

## Realising our vision

Tullow has a clear vision, a consistent strategy and a flexible but highly-integrated business model that continuously adapts to the prevailing external environment.

### Global markets

2008 was a year of extreme volatility in both the equity and commodity markets. During the latter half of the year, the problems with the banking sector led to a reduction in available capital which had dramatic knock-on consequences for all major economies.

The impact of this deterioration in economic prospects was evidenced by the rapid reduction in commodity prices, including Brent Crude, which fell from a high of over US\$140/bbl in July 2008 to US\$36/bbl in December 2008. Furthermore, there have been significant movements in the major foreign exchange rates, with the Sterling/US Dollar rate moving from £/US\$2.03 in February 2008 to its current rate of approximately £/US\$1.40. In addition, interest rates have reduced significantly in an attempt to stimulate demand.

For Tullow, oil and gas revenues are being impacted and the current downturn in the global economy presents new challenges as we manage the business for the longer term.

While in the short term we are carefully managing investment and capital allocation, we recognise that significant value-enhancing opportunities are likely to arise as companies struggle in the current environment.

Looking ahead, Tullow will take a prudent but entrepreneurial approach to its growth strategy. Our portfolio of existing assets and new production coming on stream positions the Group strongly to benefit from a recovery in oil prices.

### Industry challenges

2009 is likely to be a difficult year for the sector:

- The management of oil price volatility will be of particular significance, given its impact on revenues, funding, investment levels and supply-side costs;
- The impact that short-term views on oil price have on funding places an emphasis on exploration and appraisal programmes that target near-term production and commercial reserves;
- A time lag remains between historic supply-side inflation and lower oil prices; and
- Significant industry consolidation is likely, creating both acquisition and disposal opportunities.

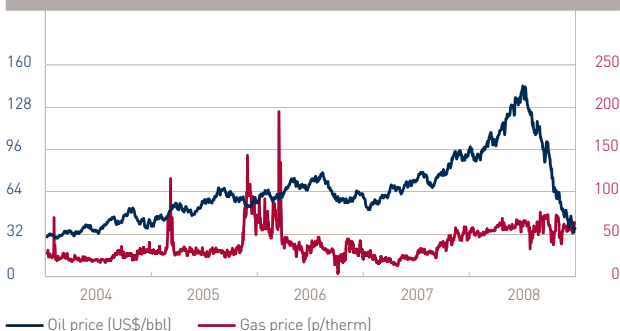
In response, Tullow has already undertaken a strict capital allocation programme for 2009. Capital expenditure for the year is currently budgeted at approximately £600 million, split 70% on production and development and the remainder on exploration and appraisal. Africa will account for circa 85% of the total. In the current environment, it makes good business sense for the Group to focus its major spend on first production in Ghana in 2010 and to commercialise its investment in Uganda.

In parallel, Tullow will safeguard mature production as well as retain key future exploration prospects.

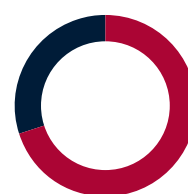
Early in 2009, Tullow strengthened its balance sheet with a successful equity placing and major debt financing enhancing the Group's financial capacity and flexibility.

Combined, these factors will help ensure Tullow remains flexible during the year, particularly if low oil prices persist. This will allow the Group to take advantage of opportunities that may present themselves.

#### Oil and gas prices



#### Capital expenditure



**£600 million**

This is the budgeted capital expenditure for 2009, up 25% on 2008.

- P&D 70%
- E&A 30%

## Vision and strategy

### Our vision

Our vision is to be the leading global independent exploration and production company by:

- Building on our excellent track record through being the best in all that we do;
- Continuing to grow value over the long-term as partner, operator and employer of choice; and
- Conducting our operations with respect for the people and environments in which we work.

### Our strategy

Tullow pursues a consistent and repeatable strategy which seeks to deliver sustainable long-term growth with a balance between funding, exploration and production spend and major activities in core areas.

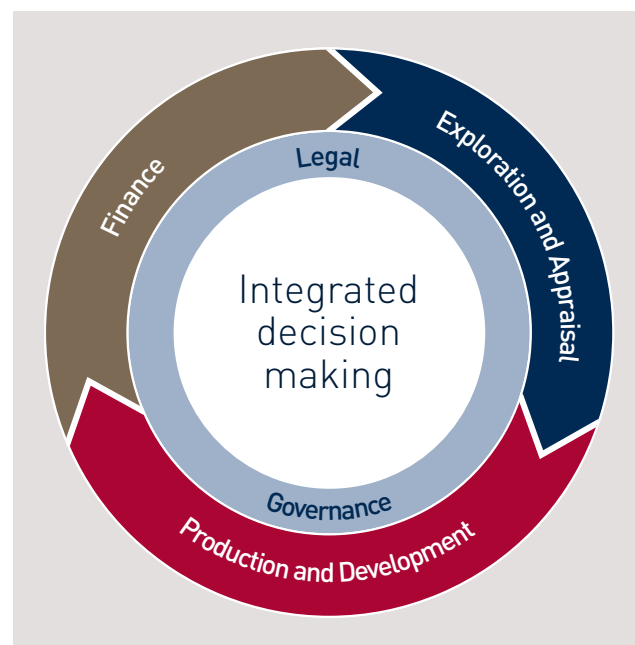
We will achieve this by:

- Delivering major projects, with a significant focus on increasing bankable reserves;
- Executing selective, high-impact exploration programmes funded by surplus cash flow or equity;
- Managing our assets to high-grade the portfolio, replenish upside and assist funding needs;
- Ensuring safe people, procedures and operations, and minimising environmental impacts;
- Building long-term relationships with local governments, communities and key stakeholders; and
- Continuing to develop a strong team with excellent commercial, technical and financial skills.

### Our strategic objective

To deliver top quintile total shareholder returns versus our industry peer group.

## Tullow's business model



**E&A** has responsibility for identifying core plays, prioritising prospective exploration options and executing exploration and appraisal programmes within material follow-on campaigns.

**P&D** has responsibility for field appraisal, development of commercial discoveries and the management of the Group's production and reserves, which are fundamental to revenue generation.

**Finance** has responsibility for the management of equity, debt and cash to maintain a strong balance sheet and the ability to fund E&A and P&D activities with prudent, focused capital investment.

**Legal** has responsibility for all governance and legal issues including regulatory compliance and delivering commercial legal solutions for Tullow's business needs.

Collective responsibility is held for portfolio management including disposals, investments and mergers and acquisitions. At the core of Tullow's business model is the Group's vision and strategy and strong discipline in planning and execution.