

Company Registration No. 5660209

Tulow Group Services Limited

Report and Financial Statements

31 December 2011

MONDAY



A1K2CL9E

A29

22/10/2012

#77

COMPANIES HOUSE

Tullow Group Services Limited
Report and financial statements 2011

Contents	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	4
Independent auditor's report	5
Profit and loss account	7
Balance sheet	8
Notes to the financial statements	9

Tulloy Group Services Limited

Officers and professional advisers

Directors

A J Heavey
A G Martin
P McDade
A McCoss
I Springett

Secretary

R Taylor

Registered Office

Building 9
Chiswick Park
566 Chiswick High Road
London W4 5XT

Bankers

ABN Amro Bank NV

Solicitors

Dickson Minto W S
Royal London House
22/25 Finsbury Street
London EC2A 1DX

Auditor

Deloitte LLP
Chartered Accountants
London

Tullow Group Services Limited

Directors' report

The directors present their annual report on the affairs of the company, together with the financial statements and auditor's report, for the year ended 31 December 2011

Principal activities

Tullow Group Services Limited is a service company established for the purposes of handling London office and staff-related costs of Tullow Oil plc

Business review

The financial statements for the year ended 31 December 2011 are set out on pages 7 to 19. A loss after taxation of £49,477,256 was recorded for the year ended 31 December 2011 (2010 loss of £21,120,408). Tullow Group Services Limited was set up as a service company for the purposes of handling all the London office and staff related costs with the operational related costs remaining with the operating companies of Tullow Oil plc. Rechargeable costs are determined based on a timewriting system and a mark-up of 10% is applied to these costs for the services provided.

Tullow Oil plc, the ultimate parent company, manages the company and other UK subsidiaries' operations on a group basis. For this reason and as a result of the nature of this company, the company's directors believe that key performance indicators for the company are not necessary or appropriate for an understanding of the development, performance or position of the business. The performance of Tullow Oil plc and its subsidiaries ("the group"), which include the company, is discussed in the group's annual report, which does not form part of this report.

Financial risk management objectives and policies

The company's principal financial assets are amounts due from group companies and bank balances. The credit risk associated with such items, having regard to the counterparties involved, has been assessed following an analysis of the likely recovery of intercompany debtor balances based on the net assets and expected future performance of the company.

The company receives loans from a fellow group company to maintain liquidity and ensure that there are sufficient funds available for ongoing operations.

Directors

The directors, who served throughout the year were as follows:

A J Heavey
A G Martin
P McDade
A McCoss
I Springett

Charitable and political donations

The company made charitable, social and community-related donations totalling £494,821 during the year (2010: £872,970). In line with group policy, no donations were made for political purposes.

Supplier payment policy

It is company policy to settle all debts with creditors on a timely basis and in accordance with the terms of credit agreed with each supplier. Creditor days were 5 (2010: 21). This decrease is the result of a significant increase in the rate of transactions being processed through Tullow Group Services Limited.

Tullow Group Services Limited

Directors' report (continued)

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group and the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee consultation

The Group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group and the Company. This is achieved through formal and informal meetings, the Company magazine and a special edition for employees of the annual financial statements. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Directors' indemnities

As at the date of this report, indemnities are in force under which the company has agreed to indemnify the directors, to the extent permitted by the Companies Act 2006, against claims from third parties in respect of certain liabilities arising out of, or in connection with, the execution of their powers, duties and responsibilities as directors of the company.

Going Concern

The company has received a letter of support from its parent, Tullow Oil Plc. Accordingly, the directors have reasonable expectation that the company has adequate resources to continue as a going concern for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing the Annual Report and Accounts.

Auditor

Each person who is a director at the date of approval of this report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- (2) the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Deloitte LLP has indicated their willingness to be reappointed as auditor and is, in accordance with s487 of the Companies Act 2006, deemed to be reappointed as auditor for the next financial year.

Approved by the Board and signed on its behalf by



Director

18 October 2012

Paul McDade.

Tulow Group Services Limited

Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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. Under that law the directors have elected to prepare the 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 financial statements 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. 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 adequate 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 to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Tullow Group Services Limited

Independent auditor's report to the members of Tullow Group Services Limited

We have audited the financial statements of Tullow Group Services Limited for the year ended 31 December 2011 which comprise the profit and loss account, the balance sheet and the related notes 1 to 19. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 auditor

As more fully explained in the Directors' Responsibilities Statements, the directors are responsible for the preparation of the 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 financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practice Board's Ethical Standards for Auditors.

Scope of the audit of 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 company'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

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Tullow Group Services Limited

Independent auditor's report to the members of Tullow Group Services Limited (continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- 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



Matthew Donaldson (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
12 October 2012

Tulow Group Services Limited

Profit and loss account

Year ended 31 December 2011

	Notes	2011 £	2010 £
Turnover	3	86,746,982	56,830,054
Administration costs		(133,455,097)	(84,460,844)
Provision for onerous lease		1,770,663	(1,770,663)
Allowance for doubtful debts		700,249	(659,513)
Total Administrative Expenses		<u>(130,984,185)</u>	<u>(86,231,507)</u>
Operating loss	4	(44,237,203)	(29,401,453)
Interest receivable and similar income	7	327	5,956,034
Interest payable and similar charges	8	(71,710)	-
Loss on disposal of assets		-	(30,146)
Loss on ordinary activities before taxation		<u>(44,308,586)</u>	<u>(24,135,078)</u>
Taxation on loss on ordinary activities	9	<u>(5,168,670)</u>	<u>3,014,670</u>
Loss retained for the financial year		<u><u>(49,477,256)</u></u>	<u><u>(21,120,408)</u></u>

All transactions are derived from continuing activities

There are no gains or losses other than the reported loss for either the current year or the prior period. Accordingly, no separate statement of total recognised gains and losses is presented

Tulow Group Services Limited


Balance sheet

As at 31 December 2011

	Notes	2011 £	2010 £
Fixed assets			
Tangible assets	10	25,449,624	21,952,523
Deferred tax assets	11	-	5,168,670
		<u>25,449,624</u>	<u>27,121,193</u>
Current assets			
Debtors	12	20,134,733	29,597,476
Cash at bank and in hand		11,290,052	3,700,249
		<u>31,424,785</u>	<u>33,297,725</u>
Creditors: amounts falling due within one year			
Trade and other payables	13	(158,982,026)	(121,081,274)
		<u>(158,982,026)</u>	<u>(121,081,274)</u>
Net current liabilities		<u>(127,557,241)</u>	<u>(87,783,549)</u>
Creditors: amounts falling due more than one year			
Provision for onerous lease		-	(1,770,663)
		<u>-</u>	<u>(1,770,663)</u>
Net liabilities		<u>(102,107,617)</u>	<u>(62,433,019)</u>
Capital and reserves			
Issued share capital	14	1	1
Profit and loss account	15	(102,107,618)	(62,433,020)
Shareholders' deficit		<u>(102,107,617)</u>	<u>(62,433,019)</u>

These financial statements of the company, registered number 5660209, were approved and issued by the Board of Directors on 18 October 2012

Signed on behalf of the Board of Directors on 18 October 2012


Director
Paul McDade

Tullow Group Services Limited

Notes to the financial statements

Year ended 31 December 2011

1. Accounting policies

The principal accounting policies of the company, which have been applied consistently throughout the current and prior periods, are as follows

Basis of accounting

The financial statements are prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards

Going Concern

The company has received a letter of support from its parent, Tullow Oil Plc. Accordingly, the directors have reasonable expectation that the company has adequate resources to continue as a going concern for the foreseeable future. The company therefore continues to adopt the going concern basis in preparing the Annual Report and Accounts.

Turnover

Turnover is attributed to one activity and represents the cost plus a 10% uplift on certain services to other group business units, net of VAT. When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period.

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.

Tangible fixed assets

Other tangible fixed assets comprise office equipment and motor vehicles which are stated at cost less depreciation to date. Depreciation 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.

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.

Deferred taxation is recognised on all timing 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 the 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 timing differences can be deducted.

Pensions

Contributions to the company's defined contribution scheme are charged to the profit and loss account as they fall due.

Leases

Rentals under operating leases are charged against income on a straight line basis over the term of the lease.

Tullow Group Services Limited

Notes to the financial statements

Year ended 31 December 2011

1. Accounting policies (continued)

Provision for abandoned leasehold

Provision for abandoned leasehold is recognised in full in the profit and loss account when the unavoidable costs of meeting the obligations under it exceed the economic benefits expected to be received under it. The amount recognised is the best estimate of the expenditure required to settle the present obligation at the balance sheet date, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the provision estimate are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to the profit and loss account.

Share-based payments

The company participates in the Tullow share-based remuneration schemes. Awards made to Tullow personnel participating in the scheme are equity-settled share-based payments and are measured at fair value at the date of the grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight line basis over the vesting period, based on the company's estimate of shares that will eventually vest.

The fair value is estimated by an independent third party using a proprietary binomial probability valuation model. The expected life used in the model has been adjusted, on the basis of management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

2. Parent company

The company's immediate and ultimate parent is Tullow Oil plc, incorporated in the United Kingdom and registered in England and Wales. The parent undertaking of the only group which includes the company and for which consolidated financial statements is produced is Tullow Oil plc. These consolidated financial statements can be obtained from Tullow Oil plc, Building 9, Chiswick Park, 566 Chiswick High Road, London W4 5XT. The company is a wholly owned subsidiary of Tullow Oil plc. Consequently, advantage has been taken of the exemptions under FRS 1 (Revised) and FRS 8, and therefore no separate cash flow statement for the company or disclosures of related party transactions are presented in these financial statements.

3. Turnover

	2011 £	2010 £
Group services	<u>86,746,982</u>	<u>56,830,054</u>

The company's turnover arises from services provided to other group companies.

Tulow Group Services Limited

Notes to the financial statements

Year ended 31 December 2011

4. Operating loss

Operating loss is stated after charging/ (crediting)

	2011 £	2010 £
Staff costs (see note 5)	51,871,460	34,384,130
Share-based payments charges (see note 16)	9,802,658	6,342,464
Operating lease rentals for land and buildings	4,126,628	3,221,794
Auditor's fees for the audit of the company's annual accounts	26,523	25,000
Depreciation (see note 10)	8,750,430	4,854,379
Provision for onerous lease	(1,770,663)	1,770,663

5. Staff costs

The average number of employees (including executive directors) employed by the company was

	2011 No.	2010 No.
Administration	191	134
Technical	164	93
	<u>355</u>	<u>227</u>

Their aggregate remuneration comprised

	2011 £	2010 £
Wages and salaries	40,348,148	26,473,513
Social security costs	3,088,564	5,641,813
Pension costs	8,434,748	2,268,804
	<u>51,871,460</u>	<u>34,384,130</u>

6. Directors' remuneration

No directors are entitled to remuneration or other emoluments for services to the company for the current year (prior year nil)

Tulow Group Services Limited

Notes to the financial statements

Year ended 31 December 2011

7. Interest receivable

	2011 £	2010 £
Other income	327	792,662
Exchange gains and losses	-	5,163,372
	<u>327</u>	<u>5,956,034</u>

8. Interest payable

	2011 £	2010 £
Exchange losses	<u>71,710</u>	<u>-</u>

9. Taxation on loss on ordinary activities

The tax charge comprises

(a) Analysis of charge in the year

	2011 £	2010 £
Current tax		
UK corporation tax ('CT')	<u>-</u>	<u>-</u>
Deferred tax		
UK corporation tax	<u>(5,168,670)</u>	<u>3,014,670</u>
Total tax (charge)/ credit	<u>(5,168,670)</u>	<u>3,014,670</u>

Tulow Group Services Limited

Notes to the financial statements

Year ended 31 December 2011

9. Taxation on loss on ordinary activities (continued)

(b) Factors affecting tax charge for the year

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows

	2011 £	2010 £
Loss on ordinary activities before tax	(44,308,586)	(24,135,078)
Tax on loss on ordinary activities at standard UK corporation tax rate of 26.5% (2010: 28%)	(11,741,775)	(6,757,822)
Effects of		
Expenses not deductible for tax purposes	3,193,794	1,974,591
Expenses deductible for tax but not accounting	-	(1,311,445)
Transfer pricing adjustment	10,803,860	7,160,050
Capital allowances in excess of depreciation	(1,253,215)	268,949
Group relief claimed without compensation	(3,512,720)	(1,334,323)
Current tax charge for the year	-	-

(c) Factors that may affect the future tax charge

The statutory rate of corporation tax in the UK was reduced from 28% to 26% with effect from 1 April 2011 and to 24% with effect 1 April 2012

Tulow Group Services Limited

Notes to the financial statements

Year ended 31 December 2011

10. Tangible fixed assets

	Tangible fixed assets £
Cost	
At 1 January 2011	38,253,433
Additions	12,247,531
Disposals	-
At 31 December 2011	<u>50,500,964</u>
Depletion and amortisation	
At 1 January 2011	16,300,910
Charge for the year	8,750,430
At 31 December 2011	<u>25,051,340</u>
Net Book Value	
As at 31 December 2011	<u>25,449,624</u>
As at 31 December 2010	<u>21,952,523</u>

11. Deferred tax assets

	Total £
Deferred tax assets	
At 1 January 2011	5,168,670
to profit and loss account	(5,168,670)
At 31 December 2011	<u>-</u>
	<u>2011</u>
	<u>£</u>
Deferred corporation tax is provided as follows:	
Accelerated capital allowances	- 877,649
Share option deductions	- 4,291,021
	<u>- 5,168,670</u>

At 31 December 2011, the company is not expected to make taxable profits for the foreseeable future, and hence no deferred tax asset is recognised at this date

Tullow Group Services Limited

Notes to the financial statements

Year ended 31 December 2011

12. Debtors

	2011 £	2010 £
Other debtors	731,797	1,015,842
Other taxation and social security	876,757	870,272
Prepayments	3,274,274	5,070,639
Amounts from Group companies	15,891,471	23,980,537
Less allowance for doubtful debt	(639,565)	(1,339,814)
	<u>20,134,733</u>	<u>29,597,476</u>

The intercompany balances predominantly relate to time writing and consultancy charges, accrue no interest, have no maturity date and are repayable on demand

The allowance for doubtful debt has been made following an analysis of the likely recovery of the intercompany loans based on the net assets and expected future performance of the counterparty Group company

13. Creditors: amounts falling due within one year:

	2011 £	2010 £
Trade creditors	541,079	1,571,796
Other creditors	8,053,451	3,657,242
Accruals	23,640,377	18,527,634
Amount due to Energy Africa (UK) Limited	59,294,822	59,294,823
Amount due to Tullow Oil SNS Limited	1,769,754	1,769,402
Amount due to Tullow Oil SK Limited	63,680,735	36,260,377
Amount due to Tullow Overseas Holdings BV	2,001,808	-
	<u>158,982,026</u>	<u>121,081,274</u>

The intercompany balances are non interest bearing and repayable on demand

14. Issued Share capital

	2011 £	2010 £
Issued and fully paid		
1 ordinary share of £1	<u>1</u>	<u>1</u>

Pursuant to a Special Resolution passed on 8 December 2010, the Company adopted new Articles of Association which, in accordance with the Companies Act 2006, no longer require the Company to have an authorised share capital

Tulloy Group Services Limited

Notes to the financial statements

Year ended 31 December 2011

15. Reconciliation of shareholders' deficit

	Share capital £	Retained earnings £	Total £
At 31 December 2010	1	(62,433,020)	(62,433,019)
Loss retained for financial year	-	(49,477,256)	(49,477,256)
Share-based payment charges (Note 16)	-	9,802,658	9,802,658
	<hr/>	<hr/>	<hr/>
At 31 December 2011	1	(102,107,618)	(102,107,617)
	<hr/>	<hr/>	<hr/>

Tulow Group Services Limited

Notes to the financial statements

Year ended 31 December 2011

16. Share-based payments

2000 Executive share option scheme (ESOS)

Options granted under the 2000 ESOS normally only become exercisable following the third anniversary of the date of 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.

	2011 number	2011 WAEP (p)	2010 number	2010 WAEP (p)
Outstanding as at 1 January	4,802,489	705.27	4,855,281	447.08
Transferred to group company	(181,244)	787.05	(427,403)	393.99
Transferred from group company	305,326	785.77	305,320	521.43
Granted during the period	1,664,869	1,374.2	1,187,441	1,273.13
Exercised during the period	(862,706)	421.38	(1,068,681)	225.93
Expired during the year	(77,267)	1,269.15	(49,469)	904.61
Outstanding at 31 December	5,651,467	705.27	4,802,489	705.27
Exercisable at 31 December	1,720,689	402.56	1,632,718	276.88

The weighted average share price at exercise of options exercised in 2011 was 1,387.2pp (2010 1,231.9p)

Options outstanding at 31 December 2011 had exercise prices of 82.0p to 1,374.2p and remaining contractual lives of one to ten years.

The principal inputs to the options valuation model were

- Risk free interest rate 1.2 – 2.4% pa
- Expected volatility 46%
- Dividend yield 0.4–0.6% pa
- Employee turnover From 5% depending on seniority
- Early exercise At rates dependent on seniority and potential gain from exercise

Expected volatility was determined by calculating the fair values and expected lives of the options in accordance with FRS 20.

Award date	Weighted average exercise price (p)	Weighted average fair value (p)	Weighted average expected life from grant date years
Jan – Dec 2007	392.83	122.27	4.8
Jan – Dec 2008	644.92	206.55	4.3
Jan – Dec 2009	789.38	287.12	4.0
Jan – Dec 2010	1,273.10	452.4	4.3
Jan – Dec 2011	1,374.2	579.2	4.7

The company recognised a total expense of £5,073,927 (2010 £2,938,260) in respect of the ESOS.

Tulloy Group Services Limited

Notes to the financial statements

Year ended 31 December 2011

16. Share-based payments (continued)

UK Share Incentive Plans (SIPs)

The Share Incentive Plan was launched at the beginning of 2004. This is an all employee plan that has been set up to allow employees to make contributions out of salary up to prescribed limits each month which are used by Trustees to acquire Tulloy shares (Partnership shares). The company makes a matching contribution to the trustees to acquire a matching number of Tulloy shares (Matching shares) on a one-for-one basis. The Share Incentive Plan has 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.

The Partnership shares are purchased at the lower of the market values at the start of the Accumulation Period and the purchase date.

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

The company recognised a total expense of £202,713 (2010: £133,074) for the matching shares and £33,558 (2010: £19,880) for the partnership shares.

2005 Performance Share Plan (PSP)

Under the PSP, employees can receive conditional awards of rights over whole shares worth up to 200% of salary per annum (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.

The shares outstanding under the PSP are as follows:

	2011 PSP Shares	2011 Average weighted share price at grant (p)	2010 PSP Shares	2010 Average weighted share price at grant (p)
Outstanding at 1 January	1,633,396	1,002.28	1,498,039	725.11
Transferred to group company	-	-	-	-
Transferred from group	47,838	987.60	-	-
Granted	759,054	1,355.38	578,786	1,281.00
Exercised during the year	(123,818)	924.50	(409,769)	371.13
Forfeited during the year	(29,170)	1,249.84	(33,660)	1,142.80
Outstanding at 31 December	<u>2,287,300</u>	<u>1,120.20</u>	<u>1,633,396</u>	<u>1,002.28</u>

Tullow Group Services Limited

Notes to the financial statements

Year ended 31 December 2011

16. Share-based payments (continued)

The inputs of the option valuation model were

- o Risk free interest rate 1.6% pa
- o Expected volatility 49%
- o Expected volatility 0.4% 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 2011 was 824.8p (2010 700.8) per award.

The company recognised a total expense of £4,526,018 (2010 £3,251,250) in respect of the PSP.

17. Financial commitments

Annual commitments under non-cancellable operating leases expiring

	2011 £	2010 £
- within one year	1,081,535	-
- between two and five years	46,770	1,128,305
- After five years	4,449,310	4,449,310

All of the above relate to land and buildings.

18. Related party information

The company is exempt from disclosing inter group transactions due to the exemption in FRS 8 as the accounts are included in the financial statements of its ultimate parent undertaking, Tullow Oil plc. There are no other related party transactions outside the group.

19. Cash flow statement

The company is a wholly owned subsidiary of Tullow Oil plc. Consequently, advantage has been taken of the exemption under FRS 1 (Revised) to present a separate cash flow statement for the company in these financial statements.