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

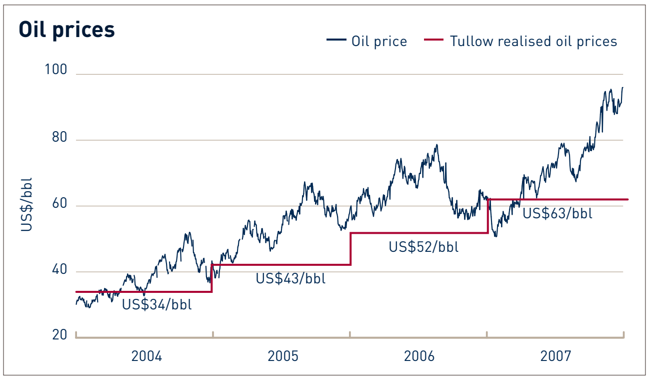
Remarkable exploration success

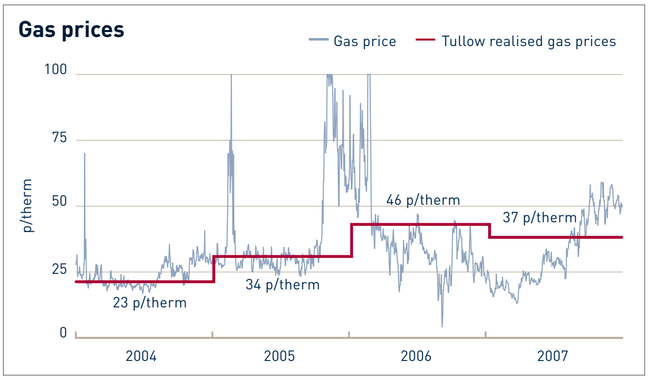
The highlight of 2007 for Tullow was undoubtedly the remarkable success of the Group's exploration and appraisal programmes in Ghana and Uganda. In Ghana, the discovery of the Jubilee field and subsequent success with the Odum exploration well provide a high degree of confidence that Tullow may have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

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

Strong portfolio performance

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





Solid financial results

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

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

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

Africa

Our African business continues to grow rapidly and highlights for the year, along with the exploration success in Ghana and Uganda, include the exceptional performance of the Okume development and Ceiba field in Equatorial Guinea, where gross production recently exceeded 115,000 bopd, and the ongoing successful infill drilling programme in the Espoir field, Côte d'Ivoire. The strength of these assets more than offsets the impact of disappointing production and reserve performance from the Chinguetti field in Mauritania.

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

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

Europe

In the UK, production of 171 mmscfd during 2007 was similar to 2006 levels. In the first half of the year a comparatively mild winter, combined with perceived oversupply in the UK gas market, led to a period of uncertainty and weak gas pricing.

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

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

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

South Asia

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

South America

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

Chief Executive's review continued

Adapting to a changing industry

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

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

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

Operating safely and with sensitivity

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

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

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

Our vision

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

Our strategy

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

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

Balancing our risks

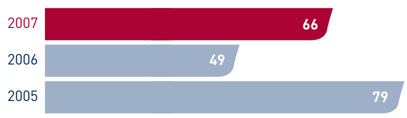
Maintaining our growth will bring with it new challenges and risks, which we recognise are an everyday part of doing business. To continue to prosper, Tullow is required on an ongoing basis to identify, manage and mitigate a wide range of strategic, operational, financial and external risks.

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

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

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

Total shareholder return (TSR)



+66%

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

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

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

Meeting the challenge of transformational change

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

Aidan Heavey
Chief Executive Officer

Key performance indicators (KPIs)

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

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

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