

Corporate governance

Compliance with the Combined Code on corporate governance (the Code)

The Board recognises that it is accountable to shareholders for the Group's standard of governance and this report, together with the Directors' remuneration report, aims to demonstrate how the principles of good governance promoted by the Code have been and will continue to be applied across the Group.

This report explains how the Company has applied the principles set out in Section 1 of the Code. It also discloses the extent to which the Company has complied with the detailed provisions of the Code.

Throughout 2008 and up to the date of approval of this Annual Report, the Group has complied with the provisions of the Code except that, for the period from 1 January to 14 May 2008, independent non-executive Directors did not comprise at least half the Board (excluding the Chairman). The Board considered that its composition during this period was appropriate for its needs, given the wide range of skills, expertise and experience amongst its members. With the appointment of Ann Grant as a non-executive Director on 15 May 2008, the Group became fully compliant with the Code. To support the principles of good corporate governance, the Board and its Committees operate as described below.

Board of Directors

Role of the Board

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

Composition

The Board currently comprises a non-executive Chairman, five Executive Directors and five independent non-executive Directors. Each of the Executive Directors has extensive knowledge of the oil and gas industry. Together, the non-executive Directors bring a broad range of business, commercial and other relevant experience to the Board, which is vital to the management of an expanding international company. Three of the five non-executive Directors either currently hold or previously held appointments in oil and gas companies or companies with energy interests. Biographical details of the Board members, including details of any other major directorships held, are set out on pages 56 and 57.

Chairman and Chief Executive Officer

There is a clear separation of the roles of the Chairman, Pat Plunkett, and the Chief Executive Officer, Aidan Heavey, to ensure an appropriate balance of responsibility and accountability. The division of responsibilities is clearly established and has been set out in writing and agreed by the Board.

The Chairman is responsible for the effective running of the Board, ensuring that the Board plays a full and constructive part in the development and determination of the Group's strategy, and acting as guardian and facilitator of the Board's decision-making process.

The Chief Executive is responsible for managing the Group's business, proposing and developing the Group's strategy and overall commercial objectives in consultation with the Board and, as leader of the executive team, implementing the decisions of the Board and its Committees. In addition, the Chief Executive is responsible for maintaining regular dialogue with shareholders as part of the Group's overall investor relations programme.

Non-executive Directors Appointment

Non-executive Directors are appointed for an initial term of three years, which may be extended by mutual agreement subject to satisfactory performance. The letters of appointment of each non-executive Director are available for inspection at the registered office.

Meetings of non-executive Directors

In addition to their attendance at Board and, as appropriate, Committee meetings, the non-executive Directors also met formally on two occasions during 2008 without executive management present. At these meetings, the non-executive Directors examined and reviewed the performance of the executive management. This review process is in part dealt with by the Board Committees referred to below. Separately, the Chairman and Chief Executive Officer held informal meetings with the non-executive Directors to discuss issues affecting the Group, such as target objectives, strategy, key performance indicators and remuneration matters.

Senior Independent Director

The Senior Independent Director is Steven McTiernan. In this role Mr McTiernan is available to shareholders who have concerns that cannot be resolved through discussion with the Chairman, Chief Executive Officer or Chief Financial Officer or where such contact is inappropriate. No such meetings were held during the year.

Independence and conflicts

The Board considers each of the current non-executive Directors to be independent in character and judgement and there are no relationships or circumstances which are likely to affect (or could appear to affect) the judgement of any Director.

With effect from 1 October 2008, a Director has a duty to avoid a situation in which he or she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company. The Board has satisfied itself that there is no compromise to the independence of those Directors who have appointments on the boards of,

or relationships with, companies outside the Group. The Board requires Directors to declare all appointments and other situations which could result in a possible conflict of interest and has adopted appropriate processes to manage and, if appropriate, approve any such conflicts.

Election and re-election

All new Directors are required by the Company's Articles of Association to be elected by shareholders at the first Annual General Meeting (AGM) after their appointment. Subsequently, Directors are subject to re-election by shareholders every three years. Where a non-executive Director has served longer than nine years, it is Board policy that the Director be subject thereafter to annual re-election in accordance with the Code. The Directors seeking re-election at the 2009 AGM are identified on page 77 of this annual report and in the separate Notice of AGM that accompanies this document.

How the Board operates

Board meetings

The Board holds scheduled meetings regularly during the year and meets on an ad hoc basis as required. The Board has arranged to hold at least one Board meeting each year at one of the overseas offices of the Group. This provides senior managers from across the Group the opportunity to present to the Board and to meet the Board members informally. It also provides the Board with an opportunity to assess senior managers at first hand.

The attendance record of each Director is shown in the table on this page. During 2008, the Board met formally on 11 occasions, including two formal strategy review meetings held with senior management present. In addition to the formal meetings of the Board, the Chairman and Chief Executive Officer maintain frequent contact with the other Directors to discuss any issues of concern they may have relating to the Group or as regards their area of responsibility and to keep them fully briefed on the Group's operations.

Information flow

Directors have access to a regular supply of financial, operational, strategic and regulatory information to assist them in the discharge of their duties. Much of this information is provided as part of the normal management reporting process. Board papers are circulated in time to allow Directors to be properly briefed in advance of meetings. In addition, Board meetings generally include a review of the history, performance and future potential of a material individual asset or business unit. This is designed to ensure that all material assets are considered on a cyclical basis and to enable Board members to familiarise themselves with the key assets and operations of the Group.

Independent professional advice

In accordance with Board policy, all Directors and Committees have access to independent professional advice, at the Company's expense, as and when required.

Insurance cover

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

Matters reserved

A formal schedule of matters reserved for Board approval is in place and is reviewed annually. The matters reserved include (amongst others):

- agreeing the Group's overall strategy;
- approval of financial statements, material acquisitions and disposals, material contracts, major capital expenditure projects and budgets; and
- a regular review of the Group's overall corporate governance arrangements.

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

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

Attendance at meetings

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

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

1. Pat Plunkett, Chairman, was unable to attend a number of meetings due to illness. Mr McTiernan, the Senior Independent Director, chaired the Board meetings in his absence.

2. Ann Grant was appointed to the Board on 15 May 2008.

3. Ian Springett was appointed to the Board on 1 September 2008.

4. Tom Hickey resigned as a Director on 1 September 2008.

5. Matthew O'Donoghue retired from the Board on 31 March 2008.

Board performance evaluation

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

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

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

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

The Chairman has held discussions with each of the Directors on his or her individual performance and separately the non-executive Directors have reviewed the performance of the Chairman with input from the Executive Directors. The Board is of the view that each non-executive Director commits sufficient time to discharge his or her duties effectively.

Induction

All new Directors receive an induction as soon as practicable after appointment. This includes meetings with senior management, functional and business unit heads and where appropriate, visits to the principal offices. The Company Secretary also provides new Directors with an overview of their duties as Directors, corporate governance policies and established Board procedures as part of the induction process.

Continuing professional development

All members of the Board have access to appropriate training in respect of their obligations and duties as Directors, and during the year, a number of the Directors attended external seminars on relevant topics. In addition, specific briefings were also given to the Board to ensure Board members remain up-to-date with current regulations and developments. These included recent developments in company law brought in by the Companies Act 2006.

Committees

The Board has established the following principal Committees, each of which has written terms of reference (approved by the Board) setting out its authority and duties. Copies of the terms of reference which were reviewed and updated where necessary during the year, can be viewed on the Investor Relations section of the Company's website: www.tulloil.com. Hard copies can also be obtained from the Company Secretary.

Audit Committee

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

Main responsibilities

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

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

The Group's external auditors are Deloitte LLP and the Committee closely monitors the level of audit and non-audit services they provide to the Group. Non-audit services are normally limited to assignments that are closely related to the annual audit or where the work is of such a nature that a detailed understanding of the Group is necessary. A policy for the engagement of external auditors to supply non-audit services was implemented during the year formalising these arrangements. A breakdown of the fees paid to the external auditors in respect of audit and non-audit work is included in note 3 to the Financial Statements. In addition to

processes put in place to ensure segregation of audit and non-audit roles, Deloitte LLP are required as part of the assurance process in relation to the audit, to confirm to the Committee that they have both the appropriate independence and objectivity to allow them to continue to serve the members of the Company. This confirmation was given and no matters of concern in relation to the above were identified by the Committee.

The Chief Financial Officer, the Group Internal Audit Manager, the Group Finance Manager and representatives of the external auditors normally attend meetings of the Audit Committee at the invitation of the Committee. The Chairman of the Board also attends meetings of the Committee by invitation. The external auditors have unrestricted access to the Committee Chairman. During the 2008 audit process, the Audit Committee Chairman met with Deloitte's Audit Engagement Partner without the presence of management.

In 2008, the Audit Committee met on four occasions. The key work undertaken by the Committee was as follows:

- **Consideration and review of annual and interim financial statements**
 The Committee met with the external auditors as a part of the interim and final accounts approval process.
 During this exercise the Committee considered the most appropriate treatment and disclosure of any new or judgemental matters identified during the audit, as well as any recommendations or observations made by the external auditors.
- **Audit planning and update on relevant accounting developments**
 Following the Group's adoption of IFRS in 2004/05, there were limited further regulatory or financial accounting changes during 2008. These changes are described in the accounting policies note on page 85.
- **Consideration and approval of the risk management framework, annual Internal Audit Plan and periodic reports from Internal Audit**
 The Group Internal Audit Manager has direct access and responsibility to the Audit Committee. His main responsibilities include: evaluating and developing the Group's overall control environment, operating efficiency and risk identification and management at operating, regional and corporate levels. In fulfilling his role, the Group Internal Audit Manager has direct access to the Committee without reference to executive management. During 2008, the Audit Committee Chairman met with the Group Internal Audit Manager without the presence of management. The Committee approved the programme of 2008 internal audit work aimed at addressing both financial and overall risk management objectives identified within the Group. A number of internal audit reviews were undertaken during 2008 covering a range of financial and business processes in the Group's three main business units in London, Dublin and Cape Town. Detailed results from these reviews were reported to management and in summary to the Audit Committee during the year. Recommendations made as a result of the work of Internal Audit are tracked for timely

implementation and reported to the Audit Committee periodically. No significant weaknesses were identified as a result of risk management and internal controls reviews undertaken by Internal Audit during 2008. The Group also undertook regular audits of non-operated joint ventures under the supervision of business unit management and the Group Internal Audit Manager.

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

• **Review of the effectiveness of the Audit Committee**

During the year, the Audit Committee completed a review of the effectiveness of external audit, internal audit and of the Audit Committee itself through a series of questionnaires answered by key stakeholders. Internal Audit co-ordinated the review with results presented to the members of the Audit Committee. The Committee was considered to be operating effectively and in accordance with the guidance recommended by the Smith Committee included in the Combined Code. A number of enhancements to current processes were implemented during 2008 that have improved the effectiveness of the Committee further. The internal audit and external audit processes were also considered to be operating effectively.

Nominations Committee

Pat Plunkett, Chairman

David Bamford

Ann Grant (appointed 15 May 2008)

Aidan Heavey

Steven McTiernan

Clare Spottiswoode

David Williams

Main responsibilities

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

The Committee comprises all the non-executive Directors and the Chief Executive and meets as required. The Committee met three times in 2008, primarily to review Board and Board Committee composition and succession matters.

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

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

Remuneration Committee

Clare Spottiswoode, Chairman

David Bamford

Ann Grant (appointed 15 May 2008)

Steven McTiernan

Pat Plunkett

David Williams

Main responsibilities

- Determining and agreeing with the Board the remuneration policy for the Chief Executive Officer, Chairman, Executive Directors and senior executives;
- Approving the design of, and determining targets for, an annual performance-related pay scheme for the Executive Directors and senior executives;
- Reviewing the design of share incentive plans for approval by the Board and shareholders and determining the annual award policy to Executive Directors and senior executives under existing plans; and
- Within the terms of the agreed policy, determining the remainder of the remuneration packages (principally comprising salary and pension) for each Executive Director and senior executive.

The Directors' remuneration report on pages 66 to 75 contains further details of the role and activities of the Remuneration Committee.

Corporate Social Responsibility Committee

Graham Brunton, Head of EHS, Chairman

Ann Grant, Non-executive Director (appointed on 1 January 2009)

Paul McDade, Chief Operating Officer

Kevin Quinn, Business Unit Manager South Asia and South America

Bill Torr, General Manager Cape Town Office

Caragh Whale, EHS Reporting and Communications Co-ordinator

Linda Joseph, Cape Town Office Manager

Ahlem Gamri, London Staff Representative

Sharan Dhami, Investor Relations Assistant

Oliver McCredie, CSR Advisor

Main responsibilities

- Manage the process for submission, assessment and approval of CSR expenditure undertaken by Tullow Group-wide;
- Consider and propose an annual budget for CSR activities to the Board;
- Evolve and further develop Tullow's social and ethical policies as part of the overall risk management framework of the business;
- Prepare the annual CSR Report;
- Review the internal CSR programme, ensuring co-ordination between internal and external activities and ensuring that the internal CSR function is adequately resourced and has appropriate standing within the Group; and
- Consider other CSR matters as specified by the Board.

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

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

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

Shareholder relations

Communication with shareholders is given high priority and there is regular dialogue with institutional investors, as well as general presentations to analysts at the time of the release of the annual and interim results. Throughout 2008, Executive Directors and senior management met with institutional investors in London and across the UK, as well as in Dublin and several other European cities. Three roadshows took place in North America and attendances at several UK and European conferences provided for comprehensive and engaging dialogue with shareholders. In October 2008, a Capital Markets Day was hosted for analysts in the UK with Tullow's Ghanaian operations being the focus of the event. This annual event is scheduled to be repeated later in 2009. The Board receives regular investor relations reports covering key investor meetings and activities, as well as shareholder and investor feedback. The Group issues its results and other news releases promptly via the London Stock Exchange's Regulatory News Service and publishes them on the Investor Relations section of the Company's website: www.tullowoil.com. Regular updates to record news in relation to the Group and the status of exploration and development programmes are also included on the website. Shareholders and other interested parties can subscribe to receive these news updates by email by registering online on the website. The Chairman is available to meet with institutional shareholders to discuss any issues and address any concerns in relation to the Company's governance and strategy. Non-executive Directors have the opportunity to attend meetings with major shareholders and are available to attend if requested to do so. Meetings are also held with the corporate governance representatives of institutional investors when requested.

At the AGM, a business presentation is provided for the benefit of shareholders. Individual shareholders are given the opportunity to put questions to the Chairman, the chairmen of the Audit, Nominations and Remuneration Committees and to other members of the Board. In addition, the Board is committed to maintaining strong links with its significant Irish shareholder base and holds a business presentation in Dublin following the AGM to allow these shareholders similar access to the Company. Notice of the AGM is sent to shareholders at least 20 working days before the meeting and details of proxy votes for and against each resolution, together with votes withheld, are made available after the vote has been dealt with on a show of hands.

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

Internal controls

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

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

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

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

Going concern

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

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

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

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



Pat Plunkett

Chairman
10 March 2009