independent engineer. Reserves estimates for each field are reviewed by the independent engineer based on significant new data or a material change with a review of each field undertaken at least every two years.
2. Proven and Probable Contingent Resources are based on both Tullow's estimates and the Group reserves report produced by an independent engineer.
3. The contingent resources acquisition in 2010 relates to the purchase of a 50% working interest in Blocks 1 and 3A in Uganda from Heritage Oil and Gas Ltd.
4. The total Commercial Reserves and Contingent Resources of 1,387.5 mmboe at 31 December 2010 include a 100% working interest in Blocks 1, 2 and 3A in Uganda. Post completion of the farm-down transaction with Total and CNOOC in Uganda, total Commercial Reserves and Contingent Resources are expected to reduce to 869 mmboe.

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 231.6 mmboe at 31 December 2010 (31 December 2009: 265.4 mmboe).

Contingent Resources relate to resources in respect of which development plans are in the course of preparation or further evaluation is underway with a view to development within the foreseeable future.

Licence interests

Current exploration, development and production interests

Licence	Fields	Area sq km	Tullow interest	Operator	Other partners
AFRICA					
Congo (Brazzaville)					
M'Boundi	M'Boundi	146	11.00%	ENI	SNPC
Côte d'Ivoire					
CI-26 Special Area "E"	Espoir	235	21.33%	CNR	PETROCI
CI-102[1]		865	31.50%	Edison	Kufpec, PETROCI
CI-103		1,884	45.00%	Tullow	Anadarko, PETROCI
CI-105		1,551	22.37%	Anadarko	PETROCI, Al Thani
Equatorial Guinea					
Ceiba	Ceiba	70	14.25%	Hess	GEPetrol
Okume Complex	Okume, Oveng, Ebano & Elon	192	14.25%	Hess	GEPetrol
Ethiopia					
South Omo		29,465	50.00%	Tullow	Africa Oil, Agriterra
Gabon					
Arouwe[2]		4,414	35.00%	Perenco	
Avouma	Avouma, South Tchibala	52	7.50%	Vaalco	Addax (Sinopec), Sasol, Sojitz, PetroEnergy
Ebouri	Ebouri	15	7.50%	Vaalco	Addax (Sinopec), Sasol, Sojitz, PetroEnergy
Echira	Echira	76	40.00%	Perenco	
Etame	Etame	49	7.50%	Vaalco	Addax (Sinopec), Sasol, Sojitz, PetroEnergy
Kiarsseny Marin		5,442	52.78%	Tullow	Addax (Sinopec)
Limande	Limande	10	40.00%	Perenco	
Niungo	Niungo	96	40.00%	Perenco	
Nziembou		1,027	40.00%	Perenco	Total
Oba	Oba	44	5.00%[3]	Perenco	AIC Petrofi
Obangue	Obangue	40	3.75%[3]	Addax (Sinopec)	AIC Petrofi
Omko	Omko	16	7.50%[3]	Maurel & Prom	AIC Petrofi
Onal	Onal	46	7.50%[3]	Maurel & Prom	AIC Petrofi
Tchatamba Marin	Tchatamba Marin	30	25.00%	Perenco	Oranje Nassau
Tchatamba South	Tchatamba South	40	25.00%	Perenco	Oranje Nassau
Tchatamba West	Tchatamba West	25	25.00%	Perenco	Oranje Nassau
Tsiengui	Tsiengui	26	3.75%[3]	Addax (Sinopec)	AIC Petrofi
Turnix	Turnix	18	27.50%	Perenco	
Back-In Rights [4]					
DE7 (formerly Ombena)		2,188	5.00%[5]	Perenco	
Dussafu Marin		2,780	5.00%[5]	Harvest Natural Res	Pan-Petroleum
Etame Marin		2,972	7.50%	Vaalco	Addax (Sinopec), Sasol, Sojitz, PetroEnergy
Etekamba		773	5.00%[5]	Maurel & Prom	
Maghena		631	3.75%[5]	Addax (Sinopec)	
Nyanga Mayombe		2,831	3.75%[5]	Maurel & Prom	
Omoueyi		4,133	7.50%[5]	Maurel & Prom	
Ghana					
Deepwater Tano	Jubilee, Tweneboa	831	49.95%	Tullow	Kosmos, Anadarko, GNPC, Sabre
West Cape Three Points	Jubilee	1,497	22.90%	Kosmos	Anadarko, GNPC, E.O. Group, Sabre
Jubilee Field Unit Area[6]	Jubilee		34.70%	Tullow/Kosmos[7]	Anadarko, GNPC, Sabre, E.O Group

Licence	Fields	Area sq km	Tullow interest	Operator	Other partners
AFRICA continued					
Kenya					
Block L8[8]		5,115	10.00%	Origin	Pancontinental
Block 10A		14,747	50.00%	Tullow	Africa Oil, EAX (Afren)
Block 10BA		16,205	50.00%	Tullow	Centric Energy (Africa Oil)
Block 10BB		12,491	50.00%	Tullow	Africa Oil, Lion
Block 12A		15,389	50.00%	Tullow	Africa Oil
Block 13T		8,429	50.00%	Tullow	Africa Oil
Liberia					
LB-15		3,400	25.00%	Anadarko	Repsol, Woodside
LB-16		3,225	25.00%	Anadarko	Repsol, Woodside
LB-17		3,150	25.00%	Anadarko	Repsol, Woodside
Madagascar					
Mandabe (Block 3109)		11,050	100.00%	Tullow	
Berenty (Block 3111)		9,050	100.00%	Tullow	
Mauritania					
Block 1		2,624	38.00%	Dana	GDF, Roc Oil
Block 2		4,898	83.78%	Tullow	Dana, Roc Oil
PSC – Area A Block 3 Blocks 4 & 5 shallow		6,969	24.30%	Petronas	Premier, Kufpec, Roc Oil
PSC – Area B Blocks 4 & 5 deep		8,028	21.60%	Petronas	Premier, Kufpec, Roc Oil
PSC – Area B Chinguetti EEA	Chinguetti	929	19.01%	Petronas	SMH, Premier, Kufpec, Roc Oil
Block 6		4,023	22.42%	Petronas	Roc Oil
Block 7		6,676	16.20%	Dana	Petronas, GDF, Roc Oil
Namibia					
Production Licence 002	Kudu	4,567	31.00%[9]	Tullow	Gazprom/NAMCOR JV, Itochu
Senegal					
St Louis		2,807	60.00%	Tullow	Dana, Petrosen
Sierra Leone					
SL-06/07 & SL-07		5,493	10.00%	Anadarko	Repsol, Woodside
Tanzania					
Lindi		7,315	50.00%	Tullow	Aminex, Solo
Mtwara		5,045	50.00%	Tullow	Aminex, Solo
Uganda					
Exploration Area 1[10]	Jobi-Rii, Mpyo, Ngiri	4,285	100.00%[11]	Tullow	
Exploration Area 2	Mputa, Waraga, Kasamene, Nzizi	3,900	100.00%[11]	Tullow	
Exploration Area 3A[10]	Kingfisher	1,991	100.00%[11]	Tullow	

1. Tullow is in the process of withdrawing from this licence.
2. Tullow has 'Back-In Rights' on this licence as well as a working interest.
3. Tullow's interest in this licence is held through its 50% holding in Tulipe Oil SA.
4. Back-In Rights: Tullow has the option, in the event of a development, to acquire varying interests in these licences.
5. Tullow has the option to acquire an interest in this licence through its 50% holding in Tulipe Oil SA.
6. A unitisation agreement has been agreed by the partners of the West Cape Three Points and Deepwater Tano licences for the area covering the Jubilee Field Phase 1 Development Area.
7. Tullow is the Unit Operator and Kosmos is the Technical Operator for Phase 1 of the Jubilee Development.
8. Tullow has agreed to farm in to Block L8 acquiring a 10% stake from Pancontinental. Apache is also farming in to this block, under a separate deal with Origin, and will become operator.
9. Awaiting signing of formal documentation.
10. On 26 July 2010 Tullow completed the acquisition of Heritage Oil plc's 50% interest in EA 1 and EA 3A. The deal has received government approval and is awaiting completion of final paperwork.
11. Tullow is in the process of farming down 66.6666% of its interest in EA 1, EA 2 and EA 3A to CNOOC and Total. The deal is awaiting government approval.

Current exploration, development and production interests continued

Licence / Unit Area	Blocks	Fields	Area sq km	Tullow interest	Operator	Other partners
EUROPE						
United Kingdom						
CMS Area						
P450	44/21a	Boulton B & F	77	9.50%	ConocoPhillips	GDF
P451	44/22a 44/22b	Murdoch Boulton H[12]	88	34.00%	ConocoPhillips	GDF
P452	44/23a (part)	Murdoch K[12]	48	6.91%	ConocoPhillips	GDF
P453	44/28b	Ketch	85	100.00%	Tullow	
P516	44/26a	Schooner[13]	99	100.00%	Tullow	
P1006	44/17b	Munro[14]	48	20.00%	GDF	ConocoPhillips
P1058	44/18b 44/23b	 Kelvin	46	22.50%	ConocoPhillips	GDF
P1139	44/19b 44/19b part (Cameron)		60	22.50% 60.00%[15]	ConocoPhillips Tullow	GDF ConocoPhillips, GDF
P1437	44/13a		192	25.00%	GDF	E.ON, Endeavour
CMS III Unit[16]	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		14.10%	ConocoPhillips	GDF
Munro Unit[16]	44/17b 44/17a	Munro		15.00%	ConocoPhillips	GDF
Schooner Unit[16]	44/26a 43/30a	Schooner		93.10%	Tullow	Faroe Petroleum
Thames-Hewett Area						
P007	49/24aF1 (Excl Gawain) 49/24aF1 (Gawain)	 Gawain[17]	163	100.00% 50.00%	Tullow Perenco	
P037	49/28a 49/28b 49/28a (part)	Thames, Yare, Bure, Deben, Wensum Thurne	90	66.67% 86.96%	Perenco Tullow	Centrica Centrica
P039	53/04d	Wissey	29	62.50%	Tullow	First Oil, Faroe Petroleum
P060	50/26a	Orwell	27	100.00%	Tullow	
P105	49/29a (part)	Gawain[17]	17	50.00%	Perenco	
P786	53/03c	Horne	8	50.00%	Tullow	Centrica
P852	53/04b	Horne & Wren	17	50.00%	Tullow	Centrica
P1445	48/28c, 52/03a 52/04b, 52/05b		428	100.00%	Tullow	
P1715	49/29d		50	100.00%	Tullow	
P1716	49/28e 49/30b		87	65.00%[18]	Tullow	Volantis
Gawain Unit[16]	49/24F1 (Gawain) 49/29a (part)	Gawain		50.00%	Perenco	

Licence	Fields	Area sq km	Tullow interests	Operator	Other partners
EUROPE continued					
Netherlands					
E10		401	32.00%	Tullow	XTO, GTO, EBN
E11		401	30.00%	Tullow	XTO, EBN
E13a		234	50.00%	Tullow	EBN, Gas Plus
E13b		168	10.00%	GDF	Wintershall, EBN, Dyas
E14		403	32.00%	Tullow	XTO, GTO , EBN
E15c		343	30.00%	Tullow	XTO, GTO, Gas Plus, EBN
E18b		192	32.00%	Tullow	XTO, GTO, EBN
L12c		30	30.00%	Tullow	EBN, Nuon, Wintershall
L12d		225	30.00%	Tullow	EBN, Nuon, Wintershall
L15d		62	30.00%	Tullow	EBN, Nuon, Wintershall
SOUTH ASIA					
Bangladesh					
Block 9	Bangora / Lalmai	1,770	30.00%	Tullow	Niko, Bapex
Pakistan					
Bannu West		1,230	40.00%	Tullow	OGDCL, MGCL, SEL
Block 28		6,200	95.00%	Tullow	OGDCL
Kalchas		2,068	30.00%	OGDCL	MGCL
Kohat	Shekhan	1,107	40.00%	OGDCL	MGCL, SEL
Kohlu		2,459	30.00%	OGDCL	MGCL
Sara D&PL	Sara[19]	83	38.18%	Tullow	OGDCL, POL, Attock
Suri D&PL	Suri[19]	24	38.18%	Tullow	OGDCL , POL, Attock
SOUTH AMERICA					
French Guiana					
Guyane Maritime		32,120	39.50%[20]	Tullow	Shell[21], Total[21], Northpet Investments
Guyana					
Georgetown Block		8,400	30.00%	Repsol	YPF, CGX Resources
Suriname					
Block 47		2,369	100.00%	Tullow	
Coronie[22]		2,592	40.00%[23]	Paradise Oil	
Uitkijk		757	36.50%	Paradise Oil	Portsea

12. Refer to CMS III Unit for field interest.
13. Refer to Schooner Unit for field interest.
14. Refer to Munro Unit for field interest.
15. Tullow has agreed a farm-in with ConocoPhillips whereby it will increase its interest in the Cameron Area of 44/19b.
16. 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.
17. Refer to Gawain Unit for field interest.
18. Tullow has agreed a farm-in deal with Volantis whereby it will acquire a 65% interest in P1716.
19. The Sara/Suri fields were shut in during Q4 2010.
20. Shell has exercised its option to acquire a further 12% from Tullow. Tullow's interest will reduce to 27.5% on completion of the deal which is awaiting government approval.
21. Shell and Total farm-in deals awaiting final government approval.
22. Tullow will acquire its interests on completion of work programme.
23. Tullow has a 40% title interest (36.5% economic interest).

Shareholder information

Shareholder enquiries

All enquiries concerning shareholdings including notification of change of address, loss of a share certificate or dividend payments should be made to the Company's registrars, Computershare Investor Services PLC, whose contact details are as follows:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ

Contact: www.investorcentre.co.uk/contactus

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

A range of shareholder frequently asked questions and practical help on transferring shares and updating details is available online in the Shareholder Services section located in the Investors area of the Tullow website: www.tullowoil.com.

Computershare online enquiry service

Computershare provides a range of services through its online portal, Investor Centre, which can be accessed free of charge at www.investorcentre.co.uk. This service, accessible from anywhere in the world, enables shareholders to check details of their shareholdings or dividends, download forms to notify changes in personal details, and access other relevant information.

Payment of dividends

Shareholders can have their dividends paid directly into a UK sterling or Irish euro bank account and have the tax voucher sent directly to their registered address. You can register your account details in Investor Centre or, alternatively download a dividend mandate form.

Overseas shareholders who wish to have their dividends paid in a local currency can use the Global Payments Service that Computershare has established. Details of the service can be accessed in the Shareholder Services section of the Investors area of the Tullow website: www.tullowoil.com.

Share dealing service

A telephone share dealing service has been established for shareholders with Computershare for the sale and purchase of Tullow Oil shares. Shareholders who are interested in using this service can obtain further details by calling the appropriate telephone number below:

UK shareholders:	0870 703 0084
Irish shareholders:	00 353 1 447 5435

If you live outside the UK or Ireland and wish to trade you can do so through the Computershare Trading Account. To find out more or to open an account, please visit www.computershare-sharedealing.co.uk or phone Computershare on +44 (0) 870 707 1606.

Electronic communication

Shareholders have the option to receive shareholder communications including annual reports and notices of meetings electronically. Tullow actively supports Woodland Trust, the UK's leading woodland conservation charity. Computershare, together with Woodland Trust, has established eTree, an environmental programme designed to promote electronic shareholder communications. Under this programme, the Company makes a donation to eTree for every shareholder who registers for electronic communication. To register for this service, simply visit www.etreeuk.com/tullowoilplc with your shareholder number and email address to hand. Once registered, shareholders will be emailed when an annual report or notice of meeting is available for viewing on the Tullow website.

Shareholder security

Shareholders are advised to be cautious about any unsolicited financial advice; offers to buy shares at a discount or offers of free company reports. More detailed information can be found at www.moneymadeclear.fsa.gov.uk and in the Shareholder Services section of the Investors area of the Tullow website: www.tullowoil.com.

ShareGift

If you have a small number of shares whose value makes it uneconomical to sell you may wish to consider donating them to ShareGift. Any shares donated to ShareGift will be aggregated and sold when possible with the proceeds donated to a wide range of UK charities. The relevant share transfer form may be obtained from Computershare. Further information about the scheme is available at www.ShareGift.org.

Financial calendar

Financial year end	31 December 2010
2010 Full-year results announced	9 March 2011
Annual General Meeting	12 May 2011
Interim Management Statement	12 May 2011
2010 Final dividend payable	20 May 2011
2011 Half-yearly results announced	24 August 2011
2011 Interim dividend payable	November 2011
Interim Management Statement	November 2011

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Index

Glossary

A

AGM	Annual General Meeting
AFS	Available for sale

B

bbl	Barrel
bcf	Billion cubic feet
boe	Barrels of oil equivalent
boepd	Barrels of oil equivalent per day
bopd	Barrels of oil per day

C

¢	Cent
CMS	Caister Murdoch System
CMS III	A group development of five satellite fields linked to CMS
CR	Corporate Responsibility
CSO	Civil Society Organisation
CNOOC	China National Offshore Oil Corporation

D

DLT	Development Leadership Team
DoA	Delegation of Authority
DRC	Democratic Republic of Congo
DSBP	Deferred Share Bonus Plan

E

EA	Exploration Area
E&E	Exploration and evaluation
E&A	Exploration and appraisal
E&P	Exploration and production
EBITDA	Earnings Before Interest, Tax, Depreciation and Amortisation
EHS	Environment, Health and Safety
EMS	Environmental Management System
ERC	Energy Resource Consultants
ESOS	Executive Share Option Scheme

F

FEED	Front End Engineering and Design
FPSO	Floating Production Storage and Offloading vessel
FRC	Financial Reporting Council
FRS	Financial Reporting Standard
FTG	Full Tensor Gravity Gradiometry
FTSE 100	Equity index whose constituents are the 100 largest UK listed companies by market capitalisation
FVTPL	Fair Value Through Profit or Loss

G

GELT	Global Exploration Leadership Team
GNPC	Ghana National Petroleum Corporation
GoU	Government of Uganda
Group	Company and its subsidiary undertakings

H

H&S	Health and Safety
HIPO	High Potential Incident
HNBS	Hewitt New Bridge Street
HR	Human Resources

I

IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMS	Information Management System
ISO	International Organization for Standardization

K

km	kilometres
KPI	Key Performance Indicator

L

LIBOR	London Interbank Offered Rate
LTI	Lost Time Incident
LTIFR	LTI Frequency Rate measured in LTIs per million hours worked

M

mmbbl	Million barrels
mmbo	Million barrels of oil
mmboe	Million barrels of oil equivalent
mmscfd	Million standard cubic feet per day
MoU	Memorandum of Understanding
MTM	Mark To Market

N

NGO	Non-Governmental Organisation

O

OR&A	Operational Readiness and Assurance

P

p	pence
P10	Reserves and/or resources estimates that have a 10 per cent probability of being met or exceeded
P50	Reserves and/or resources estimates that have a 50 per cent probability of being met or exceeded
P&D	Production and Development
PAYE	Pay As You Earn
PRT	Petroleum Revenue Tax
PSC	Production Sharing Contract
PSP	Performance Share Plan

S

SCT	Supplementary Corporation Tax
SIP	Share Incentive Plan
SMC	Senior Management Committee
SPA	Sale and Purchase Agreement
sq km	Square kilometres
SRI	Socially Responsible Investment

T

toes	Tullow Oil Environmental Standards
TSR	Total Shareholder Return

U

UK GAAP	UK Generally Accepted Accounting Principles

V

VAT	Value Added Tax

W

WAEP	Weighted Average Exercise Price
WCTP	West Cape Three Points

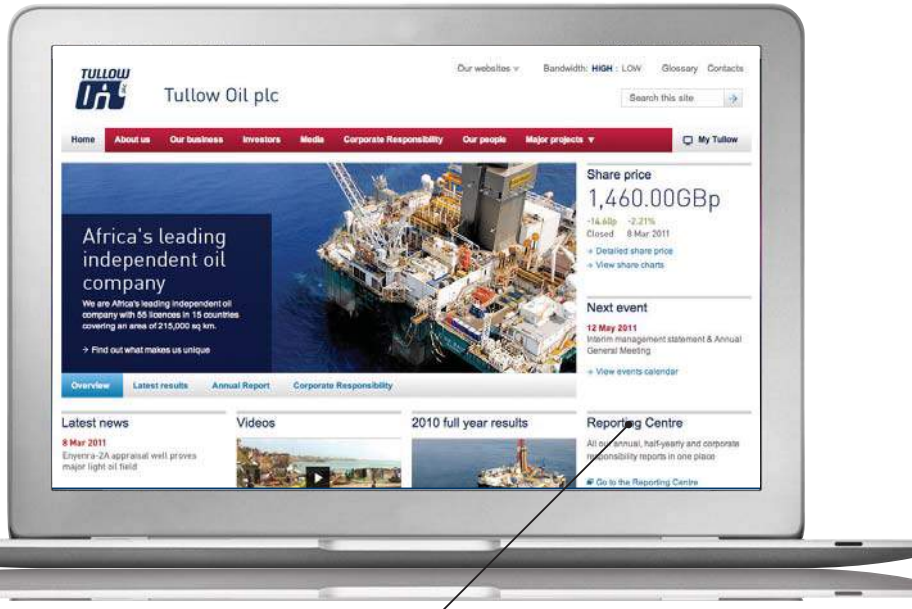
Go online to find out more...

This report is complemented by a range of online information and resources.

www.tullowoil.com

This is our main corporate site. Key sections include our business, investors, media, corporate responsibility and our people. There is also information on our major projects and links to our other websites. Site tools include alert services, social media, low band width version, mobile site and My Tullow, a facility where you can customise the site to suit your preferences and information needs.

We are planning a series of upgrades to our corporate website again this year including a new sustainable supply chain section and further upgrades to corporate responsibility and our people content.



www.tullowoil.com/reports

We have a central hub for key financial calendar events such as results and the AGM and for our corporate reports. Results webcasts, presentations and fact books are also available here.

2010 Annual Report and Accounts

This Annual Report is published online. Visit: **www.tullowoil.com/ara2010**

2010 Corporate Responsibility Report

Our 2010 Corporate Responsibility Report will be published on 1 June 2011. We will also publish an online version. Visit: **www.tullowoil.com/crr2010**

www.tullowoil.com/ghana

This is a dedicated country website for Ghana, which delivered virtual events and content for the Ghana capital markets visit mid-year and First Oil celebrations in December 2010. In the first half of 2011 we will use this site for the Ghana stock exchange listing and we will review upgrading this site to a full country website.

E-communications

- All documents on the website are available to view without any particular software requirement other than the software which is available on the Group's website.
- For every shareholder who signs up for electronic communications, a donation is made to the eTree initiative run by Woodland Trust. You can register for email communication at: **www.etreeuk.com/tullowoilplc**

This report is printed on Heaven 42 which is FSC certified (the standards for well-managed forests, considering environmental, social and economic issues). Heaven 42 is manufactured at a mill that is certified to the ISO14001 and EMAS environmental standards.

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