

6 Financial statements

With effect from 1 January 2010 Tullow presents its financial statements in US dollars. We have decided it is now appropriate to change the presentational currency from sterling as the majority of our activities are in Africa where oil revenue and costs are dollar denominated.

100 Statement of Directors' responsibilities

101 Independent auditors' report

102 Group financial statements

106 Accounting policies

112 Notes to the Group financial statements

140 Company financial statements and related information

152 Five year financial summary

Supplementary information

153 Commercial reserves and contingent resources

154 Licence interests

158 Shareholder information

159 Contacts

160 Index

162 Glossary



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.

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 (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and 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). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

Group

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies;
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Provide additional disclosures when compliance with the specific requirements in IFRSs 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; and
- Make an assessment of the Group's ability to continue as a going concern.

The Directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

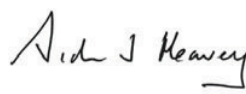
The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with International Financial Reporting 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
- The management report, 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 that they face.

By order of the Board



Aidan Heavey
Chief Executive Officer

8 March 2011



Ian Springett
Chief Financial Officer

8 March 2011

Independent Auditor's 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 2010 which comprise the Group income statement, the Group statement of comprehensive income and expense, the Group balance sheet, the Group statement of changes in equity, the Group cash flow statement, the accounting policies and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the Group financial statements:

- Give a true and fair view of the state of the Group's affairs as at 31 December 2010 and of its profit for the year then ended;
- Have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- Have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Separate opinion in relation to IFRSs as issued by the IASB

As explained in the accounting policies to the Group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the Group financial statements comply with IFRSs as issued by the IASB.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- The Directors' statement contained within the Directors' report in relation to going concern; and
- The part of the Corporate governance statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- Certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matters

We have reported separately on the parent company financial statements of Tullow Oil plc for the year ended 31 December 2010 and on the information in the Directors' remuneration report that is described as having been audited.



Matthew Donaldson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditors
London, UK

8 March 2011

Financial statements
Group income statement
Year ended 31 December 2010

	Notes	2010 \$m	2009 \$m
Sales revenue	2	1,089.8	915.9
Cost of sales		(611.4)	(625.5)
Gross profit		478.4	290.4
Administrative expenses		(89.6)	(77.6)
Profit on disposal of subsidiaries	25	–	16.0
Profit on disposal of oil and gas assets		0.5	4.9
Exploration costs written off	9	(154.7)	(82.7)
Operating profit	3	234.6	151.0
Loss on hedging instruments	18	(27.7)	(59.8)
Finance revenue	2	15.1	2.1
Finance costs	5	(70.1)	(60.8)
Profit from continuing activities before tax		151.9	32.5
Income tax expense	6	(79.4)	(1.9)
Profit for the year from continuing activities		72.5	30.6
Attributable to:			
Owners of the parent		54.0	25.2
Non-controlling interest	23	18.5	5.4
		72.5	30.6
Earnings per ordinary share	8	¢	¢
Basic		6.1	3.2
Diluted		6.1	3.1

Group statement of comprehensive income and expense

Year ended 31 December 2010

	Notes	2010 \$m	2009 \$m
Profit for the year		72.5	30.6
Cash flow hedges			
Losses arising in the year	18	(26.8)	(18.0)
Reclassification adjustments for losses included in profit on realisation	18	(10.3)	(13.3)
		(37.1)	(31.3)
Exchange differences on translation of foreign operations		(11.4)	42.0
Other comprehensive income		(48.5)	10.7
Tax relating to components of other comprehensive income	18	8.2	(12.4)
Other comprehensive income for the year		(40.3)	(1.7)
Total comprehensive income for the year		32.2	28.9
Attributable to:			
Owners of the parent		13.7	23.5
Non-controlling interest		18.5	5.4
		32.2	28.9

Group balance sheet


As at 31 December 2010

6

Financial statements

	Notes	2010 \$m	2009 \$m	2008 \$m
ASSETS				
Non-current assets				
Intangible exploration and evaluation assets	9	4,001.2	2,121.6	2,052.8
Property, plant and equipment	10	2,974.4	2,199.8	1,428.2
Investments	11	1.0	1.0	0.6
Deferred tax assets	20	110.7	50.4	–
Derivative financial instruments	18	–	–	42.4
		7,087.3	4,372.8	3,524.0
Current assets				
Inventories	13	138.2	109.6	54.8
Trade receivables	12	158.9	92.4	100.4
Other current assets	14	655.3	296.0	87.2
Cash and cash equivalents	15	338.3	252.2	450.3
Derivative financial instruments	18	–	2.3	28.9
		1,290.7	752.5	721.6
Total assets		8,378.0	5,125.3	4,245.6
LIABILITIES				
Current liabilities				
Trade and other payables	16	(1,008.2)	(557.1)	(478.1)
Other financial liabilities	17	(309.8)	–	(304.8)
Current tax liabilities		(120.0)	(73.8)	(154.1)
Derivative financial instruments	18	(47.1)	–	–
		(1,485.1)	(630.9)	(937.0)
Non-current liabilities				
Trade and other payables	16	(354.0)	(31.8)	(8.8)
Other financial liabilities	17	(1,890.0)	(1,314.6)	(708.1)
Deferred tax liabilities	20	(466.1)	(473.5)	(503.8)
Provisions	20	(278.6)	(223.5)	(194.0)
Derivative financial instruments	18	(35.3)	(20.0)	–
		(3,024.0)	(2,063.4)	(1,414.7)
Total liabilities		(4,509.1)	(2,694.3)	(2,351.7)
Net assets		3,868.9	2,431.0	1,893.9
EQUITY				
Called up share capital	21	143.5	130.1	119.7
Share premium	21	251.5	242.3	231.1
Other reserves	22	574.2	614.5	607.8
Retained earnings		2,839.1	1,402.0	898.6
Equity attributable to equity holders of the parent		3,808.3	2,388.9	1,857.2
Non-controlling interest	23	60.6	42.1	36.7
Total equity		3,868.9	2,431.0	1,893.9

Approved by the Board and authorised for issue on 8 March 2011



Aidan Heavey
Chief Executive Officer



Ian Springett
Chief Financial Officer

Group statement of changes in equity

Year ended 31 December 2010

	Share capital \$m	Share premium \$m	Other reserves (note 23) \$m	Retained earnings \$m	Total \$m	Non-controlling interest \$m	Total equity \$m
At 1 January 2008	117.4	178.0	541.9	555.0	1,392.3	31.0	1,423.2
Total recognised income and expense for the year	-	-	73.2	423.5	496.7	5.7	502.4
Purchase of treasury shares	-	-	(20.9)	-	(20.9)	-	(20.9)
New shares issued in respect of employee share options	1.3	11.1	-	-	12.4	-	12.4
New shares issued in respect of royalty obligation	1.0	42.0	-	-	43.0	-	43.0
Vesting of PSP shares	-	-	13.6	(13.6)	-	-	-
Share-based payment charges	-	-	-	14.6	14.6	-	14.6
Dividends paid (note 7)	-	-	-	(80.9)	(80.9)	-	(80.9)
At 1 January 2009	119.7	231.1	607.8	898.6	1,857.2	36.7	1,893.9
Total recognised income and expense for the year	-	-	(1.7)	25.2	23.5	5.4	28.9
Purchase of treasury shares	-	-	(5.7)	-	(5.7)	-	(5.7)
Issue of equity shares (note 22)	9.7	-	-	549.3	559.0	-	559.0
New shares issued in respect of employee share options	0.7	11.2	-	-	11.9	-	11.9
Vesting of PSP shares	-	-	14.1	(14.1)	-	-	-
Share-based payment charges	-	-	-	18.3	18.3	-	18.3
Dividends paid (note 7)	-	-	-	(75.3)	(75.3)	-	(75.3)
At 1 January 2010	130.1	242.3	614.5	1,402.0	2,388.9	42.1	2,431.0
Total recognised income and expense for the year	-	-	(40.3)	54.0	13.7	18.5	32.2
Purchase of treasury shares	-	-	-	-	-	-	-
Issue of equity shares (note 22)	13.1	2.1	-	1,432.9	1,448.1	-	1,448.1
New shares issued in respect of employee share options	0.3	7.1	-	-	7.4	-	7.4
Vesting of PSP shares	-	-	-	(0.2)	(0.2)	-	(0.2)
Share-based payment charges	-	-	-	29.6	29.6	-	29.6
Dividends paid (note 7)	-	-	-	(79.2)	(79.2)	-	(79.2)
At 31 December 2010	143.5	251.5	574.2	2,839.1	3,808.3	60.6	3,868.9

Group cash flow statement

Year ended 31 December 2010

	Notes	2010 \$m	2009 \$m
Cash flows from operating activities			
Cash generated from operations	24	818.0	463.6
Income taxes paid		(85.6)	(187.1)
Net cash from operating activities		732.4	276.5
Cash flows from investing activities			
Disposal of subsidiaries	25	–	5.1
Disposal of oil and gas assets		6.7	12.3
Purchase of intangible exploration and evaluation assets		(2,006.1)	(668.4)
Purchase of property, plant and equipment		(625.6)	(520.9)
Advances to contractors		(172.4)	–
Finance revenue		5.4	1.2
Net cash used in investing activities		(2,792.0)	(1,170.7)
Cash flows from financing activities			
Net proceeds from issue of share capital		1,453.3	570.6
Debt arrangement fees		(16.7)	(100.5)
Repayment of bank loans		(20.9)	(376.3)
Drawdown of bank loan		907.0	701.9
Finance costs		(94.2)	(49.2)
Dividends paid	7	(79.2)	(75.3)
Purchase of treasury shares		–	(5.5)
Net cash generated by financing activities		2,149.3	665.7
Net increase/(decrease) in cash and cash equivalents		89.7	(228.5)
Cash and cash equivalents at beginning of year		252.2	450.3
Foreign exchange		(3.6)	30.4
Cash and cash equivalents at end of year	15	338.3	252.2