

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



Meeting the challenge

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

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

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

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

The challenges we've met so far

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

Attracting and retaining a quality team

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

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

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

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

Operating responsibly

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

to our long-term ability to conduct our business and run our projects.

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

Governing effectively

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

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

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

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

Looking ahead

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

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



Pat Plunkett
Chairman