

Financial statements

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.

Group

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 (IFRS) as adopted by the European Union. The Group financial statements are also required by law to be properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements present fairly for each financial year the Group's financial position, financial performance and cash flows. This requires the faithful representation of the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's 'Framework for the preparation and Presentation of Financial Statements'. In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable International Financial Reporting Standards. However, Directors are also required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information; and
- provide additional disclosures when compliance with the specific requirements in IFRS 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.

Parent Company

The Directors 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). The Parent Company financial statements are required by law to give a true and fair view of the state of affairs of the 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Parent Company financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence 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 required by DTR 4.1.12R

We confirm to the best of our knowledge:

1. the financial statements, prepared in accordance with the applicable set of accounting 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
2. the business review, 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 they face.

By order of the Board



Aidan Heavey
Chief Executive Officer
10 March 2009



Ian Springett
Chief Financial Officer
10 March 2009

Independent Auditors' Report

to the members of Tullow Oil plc

We have audited the Group financial statements of Tullow Oil plc for the year ended 31 December 2008 which comprise the Group income statement, the Group statement of recognised income and expense, the Group balance sheet, the Group cash flow statement, the accounting policies and the related notes 1 to 33. These Group financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' remuneration report that is described as having been audited.

We have reported separately on the parent company financial statements of Tullow Oil plc for the year ended 31 December 2008.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report, the Directors' remuneration report and the Group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Group financial statements give a true and fair view, whether the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation and whether the part of the Directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' report is consistent with the Group financial statements.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the corporate governance statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Group financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Group financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Group financial statements and the part of the Directors' remuneration report to be audited. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Group financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Group financial statements and the part of the Directors' remuneration report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the Group financial statements and the part of the Directors' remuneration report to be audited.

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted by the European Union, of the state of the Group's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the part of the Directors' remuneration report described as having been audited has been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the Group financial statements.



Deloitte LLP

Chartered Accountants and Registered Auditors
London
10 March 2009

Group income statement

Year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Sales revenue	2	691,673	639,203
Cost of sales		(366,108)	(353,695)
Gross profit		325,565	285,508
Administrative expenses		(43,051)	(31,628)
Profit/(loss) on disposal of subsidiaries	26	213,268	(597)
Profit on disposal of oil and gas assets	26	30,614	-
Exploration costs written off	9	(226,701)	(64,235)
Operating profit	3	299,695	189,048
Gain/(loss) on hedging instruments	17	42,927	(29,267)
Finance revenue	2	3,928	3,095
Finance costs	5	(47,238)	(48,673)
Profit from continuing activities before tax		299,312	114,203
Income tax expense	6	(73,069)	(61,609)
Profit for the year from continuing activities		226,243	52,594
Attributable to:			
Equity holders of the parent		223,211	50,887
Minority interest	24	3,032	1,707
		226,243	52,594
Earnings per ordinary share	8	Stg p	Stg p
Basic		30.86	7.10
Diluted		30.49	6.96

Group statement of recognised income and expense

Year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Profit for the financial year		226,243	52,594
Currency translation adjustments	23/24	222,266	(5,321)
Hedge movement, net of deferred tax	23	160,966	(79,780)
		383,232	(85,101)
Total recognised income and expense for the year		609,475	(32,507)
Attributable to:			
Equity holders of the parent		599,631	(34,214)
Minority interest		9,844	1,707
		609,475	(32,507)

Group balance sheet

As at 31 December 2008

	Notes	2008 €'000	2007 (as restated*) €'000
ASSETS			
Non-current assets			
Intangible exploration and evaluation assets	9	1,417,777	956,580
Property, plant and equipment	10	986,374	890,416
Investments	11	447	447
Derivative financial instruments	17	29,280	–
		2,433,878	1,847,443
Current assets			
Inventories	12	37,850	24,897
Trade receivables		69,344	91,444
Other current assets	13	60,208	33,351
Cash and cash equivalents	14	311,020	82,224
Derivative financial instruments	17	19,989	–
Assets held for sale	18	–	11,843
		498,411	243,759
		2,932,289	2,091,202
Total assets			
LIABILITIES			
Current liabilities			
Trade and other payables	15	(330,215)	(180,626)
Other financial liabilities	16	(210,528)	(9,793)
Current tax liabilities		(105,282)	(31,457)
Derivative financial instruments	17	–	(89,509)
		(646,025)	(311,385)
Non-current liabilities			
Trade and other payables	15	(6,089)	(15,586)
Other financial liabilities	16	(489,041)	(540,272)
Deferred tax liabilities	20	(347,940)	(307,615)
Provisions	20	(134,019)	(135,139)
Derivative financial instruments	17	–	(68,535)
		(977,089)	(1,067,147)
		(1,623,114)	(1,378,532)
Total liabilities			
		1,309,175	712,670
Net assets			
EQUITY			
Called up share capital	22	73,288	71,961
Share premium	22	160,714	128,465
Other reserves	23	582,131	210,089
Retained earnings	21	467,711	286,668
		1,283,844	697,183
Equity attributable to equity holders of the parent		1,283,844	697,183
Minority interest	24	25,331	15,487
		1,309,175	712,670
Total equity			

* The 2007 comparatives have been restated due to an asset held for sale being reclassified during 2008 [see note 18].

Approved by the Board and authorised for issue on 10 March 2009



Aidan Heavey
Chief Executive Officer



Ian Springett
Chief Financial Officer

Financial statements
Group cash flow statement

Year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Cash flows from operating activities			
Cash generated from operations	25	587,650	446,660
Income taxes paid		(76,853)	(30,030)
Net cash from operating activities		510,797	416,630
Cash flows from investing activities			
Acquisition of subsidiaries		-	(334,954)
Disposal of subsidiaries	26	207,834	(597)
Disposal of oil and gas assets		77,530	-
Purchase of intangible exploration and evaluation assets		(323,569)	(165,726)
Purchase of property, plant and equipment		(136,783)	(198,355)
Finance revenue		3,372	3,206
Net cash used in investing activities		(171,616)	(696,426)
Cash flows from financing activities			
Net proceeds from issue of share capital		8,089	2,661
Proceeds from issue of subsidiary share capital to minority interest		-	1,244
Debt arrangement fees		(5,318)	(8,431)
Repayment of bank loans		(372,583)	(29,474)
Drawdown of bank loan		312,929	379,979
Finance costs		(40,441)	(40,782)
Dividends paid	7	(43,173)	(39,406)
Purchase of treasury shares		(11,235)	(3,722)
Net cash (used in)/generated by financing activities		(151,732)	262,069
Net increase/(decrease) in cash and cash equivalents		187,449	(17,727)
Cash and cash equivalents at beginning of year		82,224	99,478
Translation difference		41,347	473
Cash and cash equivalents at end of year	14	311,020	82,224

Accounting policies

Year ended 31 December 2008

(a) General information

Tullow Oil Plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 134. The nature of the Group's operations and its principal activities are set out in the operations and finance reviews on pages 20 to 43.

(b) Adoption of new and revised standards

Two Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period. These are: IFRIC 11 – Group and Treasury Transactions and IAS 19 – The Limit on Defined Benefit Asset, Minimum Funding requirements and their interaction. The adoption of these Interpretations has not led to any changes in the Group's accounting policies.

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 have not yet been adopted by the EU).

IFRS 1/ IAS 27	Cost of and investment in a subsidiary, jointly controlled entity or associate
IFRS 2	Share-based payment – Vesting conditions and cancellations (amended)
IFRS 3	Business combinations (revised 2008)
IFRS 8	Operating segments
IAS 1	Presentation of financial statements (revised 2008)
IAS 23	Borrowing cost (revised 2007)
IAS 27	Consolidated and separate financial statements (revised 2008)
IAS 32/ IAS 1	Puttable financial instruments and obligations arising on liquidation (amended)
IFRIC 12	Service concession arrangements
IFRIC 15	Agreements for the construction of real estate
IFRIC 16	Hedges of a net investment in a foreign operation

Improvements to IFRS (May 2008)

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group except for:

- additional segment disclosures when IFRS 8 comes into effect for periods commencing on or after 1 January 2009; and
- treatment of acquisition of subsidiaries when IFRS 3 comes into effect for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 July 2009.

(c) Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') 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.

(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.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority 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 profit or loss.

(d) Basis of consolidation continued

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 are accounted for at the lower of cost and net realisable value.

(h) Foreign currencies

The Pound Sterling is the presentation currency of the Group. For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign 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 foreign subsidiaries, together with differences between the subsidiaries' results translated at average rates versus closing rates, are taken directly to reserves. All resulting exchange differences are classified as equity until disposal of the subsidiary. On disposal, the cumulative amounts of the exchange differences are recognised as income or expense.

Transactions in foreign currencies are recorded at the rates of exchange ruling at the transaction dates. Monetary assets and liabilities are translated into Sterling at the exchange rate ruling at the Balance Sheet date, with a corresponding charge or credit to the Income Statement. However, exchange gains and losses arising on 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.

(i) Exploration, evaluation and production assets

The Group adopts the successful efforts method of accounting for exploration and appraisal costs. All licence acquisition, exploration and evaluation costs are initially capitalised in cost centres by well, field or exploration area, as appropriate. Directly attributable administration costs and interest payable are capitalised insofar as they relate to specific 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.

(j) 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 a proven and probable reserves and a 50 per cent statistical probability that it will be less.

(k) 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.

(l) 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.

(m) 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.

(n) 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.

(o) Share issue expenses and share premium account

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

(p) 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 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.

(q) Pensions

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

(r) 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.

(r) Derivative financial instruments continued

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.

(s) 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.

(t) 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 Company are equity settled as defined by IFRS 2. The fair value of these awards has been determined at the date of grant of the award allowing for the effect of any market-based performance conditions. This fair value, adjusted by the Group's estimate of the number of awards that will eventually vest as a result of non-market conditions, is expensed uniformly over the vesting period.

The fair values were calculated using a binomial option pricing model with suitable modifications to allow for employee turnover after vesting and early exercise. Where necessary, this model was supplemented with a Monte Carlo model. The inputs to the models include: the share price at date of grant; exercise price; expected volatility; expected dividends; risk free rate of interest; and patterns of exercise of the plan participants.

(u) 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.

(v) 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.

(w) 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.

(x) 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.

(y) Financial liabilities and equity

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

(z) 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.

(aa) 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.

(ab) 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);
- Carrying value of property, plant and equipment (note 10);
- Commercial reserves estimates (note 10);
- Presumption of going concern (note 16);
- Derivative financial instruments (note 17);
- Decommissioning costs (note 20); and
- Recoverability of deferred tax assets (note 20).

Notes to the Group financial statements

Year ended 31 December 2008

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, Europe, Africa, South Asia and South America.

The following tables present revenue, profit and certain asset and liability information regarding the Group's business segments for the years ended 31 December 2008 and 2007.

	Africa £'000	Europe £'000	South Asia £'000	South America £'000	Unallocated £'000	Total £'000
2008						
Sales revenue by origin	475,672	204,602	11,399	-	-	691,673
Segment result	137,387	50,615	(31,854)	(40,474)	-	115,674
Profit on disposal of subsidiaries						213,268
Profit on disposal of oil and gas assets						30,614
Unallocated corporate expenses						(59,861)
Operating profit						299,695
Gain on hedging instruments						42,927
Finance revenue						3,928
Finance costs						(47,238)
Profit before tax						299,312
Income tax expense						(73,069)
Profit after tax						226,243
Total assets	2,229,704	495,163	65,290	100,624	41,508	2,932,289
Total liabilities	(651,311)	(213,050)	(19,494)	(31,783)	(707,476)	(1,623,114)
Other segment information						
Capital expenditure:						
Property, plant and equipment	103,710	39,990	4,408	-	7,036	155,144
Intangible exploration and evaluation assets	293,618	34,445	11,589	12,131	-	351,783
Depletion, depreciation and amortisation	(110,647)	(81,978)	(5,749)	-	(3,933)	(202,307)
Impairment losses recognised in income	(18,220)	-	(8,085)	-	-	(26,305)
Exploration costs written off	(146,916)	(12,582)	(26,729)	(40,474)	-	(226,701)

	Africa £'000	Europe £'000	South Asia £'000	South America £'000	Unallocated £'000	Total £'000
2007						
Sales revenue by origin	371,883	258,838	8,482	–	–	639,203
Segment result	144,886	78,979	1,827	(4,419)	–	221,273
Loss on disposal of subsidiaries						(597)
Unallocated corporate expenses						(31,628)
Operating profit						189,048
Loss on hedging instruments						(29,267)
Finance revenue						3,095
Finance costs						(48,673)
Profit before tax						114,203
Income tax expense						(61,609)
Profit after tax						52,594
Total assets	1,344,226	553,340	66,465	112,008	15,163	2,091,202
Total liabilities	(527,843)	(242,597)	(13,870)	(37,731)	(556,491)	(1,378,532)
Other segment information						
Capital expenditure:						
Property, plant and equipment	115,012	86,960	6,096	–	4,145	212,213
Intangible exploration and evaluation assets	152,129	32,587	4,411	4,745	–	193,872
Depletion, depreciation and amortisation	(98,379)	(101,359)	(3,286)	–	(2,781)	(205,805)
Impairment losses recognised in income	(13,834)	–	–	–	–	(13,834)
Exploration costs written off	(45,862)	(12,504)	(1,450)	(4,419)	–	(64,235)

Unallocated expenditure and net liabilities include amounts of a corporate nature and not specifically attributable to a geographic area, including tax balances and the Group debt.

Note 2. Total revenue

	2008 £'000	2007 £'000
Sales revenue		
Oil and gas revenue from the sale of goods	800,715	619,607
(Loss)/profit on realisation of cash flow hedges	(119,258)	2,058
	681,457	621,665
Tariff income	10,216	17,538
Total operating revenue	691,673	639,203
Finance revenue	3,928	3,095
Total revenue	695,601	642,298

Note 3. Operating profit

	2008 £'000	2007 £'000
Operating profit is stated after charging:		
Staff costs (see note 4 below)	46,015	33,632
Depletion and amortisation	198,374	203,024
Impairment of property, plant and equipment	26,305	13,834
Depreciation of other fixed assets	3,933	2,781
Exploration write off	226,701	64,235
Share-based payment charge	7,862	5,388
Gain/(loss) on hedging instruments	42,927	(29,267)
Operating lease rentals	5,098	4,798
Auditors' remuneration (see below)	781	767

	2008 £'000	2007 £'000
Audit services:		
Fees payable to the Company's auditors for the audit of the Company's annual accounts	176	168
Audit of the Company's subsidiaries pursuant to legislation	402	358
	578	526
Tax services:		
Compliance services	-	68
Advisory services	18	6
	18	74
Other non-audit services:		
Services related to corporate finance transactions	82	119
Other services	103	48
	185	167
Total	781	767

Note 4. Staff costs

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

	2008 Number	2007 Number
Administration	265	156
Technical	206	121
Total	471	277

Staff costs in respect of those employees was as follows:

	2008 £'000	2007 £'000
Salaries	41,507	30,442
Social security costs	2,272	1,750
Pension costs	2,236	1,440
	46,015	33,632

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.

Included in salaries is a charge for share-based payments of £7,862,000 (2007: £5,388,000).

Details of Directors' remuneration, Directors' transactions and Directors' interests are set out in the part of the Directors' Remuneration Report described as having been audited and form part of these financial statements.

Note 5. Finance costs

	2008 £'000	2007 £'000
Interest on bank overdrafts and loans	36,556	43,561
Interest on obligations under finance leases	241	288
Total borrowing costs	36,797	43,849
Less amounts included in the cost of qualifying assets	(5,999)	(7,431)
	30,798	36,418
Finance and arrangement fees	6,368	3,646
Unwinding of discount on decommissioning provision (note 20)	10,072	8,609
	47,238	48,673

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 5.36% (2007: 7.74%) to cumulative expenditure on such assets.

Note 6. Taxation on profit on ordinary activities

(a) Analysis of charge in period

The tax charge comprises:

	2008 £'000	2007 £'000
Current tax		
UK corporation tax	38,541	2,328
Foreign taxation	77,034	27,768
Total corporate tax	115,575	30,096
UK petroleum revenue tax	1,382	11,048
Total current tax	116,957	41,144
Deferred tax		
UK corporation tax	(10,355)	21,631
Foreign taxation	(37,385)	229
Total corporate tax	(47,740)	21,860
UK petroleum revenue tax	3,852	(1,395)
Total deferred tax (note 20)	(43,888)	20,465
Total tax expense	73,069	61,609

(b) Factors affecting tax charge for period

As the Group earns a significant portion of its profits in the UK, the tax rates applied to profit on ordinary activities in preparing the reconciliation below is the standard rate of 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 upstream profits (30%) plus the rate of SCT in respect of UK upstream profits (20%) to the profit before tax is as follows:

	2008 £'000	2007 £'000
Group profit on ordinary activities before tax	299,312	114,203
Tax on group profit on ordinary activities at a combined standard UK corporation tax and SCT rate of 50% (2007: 50%)	149,656	57,102
Effects of:		
Expenses not deductible for tax purposes	938	12,056
Utilisation of tax losses not previously recognised	1,863	–
Net losses not recognised	118,371	50,706
Petroleum revenue tax (PRT)	5,234	9,654
UK corporation tax deductions for current PRT	(2,617)	(4,827)
Adjustments relating to prior years	(379)	(5,613)
Income taxed at a different rate	(29,849)	(7,321)
Income not subject to corporation tax	(170,148)	(50,148)
Group total tax expense for the year	73,069	61,609

The Group's profit before taxation will continue to be subject to jurisdictions where the effective rate of taxation differs from that in the UK. Furthermore, unsuccessful exploration expenditure is often incurred in jurisdictions where the Group has no taxable profits, such that no related tax benefit arises. Accordingly, the Group's tax charge will continue to depend on the jurisdictions in which pre-tax profits and exploration costs written off arise.

The Group has tax losses of £155 million (2007: £131 million) that are available indefinitely for offset against future taxable profits in the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they may not be used to offset taxable profits elsewhere in the Group.

Note 7. Dividends

	2008 £'000	2007 £'000
Declared and paid during year		
Final dividend for 2007: Stg4p (2006: Stg3.5p) per ordinary share	28,690	25,051
Interim dividend for 2008: Stg2p (2007: Stg2p) per ordinary share	14,483	14,355
Dividends paid	43,173	39,406
Proposed for approval by shareholders at the AGM		
Final dividend for 2008: Stg4p (2007: Stg4p) per ordinary share	29,316	28,784

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.

	2008 €'000	2007 €'000
Earnings		
Net profit attributable to equity shareholders	223,211	50,887
Effect of dilutive potential ordinary shares	-	-
Diluted net profit attributable to equity shareholders	223,211	50,887
	2008	2007
Number of shares		
Basic weighted average number of shares	723,355,745	717,025,714
Dilutive potential ordinary shares	8,675,224	14,348,042
Diluted weighted average number of shares	732,030,969	731,373,756

Note 9. Intangible exploration and evaluation assets

	2008 €'000	2007 €'000
At 1 January	956,580	820,437
Acquisition of subsidiaries (note 26)	-	48,959
Additions	351,783	193,872
Disposals	(40,149)	-
Transfer to assets held for sale (note 18)	-	(11,398)
Amounts written off	(226,701)	(64,235)
Transfer from/(to) property, plant and equipment (note 10)	368	(15,442)
Currency translation adjustments	375,896	(15,613)
At 31 December	1,417,777	956,580

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.

Amounts written off include an impairment charge calculated in accordance with IAS 36 – Impairment of assets of €60.1 million (2007: £nil). This impairment has 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 the year. In calculating this impairment, management has 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 €'000	Other fixed assets €'000	Total €'000
Cost			
At 1 January 2007	1,357,292	9,996	1,367,288
Acquisition of subsidiaries (note 26)	(39,489)	–	(39,489)
Additions	208,068	4,145	212,213
Transfer from intangible exploration and evaluation fixed assets (note 9)	15,442	–	15,442
Currency translation adjustments	(19,291)	273	(19,018)
At 1 January 2008 (<i>as restated*</i>)	1,522,022	14,414	1,536,436
Additions	148,109	7,035	155,144
Disposals	(33,752)	(258)	(34,010)
Transfer to intangible exploration and evaluation fixed assets (note 9)	(368)	–	(368)
Currency translation adjustments	319,287	1,886	321,173
At 31 December 2008	1,955,298	23,077	1,978,375
Depreciation, depletion and amortisation			
At 1 January 2007	428,521	4,399	432,920
Charge for the year	203,024	2,781	205,805
Impairment loss	13,834	–	13,834
Currency translation adjustments	(6,769)	230	(6,539)
At 1 January 2008 (<i>as restated*</i>)	638,610	7,410	646,020
Charge for the year	198,374	3,933	202,307
Impairment loss	26,305	–	26,305
Disposals	(25,951)	(111)	(26,062)
Currency translation adjustments	142,197	1,234	143,431
At 31 December 2008	979,535	12,466	992,001
Net book value			
At 31 December 2008	975,763	10,611	986,374
At 31 December 2007 (<i>as restated*</i>)	883,412	7,004	890,416

* The 2007 comparatives have been restated due to an asset held for sale being reclassified during 2008 (see note 18).

Additions include capitalised interest of €5,999,000 (2007: €7,431,000).

The carrying amount of the Group's oil and gas assets includes an amount of €9,833,000 (2007: €8,147,000) in respect of assets held under finance leases.

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

The 2008 impairment loss relates to the Chinguetti field in Mauritania and the Chachar field in Pakistan (2007: Chinguetti field in Mauritania). The recoverable amount of the Chinguetti field in Mauritania 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 2009 and 2010 and \$80 per barrel thereafter and a 12.5% pre-tax discount rate. The recoverable amount of the Chachar field in Pakistan was determined by reference to its disposal value less costs to sell.

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

	2008 £'000	2007 £'000
Unlisted investments	447	447

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

Principal subsidiary undertakings

At 31 December 2008 the Company's principal subsidiary undertakings, all of which are included in the consolidated Group financial statements, were:

Name	%	Country of operation	Country of registration
Directly held			
Tullow Oil 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	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	95	Bangladesh	Jersey
Tullow Côte d'Ivoire Limited	100	Côte d'Ivoire	Jersey
Tullow Côte d'Ivoire Exploration Limited	100	Côte d'Ivoire	Jersey
Tullow India Operations Limited	100	India	Jersey
Tullow Madagascar Limited	100	Madagascar	Jersey
Tullow Ghana Limited	100	Ghana	Jersey
Tullow Angola B.V.	100	Angola	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 Gabon Holdings Limited	50	Gabon	Isle of Man
Tullow Oil Gabon SA	100	Gabon	Gabon
Tulipe Oil SA	50	Gabon	Gabon
Hardman Chinguetti Production (Pty) Limited	100	Mauritania	Australia
Hardman Petroleum (Mauritania) (Pty) Limited	100	Mauritania	Australia
Planet Oil (Mauritania) Limited	100	Mauritania	Guernsey
Tullow Uganda Operations Limited	100	Uganda	Australia
Tullow Hardman Holdings B.V.	100	Netherlands	Netherlands
Tullow South Africa (Pty) Limited	100	South Africa	South Africa

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

Note 12. Inventories

	2008 £'000	2007 £'000
Warehouse stocks and materials	27,943	16,927
Oil stocks	9,907	7,970
	37,850	24,897

Inventories includes a provision of £2,400,000 (2007: Enil) for warehouse stock and materials where it is considered that the net realisable value is lower than the original cost.

Note 13. Other current assets

	2008 £'000	2007 £'000
Other debtors	45,606	27,214
Prepayments	5,518	2,458
VAT recoverable	9,084	3,679
	60,208	33,351

Note 14. Cash and cash equivalents

	2008 £'000	2007 £'000
Cash at bank and in hand	241,513	69,357
Short-term deposits	69,507	12,867
	311,020	82,224

Cash and cash equivalents includes an amount of £36,000,000 (2007: £8,254,000) 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 and FPSO costs and an amount of £152,972,000 (2007: £24,453,000) which the Group holds as operator on behalf of joint venture partners.

Note 15. Trade and other payables**Current liabilities**

	2008 £'000	2007 (as restated*) £'000
Trade payables	129,693	65,922
Other payables	30,938	9,174
Deferred income (take or pay)	722	722
Accruals	138,241	86,032
PAYE and social security	17,507	6,649
VAT and other similar taxes	10,189	10,064
Current portion of finance lease (note 19)	2,925	2,063
	330,215	180,626

Non-current liabilities

	2008 £'000	2007 £'000
Other payables	–	9,051
Non-current portion of finance lease (note 19)	6,089	6,535
	6,089	15,586
– After one year but within five years	6,089	14,872
– After five years	–	714
	6,089	15,586

* The 2007 comparatives have been restated due to an asset held for sale being reclassified during 2008 (see note 18).

Trade and other payables are non-interest bearing except for finance leases (note 19).

Note 16. Financial liabilities

	2008 £'000	2007 £'000
Current		
Short-term borrowings	210,528	9,793
Non-current		
Term loans repayable		
– After one year but within two years	393,257	282,275
– After two years but within five years	95,784	257,997
	489,041	540,272

Group bank loans are stated net of unamortised arrangement fees of £11,806,000 (2007: £11,635,000).

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.

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 2008 was as follows:

	Stg £'000	Euro £'000	US\$ £'000	Other £'000	Total £'000
Cash at bank at floating interest rate	55,711	1,251	240,157	9,450	306,569
Cash at bank on which no interest is received	21	20	3,997	413	4,451
Fixed rate debt	–	–	(34,533)	–	(34,533)
Floating rate debt	–	–	(676,842)	–	(676,842)
Net cash/(debt)	55,732	1,271	(467,221)	9,863	(400,355)

The profile at 31 December 2007 for comparison purposes was as follows:

	Stg £'000	Euro £'000	US\$ £'000	Other £'000	Total £'000
Cash at bank at floating interest rate	37,004	390	39,328	472	77,194
Cash at bank on which no interest is received	713	–	2,529	1,788	5,030
Fixed rate debt	(25,000)	–	(75,101)	–	(100,101)
Floating rate debt	(40,000)	–	(421,599)	–	(461,599)
Net (debt)/cash	(27,283)	390	(454,843)	2,260	(479,476)

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 Borrowing Base Facility incurs interest on outstanding debt at Sterling or US Dollar LIBOR plus a margin ranging from 100 basis points to 240 basis points depending on utilisation and concentration of non-OECD assets. The outstanding debt is repayable in variable amounts (determined semi-annually) over the period to 31 August 2012, or such time as is determined by reference to the remaining reserves of the assets, whichever is earlier. There is no requirement under the Borrowing Base Facility to hedge interest rate exposure to Sterling LIBOR and US Dollar LIBOR. The Borrowing Base Facility states that consideration should be given to hedging at least 30% of the interest rate exposure to fluctuations in LIBOR for Sterling and US Dollars in respect of loans under the facility, net of relevant cash balances.

The Hardman Bridge Facility is now a US\$200 million (£138.1 million) revolving facility which is repayable in full on 31 December 2009. The facility incurs interest on outstanding debt at US Dollar LIBOR plus a margin ranging from 300 basis points increasing in quarterly 25 basis point increments until expiry in December 2009. There is no requirement under the Hardman Bridge Facility to hedge interest rate exposure to US Dollar LIBOR. The Hardman Bridge Facility states that consideration should be given to hedging at least 30% of the interest rate exposure to fluctuations in LIBOR for US Dollars in respect of loans under the facility, net of relevant cash balances.

At the end of December 2008, the headroom under the facilities amounted to US\$335 million (£231.4 million); US\$235 million (£162.3 million) under the Borrowing Base and US\$100 million (£69.1 million) under the Hardman Bridge Facility. At the end of December 2007, the headroom under the two facilities was US\$457 million (£228.8 million); US\$307 million (£153.7 million) under the Borrowing Base and US\$150 million (£75.1 million) under the Hardman Bridge 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. All interest rate derivatives currently in place were put in place for a three-year period in May 2008 and expire in May 2011. The interest rate swap currently in place has a swap rate of 3.4375% for a current notional principal of US\$50 million (£34.5 million). The effect of the interest rate collar currently in place limits the exposure to US Dollar LIBOR at varying rates (maximum of 4.3%) over the life of the derivative for a current notional principal of US\$50 million (£34.5 million). The combined mark-to-market position as at the 2008 year end was £2,089,000 (2007: £104,000). The interest rate hedges are included in fixed rate debt in 2008 and were included in the floating rate debt table in 2007 as there was non-material differences between book and fair values for the mark-to-markets on the hedges in place at the time.

Foreign currency risk

Wherever possible, the Group conducts and manages its business in Sterling (UK) and US Dollars (all other countries), the functional currencies of the industry in the areas in which it operates. A natural hedge exists in the majority of the Group's oil and gas income and expenditure, which are denominated in US Dollars and Sterling respectively. 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 2008 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 2008, the only material monetary assets or liabilities of the Group that were not denominated in the functional currency of the respective subsidiaries involved were US\$930 million (£642.3 million) cash drawings under the US\$1,350 million Borrowing Base Facility and US\$100 million (£69.1 million) cash drawings under the US\$200 million Hardman Bridge Facility. As at 31 December 2007 the only material assets or liabilities that were not denominated in the functional currency of the respective subsidiaries involved were US\$570 million (£285.4 million) cash drawings under the US\$1,350 million Borrowing Base facility and US\$400 million (£200.3 million) cash drawings under the \$550million Hardman Bridge Facility. These US Dollar cash drawings at 31 December 2008 continue to be held as a hedge against US Dollar denominated net assets in subsidiaries.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are £444.5 million (2007: £452.2 million).

Foreign currency sensitivity analysis

The Group is mainly exposed to fluctuation 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 2008, a 20% increase in Sterling against the US Dollar would have resulted in a decrease in foreign currency denominated liabilities and equity of £133.1 million (2007: £49.4 million 10% increase) and a 20% decrease in Sterling against US Dollar would have resulted in an increase in foreign currency denominated liabilities and equity of £199.7 million (2007: £60.3 million 10% decrease).

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 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 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.

Note 17. 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 and foreign exchange 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.

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:

Assets/(liabilities):	Less than one year £'000	One to three years £'000	Total 2008 £'000	Less than one year £'000	One to three years £'000	Total 2007 £'000
Cash flow hedges						
Gas derivatives	(5,666)	(5,161)	(10,827)	(7,573)	(13,489)	(21,062)
Oil derivatives	26,523	35,662	62,185	(81,832)	(55,046)	(136,878)
Interest rate derivatives	(868)	(1,221)	(2,089)	(104)	–	(104)
	19,989	29,280	49,269	(89,509)	(68,535)	(158,044)

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 2008, the Group's oil hedge position was summarised as follows:

Oil hedges	H1 2009	H2 2009	2010	2011
Volume – bopd	14,414	14,000	6,500	1,000
Average Price* – \$/bbl	59.68	60.42	78.80	69.40

* Average hedge prices are based on market prices as at 31 December 2008 and represent the current value of hedged volumes at that date.

At 31 December 2008, the Group's gas hedge position was summarised as follows:

Gas hedges	H1 2009	H2 2009	2010	2011
Volume – mmscfd	64.4	44.4	17.8	3.7
Average Price* – p/therm	57.74	54.30	56.94	63.16

* Average hedge prices are based on market prices as at 31 December 2008 and represent the current value of hedged volumes at that date.

As at 31 December 2008, 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 on oil and ratio analysis on gas. There is, however, a degree of ineffectiveness inherent in the Group's oil hedges arising from, among other factors, the discount on the Group's underlying African crude relative to Brent and the timing of oil liftings relative to the hedges. There is also a degree of ineffectiveness inherent in the Group's gas hedges which arise from, among other factors, field production performance on any day.

Income statement hedge summary

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:

	2008 £'000	2007 £'000
Gain/(loss) on hedging instruments:		
Cash flow hedges		
Gas derivatives		
Ineffectiveness	103	(533)
Time value	4,289	(9,989)
	4,392	(10,522)
Oil derivatives		
Ineffectiveness	8,183	(2,380)
Time value	30,352	(10,476)
	38,535	(12,856)
Fair value through profit and loss		
Foreign exchange derivatives	–	(5,889)
Total net gain/(loss) for the year in Income Statement	42,927	(29,267)

The following table summarises the deferred (losses)/gains on derivative instruments, net of tax effects, recorded in hedge reserve (note 23) for the year:

	2008 £'000	2007 £'000
Deferred amounts in hedge reserve		
At 1 January	(131,993)	(52,213)
Amounts recognised in profit for the year	(42,927)	23,917
Deferred gains/(losses) before tax arising during the year	206,219	(133,615)
Deferred tax movement taken directly to equity	(2,326)	29,918
	160,966	(79,780)
At 31 December	28,973	(131,993)

	2008 £'000	2007 £'000
Deferred amounts in hedge reserve net of tax effects		
Cash flow hedges		
Gas derivatives	(3,644)	(7,191)
Oil derivatives	34,111	(124,706)
Interest rate derivatives	(1,494)	(96)
	28,973	(131,993)

Note 17. Financial instruments continued

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 2008, a 10% increase in the dated Brent oil price curve would have decreased equity by approximately £22 million (2007: £49 million), a 10% decrease would have increased equity by approximately £27 million (2007: £43 million).

As at 31 December 2008, a 10% increase in the UK D-1 Heren and M-1 Heren natural gas price curves would have decreased equity by approximately £10.5 million (2007: £14 million), a 10% decrease would have increased equity by approximately £10.3 million (2007: £12 million).

Interest rate sensitivity analysis

As at 31 December 2008, the interest rate derivative position was out-of-the-money to an amount of £2.1 million (2007: £104,000) and due to immateriality no sensitivity analysis has been performed on the position.

FX sensitivity analysis

As at 31 December 2008 and 31 December 2007, there were no foreign exchange derivatives outstanding.

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 was £490.2 million (2007: £207.4 million).

Note 18. Assets held for sale

On 31 January 2008 and 5 November 2007, the Group entered into sale agreements to dispose of Tullow Congo Ltd and its 40% interest in the Ngosso Permit in Cameroon respectively. The latter was successfully completed in July 2008.

However, the proposed divestment of Tullow Congo Ltd was not concluded as government approvals for the transfer of the asset were not received within a reasonable timeframe. The 2007 balance sheet has consequently been restated as the asset is no longer classified as an asset held for sale. In addition, in accordance with IFRS 5 – Non-current assets held for sale and discontinued operations, the carrying value of the asset has been adjusted for any depletion or amortisation that would have been recognised had the asset not been originally classified as held for sale. The impact of the restatement on 2007 net assets is £nil and the impact on the income statement is £nil.

The major classes of assets and liabilities comprising the operations classified as held for sale are as follows:

	2008 £'000	2007 (as restated*) £'000
Property, plant and equipment	–	–
Intangible exploration and evaluation assets	–	11,398
Trade and other receivables	–	445
Total assets classified as held for sale	–	11,843
Trade and other payables	–	–
Decommissioning provisions	–	–
Total liabilities directly associated with assets classified as held for sale	–	–
Net assets of disposal group	–	11,843

* The 2007 comparatives have been restated due to an asset held for sale being reclassified during 2008.

Note 19. Obligations under finance leases

	2008 £'000	2007 £'000
Amounts payable under finance leases:		
– Within one year	3,164	2,294
– Within two to five years	6,329	6,882
	9,493	9,176
Less future finance charges	(479)	(578)
Present value of lease obligations	9,014	8,598
Amount due for settlement within 12 months (note 15)	2,925	2,063
Amount due for settlement after 12 months (note 15)	6,089	6,535

The fair value of the Group's lease obligations approximates the carrying amount. The remaining lease term is three years (2007: four years). For the year ended 31 December 2008, the effective borrowing rate was 2.8 % (2007: 2.8%).

Note 20. Provisions**(i) Decommissioning costs**

	2008 £'000	2007 (as restated) £'000
At 1 January <i>(as restated)</i>	135,139	124,868
New provisions and changes in estimates	9,987	7,252
Disposal of subsidiaries (note 26)	(37,916)	–
Decommissioning payments	(194)	(5,065)
Unwinding of discount (note 5)	10,072	8,609
Currency translation adjustment	16,931	(525)
At 31 December	134,019	135,139

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 2025. These provisions have been created based on Tullow's internal estimates and, where available, operator's estimates. Assumptions, based on the current economic environment, have been made which management 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

	PRT £'000	UK and overseas corporate taxation £'000	Total £'000
At 1 January 2007	2,751	309,174	311,925
Charged to income statement	(1,395)	21,860	20,465
Acquisition of subsidiary (note 26)	–	9,020	9,020
Hedge movement directly to equity (note 17)	–	(29,918)	(29,918)
Currency translation adjustment	–	(3,877)	(3,877)
At 1 January 2008	1,356	306,259	307,615
Charged to income statement	3,852	(47,740)	(43,888)
Disposal of subsidiary (note 26)	–	7,398	7,398
Hedge movement directly to equity (note 17)	–	2,326	2,326
Currency translation adjustment	–	74,489	74,489
At 31 December 2008	5,208	342,732	347,940

Deferred UK and overseas corporation tax is provided as follows:

	2008 £'000	2007 £'000
Accelerated capital allowances	294,809	175,549
Decommissioning charges	(25,009)	(40,223)
Other temporary differences	(1,557)	174,810
Currency translation adjustment	74,489	(3,877)
Provision	342,732	306,259

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. Reconciliation of changes in equity

	Share capital £'000	Share premium £'000	Other reserves (note 23) £'000	Shares to be issued (note 26) £'000	Retained earnings £'000	Total £'000	Minority interest £'000	Total equity £'000
At 1 January 2007	65,190	126,075	69,791	235,621	269,799	766,476	-	766,476
Total recognised income and expense for the year	-	-	(85,101)	-	50,887	(34,214)	1,707	(32,507)
Acquisition	-	-	-	-	-	-	13,780	13,780
Purchase of treasury shares	-	-	(3,722)	-	-	(3,722)	-	(3,722)
Shares to be issued in respect of Hardman acquisition	6,500	-	229,121	(235,621)	-	-	-	-
New shares issued in respect of employee share options	271	2,390	-	-	-	2,661	-	2,661
Share-based payment charges	-	-	-	-	5,388	5,388	-	5,388
Dividends paid (note 7)	-	-	-	-	(39,406)	(39,406)	-	(39,406)
At 1 January 2008	71,961	128,465	210,089	-	286,668	697,183	15,487	712,670
Total recognised income and expense for the year	-	-	376,420	-	223,211	599,631	9,844	609,475
Purchase of treasury shares	-	-	(11,235)	-	-	(11,235)	-	(11,235)
New shares issued in respect of employee share options	692	5,840	-	-	-	6,532	-	6,532
New shares issued in respect of royalty obligation	635	26,409	-	-	-	27,044	-	27,044
Vesting of PSP shares	-	-	6,857	-	(6,857)	-	-	-
Share-based payment charges	-	-	-	-	7,862	7,862	-	7,862
Dividends paid (note 7)	-	-	-	-	(43,173)	(43,173)	-	(43,173)
At 31 December 2008	73,288	160,714	582,131	-	467,711	1,283,844	25,331	1,309,175

Note 22. Called up equity share capital and share premium account**(a) Authorised**

	2008 £'000	2007 £'000
1,000,000,000 Ordinary shares of Stg10p each	100,000	100,000

(b) Allotted equity share capital and share premium

	Equity share capital allotted and fully paid		Share premium
	Number	£'000	£'000
Ordinary shares of Stg10p each			
At 1 January 2007	651,900,298	65,190	126,075
Issues during the year			
- Exercise of share options	2,711,407	271	2,390
- Hardman acquisition	64,998,817	6,500	-
At 1 January 2008	719,610,522	71,961	128,465
Issues during the year			
- Exercise of share options	6,926,931	692	5,840
- New shares issued in respect of royalty obligation	6,352,114	635	26,409
At 31 December 2008	732,889,567	73,288	160,714

Note 23. Other reserves

	Merger reserve £'000	Foreign currency translation reserve £'000	Hedge reserve £'000	Treasury shares £'000	Total £'000
At 1 January 2007	178,953	(52,972)	(52,213)	(3,977)	69,791
Hedge movement	-	-	(79,780)	-	(79,780)
Currency translation adjustment	-	(5,321)	-	-	(5,321)
Purchase of treasury shares	-	-	-	(3,722)	(3,722)
Merger reserve movement	229,121	-	-	-	229,121
At 1 January 2008	408,074	(58,293)	(131,993)	(7,699)	210,089
Hedge movement (note 17)	-	-	160,966	-	160,966
Currency translation adjustment	-	215,454	-	-	215,454
Vesting of PSP shares	-	-	-	6,857	6,857
Purchase of treasury shares	-	-	-	(11,235)	(11,235)
At 31 December 2008	408,074	157,161	28,973	(12,077)	582,131

During 2007 the Company issued 64,998,817 ordinary shares relating to the acquisition of Hardman Resources. In accordance with the merger provisions of Section 131 of the Companies Act 1985, the Company has transferred the premium on the shares issued of £229.1 million, using the market value at the date of acquisition, to the Merger reserve.

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 27).

Note 24. Minority interest

	2008 £'000	2007 £'000
At 1 January	15,487	-
Additions	-	13,780
Foreign currency translation	6,812	-
Share of profit for the year	3,032	1,707
At 31 December	25,331	15,487

The minority interest relates to Tulipe Oil SA, where the Group acquired a 50% controlling shareholding during 2007.

Note 25. Cash flows from operating activities

	2008 £'000	2007 £'000
Profit before taxation	299,312	114,203
Adjustments for:		
Depletion, depreciation and amortisation	202,307	205,805
Impairment loss	26,305	13,834
Exploration costs written off	226,701	64,235
(Profit)/loss on disposal of subsidiaries	(213,268)	597
Profit on disposal of oil and gas assets	(30,614)	–
Decommissioning expenditure	(194)	(5,065)
Share-based payment charge	7,862	5,388
(Gain)/loss on hedging instruments	(42,927)	29,267
Finance revenue	(3,928)	(3,095)
Finance costs	47,238	48,673
Operating cash flow before working capital movements	518,794	473,842
Decrease/(increase) in trade and other receivables	18,548	(20,472)
Increase in inventories	(12,952)	(11,162)
Increase in trade payables	63,260	4,452
Cash generated from operations	587,650	446,660

Note 26. Acquisition and disposal of subsidiaries and oil and gas assets**(i) Disposal of subsidiary**

Tullow completed the sale of Tullow Oil UK Limited incorporating the 51.68% interest in the Hewett-Bacton complex to ENI in November 2008.

The net assets of Tullow Oil UK Limited at the date of disposal in November 2008 were as follows:-

	2008 £'000
Property, plant and equipment	24,331
Inventories	998
Trade receivables	3,791
Cash and cash equivalents	19
Other creditors	(15,309)
Current tax liability	11,254
Deferred tax liability	7,398
Provisions	(37,916)
Net liability on disposal	(5,434)
Gain on disposal	213,268
Total consideration	207,834
Satisfied by:	
Cash	207,834

(ii) Disposal of oil and gas assets

On 5 November 2007 and 2 April 2008, the Group entered into sale agreements to dispose of its 40% interest in the Ngosso Permit in Cameroon and certain non-core CMS assets in the UK respectively. The disposals were completed in June 2008. The gain on disposal of oil and gas assets amounted to £30,614,000 and total consideration received amounted to £77,530,000.

Note 26. Acquisition and disposal of subsidiaries and oil and gas assets continued**(iii) Acquisition of subsidiaries**

The Group acquired Hardman Resources Limited with effect from 20 December 2006, and completed the acquisition on 10 January 2007. The fair values of the identifiable assets and liabilities were reassessed in 2007, to reflect additional information which has become available concerning conditions that existed at the date of acquisition, in accordance with the provisions of IFRS 3 – Business combinations. The resulting changes to the 2007 financial statements are set out in the following table:

	Fair value as previously reported €'000	2007 Fair value adjustment €'000	2007 Fair value as restated €'000
Intangible exploration and evaluation assets	623,542	48,959	672,501
Property, plant and equipment	86,931	(39,489)	47,442
Inventories	3,866	–	3,866
Other current assets	10,790	–	10,790
Cash and cash equivalents	46,540	–	46,540
Trade and other payables	(11,480)	–	(11,480)
Derivative financial instruments	(1,147)	–	(1,147)
Deferred tax liabilities	(158,842)	(9,020)	(167,862)
Provisions	(5,463)	–	(5,463)
Total cost of acquisition	594,737	450	595,187
Satisfied by:			
Cash			359,566
Shares issued			235,621
			595,187

The principal fair value adjustments are in respect of property, plant and equipment, where Chinguetti commercial reserves have been downgraded by 50%, intangible exploration and evaluation assets where additional fair value has been ascribed to the African and South American assets, and the deferred tax effect of these adjustments.

Due to the inherently uncertain nature of the oil and gas industry and intangible exploration evaluation assets in particular, the assumptions underlying the final assigned values are highly judgemental in nature. The purchase consideration equals the aggregate of the fair value of the identifiable assets and liabilities of Hardman, and therefore no goodwill has been recorded on the acquisition. Deferred tax has been recognised in respect of the fair value adjustments as applicable.

Note 27. Share-based payments**2005 Performance Share Plan (PSP)**

Under the PSP, senior executives can receive conditional awards of rights over whole shares worth up to 200% of salary p.a. (300% in exceptional circumstances). The awards granted in 2008 under the PSP vest subject to a Total Shareholder Return (TSR) based performance condition under which the Company's TSR performance is measured over a fixed three-year period against both the constituents of an Index and a comparator group of oil and gas companies. 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). Half of an award is tested against the Index and the other half against the comparator group. The test is over a three-year period starting on 1 January prior to grant, and an individual must normally remain in employment for three-years from the date of grant for the shares to vest. No dividends are paid to participants over the vesting period. Further details in relation to the PSP award measurements are provided in the Directors' Remuneration Report.

The shares outstanding under the PSP are as follows:

	2008 PSP shares	2008 Average weighted share price at grant p	2007 PSP shares	2007 Average weighted share price at grant p
Outstanding at 1 January	4,451,474	293.25	2,903,082	251.66
Granted	1,328,692	917.58	1,548,392	371.24
Exercised during the year	(1,747,750)	187.50	–	–
Forfeited/expired during the year	(175,503)	365.75	–	–
Outstanding at 31 December	3,856,913	552.92	4,451,474	293.25
The inputs of the option valuation model were:				
Risk free interest rate		4.4%-4.7% pa		5.3% pa
Expected volatility		39%-41%		33%
Dividend yield		0.7%-0.8% pa		1.5% pa

The expected life is the period from the date of grant to the vesting date. 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 weighted average fair value of the awards granted in 2008 was 653.94p per award (2007: 181.57p).

The Group recognised a total expense of £3,974,000 (2007: £2,233,000) in respect of the PSP.

Note 27. Share-based payments continued**2005 Deferred Share Bonus Plan (DSBP)**

Under the DSBP, the portion of any annual bonus entitlement of a senior executive nominated by the Remuneration Committee that is above 75% of base salary (60% for bonuses paid for 2007 and earlier years) is required to be deferred into shares. Shares awarded under the DSBP will normally vest following the end of the period of three financial years commencing with that in which the award is granted.

The shares outstanding under the DSBP are as follows:

	2008 DSBP shares	2008 Share price at grant	2007 DSBP shares	2007 Share price at grant
Outstanding at 1 January	184,254	375.4p	79,787	348.5p
Granted	96,166	629.5p	104,467	396.0p
Exercised during the year	(79,787)	348.5p	–	–
Outstanding at 31 December	200,633	507.9p	184,254	375.4p
The inputs of the option valuation model were:				
Dividend yield		1.0% pa		1.3% pa

The expected life is the period from the date of grant to the vesting date. The fair value of the awards granted in 2008 was 611.9 p per award (2007: 381.23p).

The Group recognised a total expense of £537,000 (2007: £226,000) in respect of the DSBP.

2000 Executive Share Option Scheme (ESOS)

The only share option scheme operated by the Group during the year was the 2000 ESOS. Options granted under the 2000 ESOS normally only become exercisable following the third anniversary of the date of the grant if the performance condition has been met. The condition requires that the Company's TRS performance over a fixed three-year period must exceed the median company in the constituents of an index. For awards granted from March 2008 the index is the FTSE 100 index (excluding investments trusts); for awards before March 2008 the index is the FTSE 250 index (excluding investments trusts). 100% of the awards will vest if the Company's TSR is above the median of the respective index over the three-year period following grant. Options awarded under the 2000 ESOS before 24 May 2005 are subject to monthly re-testing on a rolling three-year basis if the TSR performance criterion is not met. Options granted on or after 24 May 2005 are not subject to monthly re-testing.

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

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options under the 1988 ESOS, the 1998 ESOS and the 2000 ESOS during the year.

	2008 Number	2008 WAEP p	2007 Number	2007 WAEP p
Outstanding as at 1 January	19,216,684	166.04	19,637,480	129.39
Granted during the year	2,475,251	647.28	2,358,408	396.46
Exercised during the year	(6,926,931)	91.50	(2,711,407)	98.31
Expired during the year	(76,899)	210.37	(67,797)	317.85
Outstanding at 31 December	14,688,105	282.06	19,216,684	166.04
Exercisable at 31 December	7,971,074	121.49	11,410,205	83.83

The weighted average share price at exercise for options exercised in 2008 was 854.25p (2007: 439.32p).

Options outstanding at 31 December 2008 had exercise prices of 61.0p to 754.0p and remaining contractual lives of one 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	2.6-4.1% pa
Expected volatility	38-48%
Dividend yield	0.9-1.3% pa
Employee turnover	From 0% – 5% pa depending on seniority
Early exercise	At rates dependent upon seniority and 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 2006	347.7	109.7	4.4
Jan – Dec 2007	396.9	123.4	4.8
Jan – Dec 2008	647.3	205.8	4.3

The Group recognised a total expense of £3,191,000 (2007: £2,794,000) in respect of the ESOS.

UK & Irish Share Incentive Plans (SIPs)

The SIPs were launched at the beginning of 2004. These are all employee plans, which have been set up in both the UK and Ireland, that enable employees to make contributions out of salary up to prescribed limits each month, which are used by the Plan trustees to acquire Tullow shares ('Partnership Shares'). The Company makes a matching contribution to the trustees to acquire a matching number of Tullow shares ('Matching Shares') on a one-for-one basis. The SIPs have a three month accumulation period.

The fair value of a Matching Share is the market value at grant adjusted for any options included. For this purpose, the grant date is the start of the accumulation period.

For the UK plan, Partnership Shares are purchased at the lower of the market values at the start of the Accumulation Period and the purchase date. For the Irish plan, shares are bought at the market price at the purchase date.

Matching shares vest three years after grant and dividends are paid to the employee during this period.

The Group recognised a total expense of £148,000 (2007: £126,000) for the matching shares and £12,000 (2007: £9,000) for the partnership shares.

Note 28. Operating lease arrangements

	2008 £'000	2007 £'000
Minimum lease payments under operating leases recognised in income for the year	5,098	4,798

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:

	2008 £'000	2007 £'000
Minimum lease payments under operating leases		
Due within one year	7,781	5,098
After one year but within two years	7,753	5,229
After two years but within five years	16,769	15,522
Due after five years	976	3,236
	33,279	29,085

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 29. Capital commitments

The Directors have committed to a budget for capital expenditure for exploration and development of £606.2 million (2007: £445.6 million).

Note 30. Contingent liabilities

At 31 December 2008 there existed contingent liabilities amounting to £73.3 million (2007: £14.1 million) in respect of performance guarantees for committed work programmes.

Note 31. Related party transactions

Transactions with the Directors of Tullow Oil plc are disclosed in the Remuneration Report on pages 66 to 75. Directors are considered to be the only key management personnel as defined by IAS 24 – Related party disclosures.

There are no other related party transactions.

Note 32. Subsequent events

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

In January 2009 the Group announced the successful placing and subsequent issue of a total of 66,938,141 new ordinary shares with institutions at 600 pence per share. This represents an increase of approximately 9.1% in Tullow's existing issued share capital. These shares are credited as fully paid and rank pari passu in all respects with existing ordinary shares of 10 pence each in the capital of the Company, including the right to receive all dividends and other distributions declared, made or paid on or in respect of such shares after the date of issue.

In March 2009, the Group announced that it had finalised arrangements for US\$2 billion (£1.4 billion) of new reserve based lending facilities.

In March 2009, the Group announced a major new discovery at Tweneboa, which continues the 100% exploration success record in Ghana.

Note 33. 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 £2,236,000 (2007: £1,440,000). At 31 December 2008, there was a liability of £82,000 (2007: £51,000) for contributions payable included in creditors.

Independent auditors' 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 2008 which comprise the balance sheet and the related notes 1 to 13. These Parent Company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the Group financial statements of Tullow Oil plc for the year ended 31 December 2008 and on the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Parent Company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the Parent Company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Parent Company financial statements give a true and fair view and whether the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the Parent Company financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited Parent Company financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Parent Company financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Parent Company financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the Parent Company financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Parent Company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Parent Company financial statements.

Opinion

In our opinion:

- the Parent Company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008;
- the Parent Company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Parent Company financial statements.



Deloitte LLP

Chartered Accountants and Registered Auditors
London
10 March 2009

Financial statements
Company balance sheet

As at 31 December 2008

	Notes	2008 €'000	2007 €'000
Fixed assets			
Investments	1	950,872	951,414
Current assets			
Debtors	3	739,121	400,856
Cash at bank and in hand		29,806	3,956
		768,927	404,812
Creditors – amounts falling due within one year			
Trade and other creditors	4	(4,297)	(10,242)
Bank loans	5	(210,528)	–
		(214,825)	(10,242)
Net current assets			
		554,102	394,570
Total assets less current liabilities			
		1,504,974	1,345,984
Creditors – amounts falling due after more than one year			
Bank loans	5	(489,041)	(539,288)
Loans from subsidiary undertakings	6	(127,776)	(227,488)
Net assets			
		888,157	579,208
Capital and reserves			
Called up equity share capital	7	73,288	71,961
Share premium account	7	160,714	128,465
Other reserves	9	339,380	343,758
Profit and loss account	8	314,775	35,024
Shareholders' funds			
	8	888,157	579,208

Approved by the Board and authorised for issue on 10 March 2009



Aidan Heavey
 Chief Executive Officer



Ian Springett
 Chief Financial Officer

Notes to the Company financial statements

Year ended 31 December 2008

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 1985 and UK Generally Accepted Accounting Principles (UK GAAP). The following paragraphs describe the main accounting policies under UK GAAP which have been applied consistently.

In accordance with the provisions of Section 230 of the Companies Act, the profit and loss account of the Company is not presented separately. In accordance with the exemptions available under FRS 1 'Cash Flow Statements', the Company has not presented a cash flow statement as the cash flow of the Company has been included in the cash flow statement of Tullow Oil plc Group set out on page 84.

(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 accrual basis in the profit or 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

Sterling is the reporting currency of the Company. Transactions in foreign currencies are translated at the rates of exchange ruling at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date, with a corresponding charge or credit to the profit and loss account. 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 and share premium account

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.

Note 1. Investments

	2008 €'000	2007 €'000
Shares at cost in subsidiary undertakings	950,425	950,967
Unlisted investments	447	447
	950,872	951,414

The movement in investments during the year is due to the disposal of Tullow Oil UK Limited to ENI in November 2008.

Principal subsidiary undertakings

At 31 December 2008 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	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	95	Bangladesh	Jersey
Tullow Côte d'Ivoire Limited	100	Côte d'Ivoire	Jersey
Tullow Côte d'Ivoire Exploration Limited	100	Côte d'Ivoire	Jersey
Tullow India Operations Limited	100	India	Jersey
Tullow Madagascar Limited	100	Madagascar	Jersey
Tullow Ghana Limited	100	Ghana	Jersey
Tullow Angola B.V.	100	Angola	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 Gabon Holdings Limited	50	Gabon	Isle of Man
Tullow Oil Gabon SA	100	Gabon	Gabon
Tulipe Oil SA	50	Gabon	Gabon
Hardman Chinguetti Production (Pty) Limited	100	Mauritania	Australia
Hardman Petroleum (Mauritania) (Pty) Limited	100	Mauritania	Australia
Planet Oil (Mauritania) Limited	100	Mauritania	Guernsey
Tullow Uganda Operations Limited	100	Uganda	Australia
Tullow Hardman Holdings B.V.	100	Netherlands	Netherlands
Tullow South Africa (Pty) Limited	100	South Africa	South Africa

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

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 in IFRS 6, 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

	2008 €'000	2007 €'000
Declared and paid during year		
Final dividend for 2007: Stg4.0p (2006: Stg3.5p) per ordinary share	28,690	25,051
Interim dividend for 2008: Stg2.0p (2007: Stg2.0p) per ordinary share	14,483	14,355
Dividends paid	43,173	39,406
Proposed for approval by shareholders at the AGM		
Final dividend for 2008: Stg4.0p (2007: Stg4.0p)	29,316	28,784

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. Debtors**Amounts falling due within one year**

	2008 €'000	2007 €'000
Other debtors	429	19
Prepayments	–	12
Due from subsidiary undertakings	738,692	400,825
	739,121	400,856

The amounts due from subsidiary undertakings include €332.9 million (2007: €388.9 million) that incurs interest at LIBOR plus 1.7%. The remaining amounts due from subsidiaries accrue no interest. All amounts are repayable on demand.

Note 4. Trade and other creditors**Amounts falling due within one year**

	2008 €'000	2007 €'000
Other creditors	2,322	17
Accruals	1,696	6,534
VAT	279	3,691
	4,297	10,242

Note 5. Bank loans

	2008 €'000	2007 €'000
Current		
Short-term borrowings	210,528	–
Non-current		
Term loans repayable		
– After one year but within two years	393,257	281,291
– After two years but within five years	95,784	257,997
	489,041	539,288

Company bank loans are stated net of unamortised arrangement fees of €11,806,000 (2007: €11,367,000).

Term loans and guarantees are secured by fixed and floating charges over the oil and gas assets (note 10) of the Group.

Note 5. Bank loans continued**Interest rate risk**

The interest rate profile of the Company's financial assets and liabilities at 31 December 2008 was as follows:

	Stg £'000	US\$ £'000	Total £'000
Cash at bank at floating interest rate	29,806	-	29,806
Amounts due from subsidiaries at LIBOR + 1.7%	494,595	-	494,595
Fixed rate debt	-	(69,066)	(69,066)
Floating rate debt	-	(642,309)	(642,309)
Net cash/(debt)	524,401	(711,375)	(186,974)

The profile at 31 December 2007 for comparison purposes was as follows:

	Stg £'000	US\$ £'000	Total £'000
Cash at bank at floating interest rate	3,764	192	3,956
Amounts due from subsidiaries at LIBOR + 1.7%	388,903	-	388,903
Fixed rate debt	(25,000)	(75,101)	(100,101)
Floating rate debt	(40,000)	(410,554)	(450,554)
Net (debt)/cash	327,667	(485,463)	(157,796)

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.

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 Borrowing Base Facility incurs interest on outstanding debt at Sterling or US Dollar LIBOR plus a margin ranging from 100 basis points to 240 basis points depending on utilisation and concentration of non-OECD assets. The outstanding debt is repayable in variable amounts (determined semi-annually) over the period to 31 August 2012, or such time as is determined by reference to the remaining reserves of the assets, whichever is earlier. There is no requirement under the Borrowing Base Facility to hedge interest rate exposure to Sterling LIBOR and US Dollar LIBOR. The Borrowing Base Facility states that consideration should be given to hedging at least 30% of the interest rate exposure to fluctuations in LIBOR for Sterling and US Dollars in respect of loans under the facility, net of relevant cash balances.

The Hardman Bridge Facility is now a US\$200 million (£138.1 million) revolving facility which is repayable in full on 31 December 2009. The facility incurs interest on outstanding debt at US Dollar LIBOR plus a margin ranging from 300 basis points increasing in quarterly 25 basis point increments until expiry in December 2009. There is no requirement under the Hardman Bridge Facility to hedge interest rate exposure to US Dollar LIBOR. The Hardman Bridge Facility states that consideration should be given to hedging at least 30% of the interest rate exposure to fluctuations in LIBOR for US Dollars in respect of loans under the facility, net of relevant cash balances.

At the end of December 2008, the headroom under the facilities amounted to US\$335 million (£231.4 million); US\$235 million (£162.3 million) under the Borrowing Base and US\$100 million (£69.1 million) under the Hardman Bridge Facility. At the end of December 2007, the headroom under the two facilities was US\$457 million (£228.8 million); US\$307 million (£153.7 million) under the Borrowing Base and US\$150 million (£75.1 million) under the Hardman Bridge Facility.

The Company is exposed to floating rate interest rate risk as entities in the Group borrow funds at floating interest rates. The company 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. All interest rate derivatives currently in place were put in place for a three-year period in May 2008 and expire in May 2011. The interest rate swap currently in place has a swap rate of 3.4375% for a current notional principal of US\$50 million (£34.5 million). The effect of the interest rate collar currently in place limits the exposure to US Dollar LIBOR at varying rates (maximum of 4.3%) over the life of the derivative for a current notional principal of US\$50 million (£34.5 million). The combined mark to market position as at the 2008 year end was £2,089,000 (2007: £104,000). The interest rate hedges are included in fixed rate debt in the 2008 and were included in the floating rate debt table in 2007 as there was non-material differences between book and fair values for the mark-to-markets on the hedges in place at the time.

Foreign currency risk

As at 31 December 2008, the only material monetary assets or liabilities of the Company that were not denominated in the functional currency of the respective subsidiaries involved were US\$930 million (£642.3 million) cash drawings under the US\$1,350 million Borrowing Base Facility and US\$100 million (£69.1 million) cash drawings under the US\$200 million Hardman Bridge Facility. As at 31 December 2007 the only material assets or liabilities that were not denominated in the functional currency of the respective subsidiaries involved were US\$570 million (£285.4 million) cash drawings under the US\$1,350 million Borrowing Base facility and US\$400 million (£200.3 million) cash drawings under the \$550million Hardman Bridge Facility. These US Dollar cash drawings at 31 December 2008 continue to be held as a hedge against US Dollar denominated net assets in subsidiaries.

The net carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the reporting date are £711.3 million (2007: £485.5 million).

Foreign currency sensitivity analysis

The Company is mainly exposed to fluctuation in the US dollar. The Group measures its market risk exposure by running various sensitivity analyses including 20% favorable 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 10% change in foreign currency rates.

As at 31 December 2008, a 20% increase in Sterling against the US Dollar would have resulted in a decrease in foreign currency denominated liabilities and equity of £118.6 million (2007: £44.1 million 10% increase) and a 20% decrease in Sterling against US Dollar would have resulted in an increase in foreign currency denominated liabilities and equity of £177.8 million (2007: £54.0 million 10% decrease).

Note 6. Loans from subsidiary undertakings

Amounts falling due after more than one year

	2008 £'000	2007 £'000
Loans from subsidiary companies	127,776	227,488

The amounts due from subsidiaries do not accrue interest. All loans from subsidiary companies are not due to be repaid within five years.

Note 7. Called up equity share capital and share premium account

(a) Authorised

	2008 £'000	2007 £'000
1,000,000,000 Ordinary shares of Stg10p each	100,000	100,000

(b) Allotted equity share capital and share premium

	Equity share capital allotted and fully paid		Share premium
	Number	£'000	£'000
Ordinary shares of Stg10p each			
At 1 January 2007	651,900,298	65,190	126,075
Issues during the year			
– Exercise of share options	2,711,405	271	2,390
– Hardman acquisition	64,998,817	6,500	–
At 1 January 2008	719,610,520	71,961	128,465
Issues during the year			
– Exercise of share options	6,926,931	692	5,840
– New shares issued in respect of royalty obligation	6,352,114	635	26,409
At 31 December 2008	732,889,565	73,288	160,714

Notes to the Company financial statements continued**Note 8. Shareholders' funds**

	Share capital £'000	Share premium £'000	Other reserves (note 9) £'000	Profit and loss account £'000	Total £'000
At 1 January 2007	65,190	126,075	118,359	38,999	348,623
Total recognised income and expense for the year	-	-	-	30,043	30,043
Purchase of treasury shares	-	-	(3,722)	-	(3,722)
Shares to be issued in respect of Hardman acquisition	6,500	-	229,121	-	235,621
New shares issued in respect of employee share options	271	2,390	-	-	2,661
Share-based payment charges	-	-	-	5,388	5,388
Dividends paid	-	-	-	(39,406)	(39,406)
At 1 January 2008	71,961	128,465	343,758	35,024	579,208
Total recognised income and expense for the year	-	-	-	321,919	321,919
Purchase of treasury shares	-	-	(11,235)	-	(11,235)
New shares issued in respect of employee share options	692	5,840	-	-	6,532
New shares issued in respect of royalty obligation	635	26,409	-	-	27,044
Vesting of PSP shares	-	-	6,857	(6,857)	-
Share-based payment charges	-	-	-	7,862	7,862
Dividends paid	-	-	-	(43,173)	(43,173)
At 31 December 2008	73,288	160,714	339,380	314,775	888,157

The Company has tax losses of £35 million (2007: £42 million) that are available indefinitely for offset against future non ring fence taxable profits in the Company. A deferred tax asset has not been recognised in respect of these losses as the Company does not anticipate making non ring fence profits in the foreseeable future.

Note 9. Other reserves

	Merger reserve £'000	Treasury shares £'000	Total £'000
At 1 January 2007	122,336	(3,977)	118,359
Purchase of treasury shares	-	(3,722)	(3,722)
Merger reserve movement	229,121	-	229,121
At 1 January 2008	351,457	(7,699)	343,758
Purchase of treasury shares	-	(11,235)	(11,235)
Vesting of PSP shares	-	6,857	6,857
At 31 December 2008	351,457	(12,077)	339,380

During 2007 the Company issued 64,998,817 ordinary shares relating to the acquisition of Hardman Resources. In accordance with the merger provisions of Section 131 of the Companies Act 1985, the Company has transferred the premium on the shares issued of £229.1 million, using the market value at the date of acquisition, to the Merger reserve.

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 10. Disposal of subsidiary

Tullow Oil Plc completed the sale of Tullow Oil UK Limited incorporating the 51.68% interest in the Hewett-Bacton complex to ENI in November 2008 with a profit on sale of £236,761,000.

Note 11. Share-based payments**2005 Performance Share Plan (PSP)**

Under the PSP, senior executives can receive conditional awards of rights over whole shares worth up to 200% of salary p.a. (300% in exceptional circumstances). The awards granted in 2008 under the PSP vest subject to a Total Shareholder Return (TSR) based performance condition under which the Company's TSR performance is measured over a fixed three-year period against both the constituents of an Index and a comparator group of oil and gas companies. For awards from March 2008 the index is the FTSE 100 index (excluding investments trusts); for awards before March 2008, the index is the FTSE 250 index (excluding investment trusts). Half of an award is tested against the Index and the other half against the comparator group. The test is over a three-year period starting on 1 January prior to grant, and an individual must normally remain in employment for three years from the date of grant for the shares to vest. No dividends are paid to participants over the vesting period. Further details in relation to the PSP award measurements are provided in the Directors' Remuneration Report.

The shares outstanding under the PSP are as follows:

	2008 PSP shares	2008 Average weighted share price at grant p	2007 PSP shares	2007 Average weighted share price at grant p
Outstanding at 1 January	4,451,474	293.25	2,903,082	251.66
Granted	1,328,692	917.58	1,548,392	371.24
Exercised during the year	(1,747,750)	187.50	–	–
Forfeited/expired during the year	(175,503)	365.75	–	–
Outstanding at 31 December	3,856,913	552.92	4,451,474	293.25

The inputs of the option valuation model were:

	2008 Average weighted share price at grant p	2007 Average weighted share price at grant p
Risk free interest rate	4.4%-4.7% pa	5.3% pa
Expected volatility	39%-41%	33%
Dividend yield	0.7%-0.8% pa	1.5% pa

The expected life is the period from the date of grant to the vesting date. 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 weighted average fair value of the awards granted in 2008 was 653.94p per award (2007: 181.57p).

The Company recognised a total expense of £1,807,000 (2007: £1,335,000) in respect of the PSP.

2005 Deferred Share Bonus Plan (DSBP)

Under the DSBP, the portion of any annual bonus entitlement of a senior executive nominated by the Remuneration Committee that is above 75% of base salary (60% for bonuses paid for 2007 and earlier years) is required to be deferred into shares. Shares awarded under the DSBP will normally vest following the end of the period of three financial years commencing with that in which the award is granted.

The shares outstanding under the DSBP are as follows:

	2008 DSBP shares	2008 Share price at grant	2007 DSBP shares	2007 Share price at grant
Outstanding at 1 January	184,254	375.4p	79,787	348.5p
Granted	96,166	629.5p	104,467	396.0p
Exercised during the year	(79,787)	348.5p	–	–
Outstanding at 31 December	200,633	507.9p	184,254	375.4p

The inputs of the option valuation model were:

Dividend yield	1.0% pa	1.3% pa
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The expected life is the period from the date of grant to the vesting date. The fair value of the awards granted in 2008 was 611.9p per award (2007: 381.23p).

The Company recognised a total expense of £537,000 (2007: £226,000) 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 Group during the year was the 2000 ESOS. Options granted under the 2000 ESOS normally only become exercisable following the third anniversary of the date of the grant if the performance condition has been met. The condition requires that the Company's TRS performance over a fixed three-year period must exceed the median company in the constituents of an index. For awards granted from March 2008 the index is the FTSE 100 index (excluding investments trusts); for awards before March 2008 the index is the FTSE 250 index (excluding investments trusts). 100% of the awards will vest if the Company's TSR is above the median of the respective index over the three-year period following grant. Options awarded under the 2000 ESOS before 24 May 2005 are subject to monthly re-testing on a rolling three-year basis if the TSR performance criterion is not met. Options granted on or after 24 May 2005 are not subject to monthly re-testing.

Options have previously been granted under the 1988 ESOS and the 1998 ESOS. Options granted under the 1988 ESOS and the 1998 ESOS are not subject to performance conditions. All awards under the 1988 ESOS and the 1998 ESOS were made prior to 7 November 2002 and therefore, under the 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 1988 ESOS, the 1998 ESOS and the 2000 ESOS during the year.

	2008 Number	2008 WAEP p	2007 Number	2007 WAEP p
Outstanding as at 1 January	19,216,684	166.04	19,637,480	129.39
Granted during the year	2,475,251	647.28	2,358,408	396.46
Exercised during the year	(6,926,931)	91.50	(2,711,407)	98.31
Forfeited/expired during the year	(76,899)	210.37	(67,797)	317.85
Outstanding at 31 December	14,688,105	282.06	19,216,684	166.04
Exercisable at 31 December	7,971,074	121.49	11,410,205	83.83

The weighted average share price at exercise for options exercised in 2008 was 854.25p (2007: 439.32p).

Options outstanding at 31 December 2008 had exercise prices of 61p to 754.0p and remaining contractual lives of one 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	2.6-4.1% pa
Expected volatility	38-48%
Dividend yield	0.9-1.3% pa
Employee turnover	From 0% – 5% pa depending on seniority
Early exercise	At rates dependent upon seniority and 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 2006	347.7	109.7	4.4
Jan – Dec 2007	396.9	123.4	4.8
Jan – Dec 2008	647.3	205.8	4.3

The Company recognised a total expense of £nil (2007: £336,000) in respect of the ESOS.

UK & Irish Share Incentive Plans (SIPs)

The SIPs were launched at the beginning of 2004. These are all employee plans, which have been set up in both the UK and Ireland, that enable employees to make contributions out of salary up to prescribed limits each month, which are used by the Plan trustees to acquire Tullow shares ('Partnership Shares').

The Company makes a matching contribution to the trustees to acquire a matching number of Tullow shares ('Matching Shares') on a one-for-one basis. The SIPs have a three month accumulation period.

The fair value of a Matching Share is the market value at grant adjusted for any options included. For this purpose, the grant date is the start of the accumulation period.

For the UK plan, Partnership Shares are purchased at the lower of the market values at the start of the Accumulation Period and the purchase date. For the Irish plan, shares are bought at the market price at the purchase date.

Matching shares vest three years after grant and dividends are paid to the employee during this period.

The Company recognised a total expense of £nil (2007: £nil) for the matching shares and £nil (2007: £nil) for the partnership shares.

Note 12. Related party transactions

Transactions with the Directors of Tullow Oil plc are disclosed in the Remuneration Report on pages 66 to 75. The Company has taken advantage of the exemptions available under FRS 8 – Related party transactions with regard to the non-disclosure of transactions with Group companies.

Note 13. Subsequent events

In January 2009 the Company announced the successful placing and subsequent issue of a total of 66,938,141 new ordinary shares with institutions at 600 pence per share. This represents an increase of approximately 9.1% in Tullow's existing issued share capital. These shares are credited as fully paid and rank pari passu in all respects with existing ordinary shares of 10 pence each in the capital of the Company, including the right to receive all dividends and other distributions declared, made or paid on or in respect of such shares after the date of issue.

In March 2009, the Company announced that it had finalised arrangements for US\$2 billion (£1.4 billion) of new reserve-based lending facilities.

In March 2009, the Company announced a major new discovery at Tweneboa, which continues the 100% exploration success record in Ghana.

Financial statements
Five year summary

	IFRS				UK GAAP*	
	2008 £'000	2007 (as restated**) £'000	2006 £'000	2005 £'000	2004 £'000	2004 £'000
Group income statement						
Sales revenue	691,673	639,203	578,847	445,232	225,256	225,256
Cost of sales	(366,108)	(353,695)	(261,268)	(243,149)	(141,228)	(131,071)
Gross profit	325,565	285,508	317,579	202,083	84,028	94,185
Administrative expenses	(43,051)	(31,628)	(22,490)	(13,793)	(10,926)	(10,370)
Profit/(loss) on disposal of subsidiaries	213,268	(597)	–	–	–	–
Profit on disposal/farm out of oil and gas assets	30,614	–	–	36,061	2,292	2,292
Exploration costs written off	(226,701)	(64,235)	(32,494)	(25,783)	(17,961)	(17,961)
Other expenses	–	–	–	–	(647)	(647)
Operating profit	299,695	189,048	262,595	198,568	56,786	67,499
Profit/(loss) on hedging instruments	42,927	(29,267)	15,701	(159)	–	–
Finance revenue	3,928	3,095	3,030	4,367	3,458	3,458
Finance costs	(47,238)	(48,673)	(17,994)	(24,197)	(13,449)	(12,960)
Profit from continuing activities before taxation	299,312	114,203	263,332	178,579	46,795	57,997
Taxation	(73,069)	(61,609)	(105,894)	(65,443)	(15,460)	(25,048)
Profit for the year from continuing activities	226,243	52,594	157,438	113,136	31,335	32,949
Earnings per share						
Basic – Stg p	30.86	7.10	24.23	17.50	5.88	6.18
Diluted – Stg p	30.49	6.96	23.67	17.20	5.81	6.11
Dividends paid	43,173	39,406	32,492	14,555	6,995	6,995
Group balance sheet						
Fixed assets	2,433,877	1,847,443	1,755,301	897,602	649,967	599,728
Net current (liabilities)/assets	(147,613)	(67,276)	(290,924)	(71,273)	21,394	23,353
Total assets less current liabilities	2,286,264	1,779,817	1,464,377	826,329	671,361	623,081
Long term liabilities	(977,089)	(1,067,147)	(697,901)	(437,310)	(295,894)	(243,997)
Net assets	1,309,175	712,670	766,476	389,019	375,467	379,084
Called up equity share capital	73,288	71,961	65,190	64,744	64,537	64,537
Share premium account	160,714	128,465	126,075	123,019	121,656	121,656
Other reserves	582,131	210,089	305,412	60,589	148,591	148,591
Profit and loss account	467,711	286,668	269,799	140,667	40,683	44,300
Equity attributable to equity holders of the parent	1,283,844	697,183	766,476	389,019	375,467	379,084
Minority interest	25,331	15,487	–	–	–	–
Total equity	1,309,175	712,670	766,476	389,019	375,467	379,084

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

** The 2007 comparatives have been restated due to an asset held for sale being reclassified during 2008 (see note 18).

Licence interests

Current exploration, development and production interests

Licence	Fields	Area sq km	Tullow interest	Operator	Other partners
AFRICA					
Angola					
Block 1/06		3,839	50.00%	Tullow	Sonangol P&P, ProdOil, Force Petroleum
Congo (Brazzaville)					
M'Boundi	M'Boundi	146	11.00%	ENI	SNPC, Jabbour
Congo (DRC)					
Block I ¹		3,700	48.50%	Tullow	Heritage, COHYDRO
Block II ¹		2,870	48.50%	Tullow	Heritage, COHYDRO
Côte d'Ivoire					
CI-26 Special Area "E"	Espoir	139	21.33%	CNR	PETROCI
CI-102		865	31.50%	Edison	Kufpec, PETROCI
CI-103		2,603	85.00%	Tullow	PETROCI
CI-105		2,070	22.37%	Al Thani	PETROCI
Equatorial Guinea					
Ceiba	Ceiba	70	14.25%	Hess	GEPetrol
Okume Complex	Okume, Oveng, Ebano, Elon	192	14.25%	Hess	GEPetrol
Gabon					
Avouma	Avouma	52	7.50%	Vaalco	Addax, Sasol, Sojitz, PetroEnergy
Azobe Marin ²		1,737	60.00%	Tullow	MPDC Gabon
Echira	Echira	76	40.00%	Perenco	
Etame	Etame	49	7.50%	Vaalco	Addax, Sasol, Sojitz, PetroEnergy
Kiarsseny Marin		5,442	47.50%	Tullow	Addax, Sonangol P&P
Limande	Limande	10	40.00%	Perenco	
Niungo	Niungo	96	40.00%	Perenco	
Nziembou		1,027	40.00%	Perenco	
Oba	Oba	44	5.00% ³	Perenco	AIC Petrofi
Obangue	Obangue	40	3.75% ³	Addax	AIC Petrofi
Tchatamba Marin	Tchatamba Marin	30	25.00%	Marathon	Oranje Nassau
Tchatamba South	Tchatamba South	40	25.00%	Marathon	Oranje Nassau
Tchatamba West	Tchatamba West	25	25.00%	Marathon	Oranje Nassau
Tsiengui	Tsiengui	26	3.75% ³	Addax	AIC Petrofi
Turnix	Turnix	18	27.50%	Perenco	
Back-In Rights⁴					
Arouwe		4,414	7.50% ⁵	Perenco	
Azobe Marin ²		1,737	5.00% ⁵	Tullow	MPDC Gabon
Dussafu Marin		2,780	5.00% ⁵	Harvest Natural Resources	Perenco, Premier
Ebouri ⁶	Ebouri	15	7.50%	Vaalco	Addax, Sasol, Sojitz, PetroEnergy
Etame Marin		2,972	7.50%	Vaalco	Addax, Sasol, Sojitz, PetroEnergy
Etekamba		773	5.00% ⁵	Maurel & Prom	Transworld
Gryphon Marin		9,764	10.00%	Addax	PetroSA
Maghena		631	3.75% ⁵	Addax	
Nyanga Mayumbe		2,831	3.75% ⁵	Maurel & Prom	
Omoueyi		4,133	7.50% ⁵	Maurel & Prom	
Onal ⁷	Onal	46	7.50% ⁵	Maurel & Prom	

Financial statements
Licence interests continued

Licence	Fields	Area sq km	Tullow interest	Operator	Other partners
AFRICA continued					
Ghana					
Shallow Water Tano ⁸		86	31.50%	Tullow	Interoil, Al Thani, GNPC, Sabre
Deepwater Tano	Jubilee	1,108	49.95%	Tullow	Kosmos, Anadarko, GNPC, Sabre
West Cape Three Points	Jubilee	1,761	22.90%	Kosmos	Anadarko, GNPC, KG Group, Sabre
Jubilee Field Unit Area ⁹	Jubilee		34.70%	Tullow/Kosmos ¹⁰	Anadarko, Sabre, KG Group, GNPC
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					
Block 3109 ¹¹		11,050	50.00%	Tullow	Madagascar Oil
Block 3111		9,050	100.00%	Tullow	
Mauritania					
Block 1		3,936	38.00%	Dana	GDF, Roc Oil
Block 2		4,898	83.78%	Tullow	Dana, Roc Oil
PSC – Area A		6,969	24.30%	Petronas	Premier, Kufpec, Roc Oil
Block 3					
Blocks 4 & 5 shallow					
PSC – Area B		8,028	21.60%	Petronas	Premier, Kufpec, Roc Oil
Blocks 4 & 5 deep					
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 001	Kudu	4,567	70.00%	Tullow	NAMCOR, Itochu
Senegal					
St Louis		4,195	60.00%	Tullow	Dana, Petrosen
Tanzania					
Lindi		7,315	50.00%	Tullow	Aminex
Mtwara		5,045	50.00%	Tullow	Aminex
Uganda					
Block 1	Buffalo-Giraffe	4,285	50.00%	Heritage	
Block 2	Mputa, Kasamene, Waraga	3,900	100.00%	Tullow	
Block 3A	Kingfisher	1,991	50.00%	Heritage	

- Notes
- Awaiting Presidential ratification. The validity of the original award was disputed during 2008, however, Tullow is working closely with the government of Congo (DRC) and continues to be confident of its title to these blocks.
 - Tullow has 'Back-In Rights' on this licence as well as a working interest.
 - Tullow's interest in this licence is held through its 50% holding in Tulipe Oil SA.
 - Back-In Rights: Tullow has the option, in the event of a discovery, to acquire varying interests in these licences.
 - Tullow has the option to acquire an interest in this licence through its 50% holding in Tulipe Oil SA.
 - Tullow is in the process of exercising its option to acquire a 7.5% interest in this field.
 - Tullow is in the process of evaluating the Onal field prior to confirming if it will exercise its option to participate in this field.
 - Tullow is in the process of withdrawing from this licence.
 - 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.
 - Tullow is the Unit Operator and Kosmos is the Technical Operator for Phase 1 of the Jubilee development.
 - Madagascar Oil has given notice of its intention to withdraw from this licence.

Licence	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	Murdoch	121	34.00%	ConocoPhillips	GDF
	44/22b	Boulton H ¹² , Watt ¹²				
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	97.05%	Tullow	GDF
P1006	44/17b	Munro ¹⁴	60	20.00%	GDF	ConocoPhillips
P1058	44/18b		129	22.50%	ConocoPhillips	GDF
	44/23b	Kelvin				
P1139	44/19b		60	22.50%	ConocoPhillips	GDF
P1437	44/13a		192	25.00%	GDF	E.ON, Endeavour
CMS III Unit ¹⁵	44/17a (part)	Boulton H, Hawksley, McAdam, Murdoch K, Watt		14.10%	ConocoPhillips	GDF
	44/17c (part)					
	44/21a (part)					
	44/22a (part)					
	44/22b (part)					
	44/22c (part)					
Munro Unit ¹⁵	44/17b	Munro		15.00%	ConocoPhillips	GDF
	44/17a					
Schooner Unit ¹⁵	44/26a	Schooner		90.35%	Tullow	GDF, Faroe Petroleum
	43/30a					
Thames Area						
P007	49/24aF1 (Excl Gawain)		163	100.00%	Tullow	
	49/24aF1 (Gawain)	Gawain ¹⁶				50.00%
P037	49/28a	Thames, Yare, Bure, Deben, Wensum	90	66.67%	Perenco	Centrica
	49/28b					
P039	49/28a (part)	Thurne		86.96%	Tullow	Centrica
	53/04a	Welland ¹⁷	58	75.00%	Tullow	First Oil, First Oil, Faroe Petroleum
	53/04d	Wissey		62.50%	Tullow	
P060	50/26a	Orwell	27	100.00%	Tullow	
P105	49/29a (part)	Gawain ¹⁶	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		428	100.00%	Tullow	
	52/04b, 52/05b					
Gawain Unit ¹⁵	49/24F1(part) 49/29a (part)	Gawain		50.00%	Perenco	
Welland Unit ¹⁵	49/29b (part) 53/04a	Welland ¹⁸		33.73%	ExxonMobil	First Oil

Financial statements
Licence interests continued

Licence	Fields	Area sq km	Tullow interest	Operator	Other partners
EUROPE continued					
Netherlands					
D9		149	25.00%	Tullow	XTO, GTO, Gas Plus, EBN
E10		401	32.00%	Tullow	XTO, GTO, EBN
E13a		232	50.00%	Tullow	EBN, Gas Plus
E13b		168	16.67%	GDF	Wintershall, EBN
E14		403	32.00%	Tullow	XTO, GTO, EBN
E15c		364	20.00%	Tullow	XTO, GTO, Gas Plus, EBN
E18b		192	32.00%	Tullow	XTO, GTO, EBN
Portugal					
Lavagante		3,089	80.00%	Tullow	Partex, Galp Energia
Santola		3,065	80.00%	Tullow	Partex, Galp Energia
Gamba		2,945	80.00%	Tullow	Partex, Galp Energia
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
Chachar D&PL ¹⁹	Chachar	34	75.00%	Tullow	Govt. Holdings
Kalchas		2,068	30.00%	OGDCL	MGCL
Kohat		1,107	40.00%	OGDCL	MGCL, SEL
Kohlu		2,459	30.00%	OGDCL	MGCL
Sara D&PL	Sara	83	38.18%	Tullow	OGDCL, POL, Attock
Suri D&PL	Suri	24	38.18%	Tullow	OGDCL, POL, Attock,
SOUTH AMERICA					
French Guiana					
Guyane Maritime		35,221	97.50%	Tullow	Northern Petroleum ²⁰
Guyana					
Georgetown Block ²¹		11,100	30.00%	YPF (Repsol)	CGX Resources
Suriname					
Coronie		2,592	40.00% ²²	Paradise Oil	
Uitkijk		757	40.00%	Paradise Oil	

- Notes
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. 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.
 16. Refer to Gawain Unit for field interest.
 17. Refer to Welland Unit for field interest.
 18. Production from the Welland Field ceased in 2002.
 19. Tullow has agreed the sale of its interest in this licence to Pakistan Petroleum Ltd. The deal is awaiting completion.
 20. Formal assignment of a 2.5% interest to Northern Petroleum is awaiting completion.
 21. Tullow is still awaiting government approval for its farm-in to this licence.
 22. Tullow will acquire its interests on completion of work programme.

Commercial reserves and contingent resources (unaudited) working interest basis

Year ended 31 December 2008

	Africa		Europe		South Asia		Total		
	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Oil mmbbl	Gas bcf	Petroleum mmboe
Commercial reserves¹									
1 January 2008	131.1	20.1	2.0	258.7	–	105.9	133.1	384.7	197.2
Revisions	140.2	(6.5)	–	(15.9)	–	36.8	140.2	14.4	142.6
Disposals	–	–	–	(7.9)	–	–	–	(7.9)	(1.3)
Production	(14.8)	(1.3)	(0.2)	(43.5)	–	(11.8)	(15.0)	(56.6)	(24.4)
31 December 2008	256.5	12.3	1.8	191.4	–	130.9	258.3	334.6	314.1
Contingent resources²									
1 January 2008	160.9	1,014.5	–	129.3	–	16.2	160.9	1,160.0	354.2
Revisions	140.7	96.0	–	15.2	–	–	140.7	111.2	159.2
Disposals	–	–	–	(12.7)	–	–	–	(12.7)	(2.1)
31 December 2008	301.6	1,110.5	–	131.8	–	16.2	301.6	1,258.5	511.3
Total									
31 December 2008	558.1	1,122.8	1.8	323.2	–	147.1	559.9	1,593.1	825.4

Notes:

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.

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 114.5 mmboe at 31 December 2008 (31 December 2007: 128.1 mmboe).

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