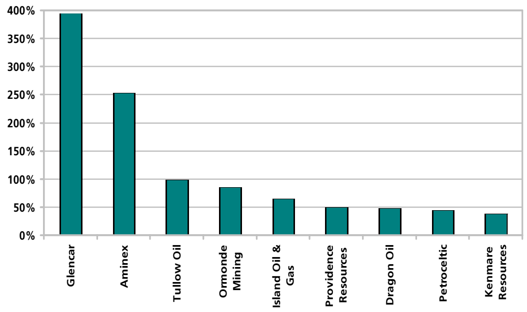
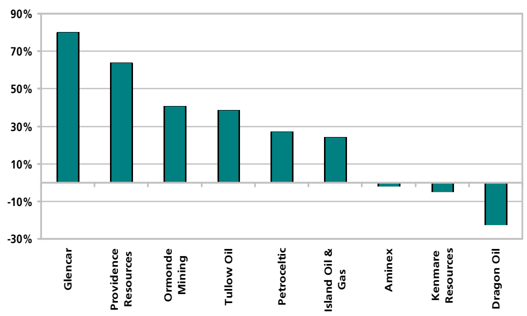
Davy on Resource

June 29th 2006

Leaders and laggards – 12 months (% change, £)



Leaders and laggards – year-to-date (% change, £)



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Disclosures

Please see important disclosures on page 16

A timely reminder

Featured inside: Ormonde Mining

The volatility and de-risking that took place in global markets in the past few months particularly affected both physical commodities and those companies involved in resource development and discovery. This was a reminder, if required, of two things. The first is that the value of resource producers is ultimately based on cyclical pricing. The second is that the finding of (exploring for) resources is a risky business.

However, we note a couple of facts. Oil and gas prices have been largely unaffected and a very strong forward curve is still in place. In addition, even though there has been a major pullback in the metals markets, pricing is still well ahead of what was the accepted norm in the late 1990s and early part of this decade. This is also due in part to supply side issues, such as historic underinvestment, political factors and lack of opportunity.

Ultimately, a cyclical slowdown in demand will manifest (or demand destruction through high prices) and will re-assert itself as the dominant market force. However, we believe that, for the foreseeable future, resource development is still a much more viable business than even a few years ago, although at this stage investor focus should be on volume growth/new discovery rather than on higher commodity prices.

The coming months will be an important time for specific companies. **Tullow Oil** will continue its testing programme of the Waraga and Mputa discoveries in the Albertine Basin in Uganda. Later this summer it will drill one of the larger targets in this area. **Ormonde Mining** will produce its PAS (preliminary assessment story) on the La Zarza project. **Petroceltic** will commence drilling on its Isarene licence in Algeria, and **Island Oil and Gas** will drill the second and third well in its 2006 offshore Ireland drilling programme. **Providence Resources** will look to farm out its west coast Spanish Point project, seeking to emulate the deal it concluded with Exxon Mobil with respect to the Dunquin target.

TABLE 1: SECTOR PERFORMANCES

	Index level	Price performance % change 12 mths	% change ytd
FTSE Oil & Gas producers	7583.8	6.8	2.2
FTSE Mining	13562.9	61.2	10.3
FTSE AIM	1065.6	7.0	1.9
FTSE 250	9197.2	25.8	4.6
Total Market (ISEQ)	7351.8	13.4	-0.2
Davy Resource index	95.7	60.3	14.3

Source: Datastream; Davy

Featured company

Ormonde has been on our list of recommended resource stocks for quite some time. Initially, this reflected our belief that it had relative investment advantage in Spain through cycle timing and local knowledge, but more recently it reflects the fact that Ormonde is on the cusp of becoming a producer of natural resources as well as an explorer.

Even smaller-scale production is important

Being a producer does not by itself necessarily mean that value is being created. However, assuming that the (mining) project is economically viable, it can play an important role in the realm of small-to-medium-sized mining companies. It demonstrates that the company can convert raw material to shareholder value, and it also provides a stream of cashflow to allow the company to maintain its overhead and contribute to other activities in the group.

The latter point is particularly relevant in the context of an upswing in the mining investment cycle such as is underway at present. This (upswing) typically attracts new equity money into early stage projects, and this investment is usually routed into the industry through small companies. However, one problem for investors is that as the cycle matures it can be particularly difficult to select between many of these projects and companies. One way of differentiating is the presence or absence of production capability.

Production protects shareholders

The reason why production is important is that not only does it create income for shareholders; it also plays an important role in protecting shareholders against excessive dilution. Small companies have to finance two areas: exploration and overhead. Exploration, being what it is, is unsuccessful most of the time and further funds are continuously required. In addition, every company will have ongoing working capital requirements. Both these activities have to be financed. Although there is nothing wrong with raising money per se, funding for working capital requirements and ongoing exploration is usually expensive equity and can have a significant dilutive impact.

Ormonde could have at least one and possibly two projects

In Ormonde's case, the indications are that within two years it will have at least one mining project and possibly two in operation.

La Zarza

The largest of these is La Zarza, a copper and gold project in the pyrite belt in southwest Spain. Formerly a massive pyrite mine selling to producers of sulphuric acid, Ormonde's current activity is based on the gold and copper mineral present in the adjacent rocks. Following the work done by former operators, Ormonde has completed several thousand meters of drilling and has also undertaken extensive metallurgical test-work. It is now at the stage to rapidly progress the project and intends to publish a preliminary assessment study (PAS) in the coming weeks. This includes:

- a resource/reserve assessment to JORC standards;
- a metallurgical process flowsheet;
- an environmental review and tailings option and cost assessment;
- a first pass at and review of operating and capital costs.

The JORC resource assessment and the metallurgical work have already been completed. Work is now being completed on the cost assessments and environmental reviews. When finished, the PAS will be a detailed document and will be close to pre-feasibility standard. We fully expect the conclusions to be positive and, subject to the ongoing drilling to establish a JORC compliant indicated resource/probable reserve, expect it to recommend that La Zarza is a viable mining project. The next phase will be to commence a full feasibility study which will be used in discussion with providers of mine finance. This study will include drilling to test the depth extension of the orebody.

Salamanca – Tungsten

However, Ormonde has a second project that could readily produce cashflow even earlier than La Zarza. Its Salamanca licence area in the middle of Spain has significant gold potential but also includes an option over a former Tungsten mine with a large amount of dump material from its earlier operation. The Barruecopardo mine closed in the early 1980s as a result of very poor prices for Tungsten, largely emanating from Chinese production.

Tungsten prices have improved significantly

Tungsten prices have jumped significantly in the recent past, reflecting new supply and demand dynamics in the market (strong demand and rapidly-declining Chinese output). Records from the Barruecopardo mine suggest that the dumps contain up to 60% of the Tungsten in the mined material. Estimates suggest that up to 10m tonnes of material are present in the dumps. New recovery technology (spirals) allows much of the Tungsten discarded in the dumps to be recovered.

Early cash flow possible

Preliminary analysis suggests that an income stream of up to $2m per year should be achievable. The project is particularly interesting because it will require relatively little capital to recover and reprocess the dumps. These have already been crushed and should be amenable to a gravity-based recovery system such as Spirals – a technology not available to the former operators at Barruecopardo.

Other activities

In addition to the more mature projects above, Ormonde also has an inventory of exploration ventures.

Salamanca gold

The primary source of new value for Ormonde is the gold potential of the Salamanca licence. The latest work has shown anomalous levels of gold in soils over extensive areas. This, in conjunction with the style of mineralisation (intrusion related), makes Salamanca a project with high potential and one that may prove attractive to larger gold companies.

Tracia, Salamon and Trives

Gold exploration and appraisal programmes are underway in all three of these areas and all three will be drilled this year. For now, Tracia has the most upside and has the same style of mineralisation as seen at Salamon.

Valuation

The bulk of our value assessment of Ormonde reflects its involvement in La Zarza and the Tungsten tailings project. It is also important to note that our value is based on gold at $475 per ounce and copper at $3,750 per tonne.

TABLE 2: VALUATION SUMMARY

Project	Valuation ($m)	Per share (€ c)	Memo
La Zarza	48	22.5	Based on gold at $475 and copper at $3,750
Salamanca – Tungsten	10	4.8	Assumed recovery of 60%, Tungsten price set at $180 per unit
Salamanca – gold	10	4.8	Assumed value of JV
Tracea and Salamon and Trives	5	2.3	Assumed JV and residual value
Cash	6	3.0	
Total	79	37.5	

Source: Davy; Ormonde

We view the above as a baseline valuation of Ormonde. Even though La Zarza is the largest component, we have not included any depth extension at the mine nor assumed an equity interest in excess of 70%. We have also used conservative metal prices well below current levels.

Good newsflow

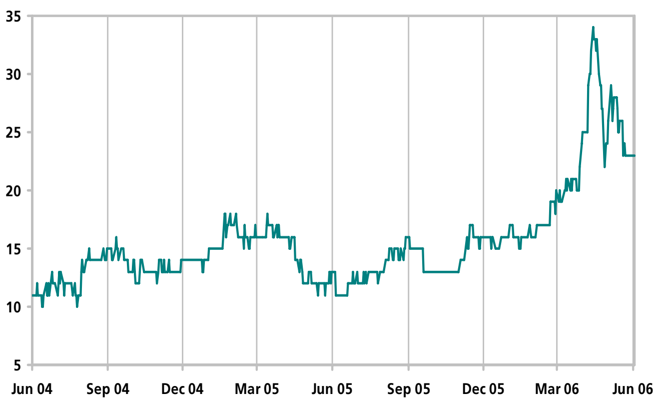
Ormonde has always followed the policy of holding a series of projects to allow a reasonable amount of risk mitigation. This means that newsflow will be a constant feature.

TABLE 3: ORMONDE NEWSFLOW IN 2006

Project	Activity	Status	Result/completion
La Zarza	PSA	Ongoing	July
La Zarza	Drilling	Ongoing	Next set of results end Q3
Salamanca – Tungsten	Sampling dumps	Start in July	Results in September
Salamanca – gold	Drilling	Start in August	Results in Q4
Tracia, Salamon and Trives	Drilling	Underway and ongoing through Q3/Q4	Results in Q3/Q4

Source: Davy; Ormonde

FIGURE 1: ORMONDE PRICE PERFORMANCE (C)



Source: Datastream

Irish resource stocks: upcoming news

Uganda programme in full swing this summer

To be fair to Tullow, it has always stated that its Ugandan operations had the potential to be company transforming. Early entry into a new oil and gas basin in which it has a 50% share has huge value potential on a success case basis. So far, the results from Uganda have lived up to best expectations. All three 2006 wells in the basin margin play have hit oil and gas. Moreover, the testing of the Waraga-1 discovery suggests that, on information so far, some of the reservoir sands have excellent productive potential. Our analyses suggest that the three basin margin discoveries have the potential to contain between 30-50m barrels. By itself, this is probably uncommercial given the location and lack of infrastructure. Tullow has guided that reserves of up to 300m barrels are required. However, this does not preclude a cluster-type development of a series of smaller discoveries or indeed that one or more of the basin margin plays surprise on the upside. The recent Waraga-1 test is a case in point, with evidence that the lower sand has very good permeability characteristics which may lead to higher recovery of the oil in place.

For valuation purposes, we assume that Tullow will ultimately have a 50% share in 500m barrels in the Albertine basin. For now this is risked at a 12.5% probability, which translates into a 31p "risked" valuation. Unwinding the risk produces a value of 249p per share. Out total risked valuation for Tullow is 370p per share and we currently have a 400p price target (issued March 29th 2006; previously 292c, issued January 27th 2006).

The test rig will probably move to at least one of the other two discoveries (Mputa -1 and/or 2). However, Tullow will also drill Kingfisher, one of the bigger middle of the basin targets, during the summer. By itself, this target could be up to 500m barrels.

Island Oil and Gas very active offshore Ireland this year

Island has finished its first well offshore Ireland this year. The well was drilled in the western part of the Seven Heads field and flowed gas at a rate of just over 13m cubic feet per day. The well was suspended as a potential gas producer. The aim will be to tie the well into the existing Seven Heads production system. The rig will shortly drill the Old Head of Kinsale target next followed by the Inishbeg structure in Donegal Bay. Adjusting for the recent agreement covering £21m of convertible loans and warrants, our risk weighted valuation of the whole of the Island portfolio is 160p per share.

Glencar and Gold Fields to further progress Mali operations

Gold Fields has completed a 2,500 meter drilling programme on the Sanankoro concession in Mali, West Africa. The programme was conducted under a joint venture (JV) deal between Gold Fields and Glencar, whereby Gold Fields can earn a 65% stake in three licences by spending up to $12m. The drilling programme at Sanankoro is the first one to be drilled under the JV, and results are expected at the end of July.

A reverse air blast (RAB) drilling programme is also expected to start shortly on the Sanioumale licence, which is also covered by the Gold Fields JV. The Sanankoro target is a shear hosted mineralised system with nearby associated intrusive rocks. The area is already being worked by local artisanal miners.

At its recent AGM, Glencar announced that it had begun to plan for a drilling programme on its Komana West discovery to define a resource statement. Komana West is also in Mali but is not covered by the Gold Fields JV. Instead, Glencar will fund all the work on the licence in which it holds a 95% interest. Komana has all the early hallmarks of a new discovery, which as we have pointed out in the past would be the third mining project in which Glencar will have been involved.

Petroceltic to start drilling in Algeria at the end of July

Following its funding earlier this year, Petroceltic is now set to commence drilling on its southern Algerian Isarene licence in the Ilizi Basin. A drilling contract was concluded with Schlumberger last March, and the first of two wells is expected to spud at the end of July/early August. The wells will target multiple zones at various geological levels, and each well is expected to take a month to drill with an additional two weeks for testing if warranted.

Petroceltic will also be involved in a Lundin operated well offshore Ireland later summer through a 16.25% stake in licence 1/05, which covers several blocks in the Donegal basin. The primary target is the Inishbeg prospect, a structure that looks very like the Corrib field located to the southwest in the Slyne trough. The indications are that this well will spud during August.

Providence seeking Spanish Point farm-out

Providence has opened a data room to farm-out its Spanish Point prospect located in the Porcupine Basin off the west coast of Ireland. It is seeking to emulate its deal with Exxon Mobil, whereby it concluded an agreement covering its Dunquin licence, which is also located off the west coast. Spanish Point has already been drilled and is a more mature target than Dunquin. Any deal will probably involve a well and could be concluded later this year. Providence is also looking for partners to work over its extensive Celtic Sea licence position. Its aim is to build an extensive drilling programme to be undertaken in the 2007/2008 period.

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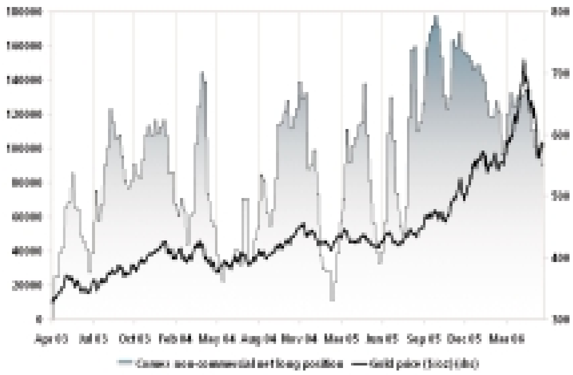
WTI Crude vs Nymex net speculative position

Source: Bloomberg

Oil price

While mainstream equity markets suffered a severe anxiety attack, oil markets for the most part displayed a high degree of equanimity. This is presumably because pricing receives support from both the demand and supply side. Production outage or the risk thereof, whether physical or political, continues to lend support to markets. Despite some talk of demand destruction, it is not really all that evident. Recent statistics support the demand side too, with Chinese demand for crude imports in May up 20% compared to last year. The US driving season will support the summer period, which will be followed by the hurricane season which will be followed by the northern winter. In short, prices look very solid.

Gold price vs Comex net long speculative position

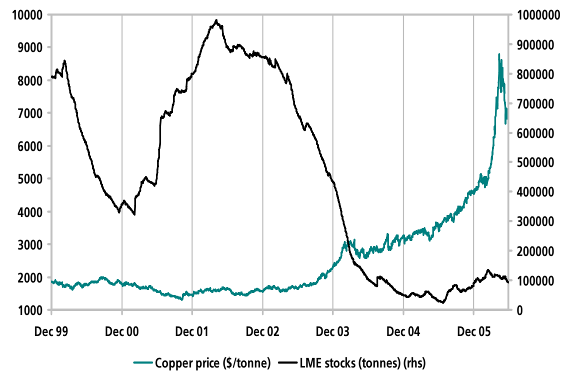


Source: Bloomberg

Gold price

The flight to quality mantra over the last few months has missed gold entirely. In fact, the exact opposite has happened and the price has given up a large part of previous gains. We suspect that other factors are at work. Gold traditionally competes with interest rates, and the recent talk of rising cost of money will not have helped sentiment towards the metal. In addition, we suspect that the investment flow of non-resource funds towards raw materials in the last year also included gold. Such money is clearly not wedded to the sector and leaves just as quickly as it came. The performance of the comex non-commercial long position, which has fallen sharply in the last two months, is a case in point. We suspect, however, that high oil prices and political uncertainty will add support to gold prices and that once markets have stabilised, buyers will re-emerge.

Copper price ($/tonne) vs LME inventories (tonnes)

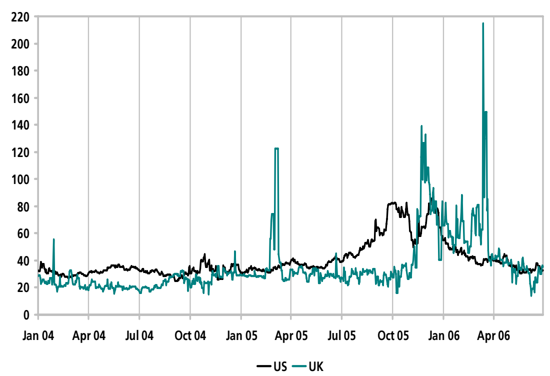


Source: Bloomberg

Copper prices

The average price for copper in the 1990s was just over $2,150 per tonne. Highs of around $8,000 per tonne have recently been recorded, based on by now well-worn themes of Far East demand, supply problems and speculative interest. The key questions are the extent to which this reflects real demand and supply issues or a speculative bubble. It is almost impossible to give a direct answer as this requires a parallel market made up of only "commercial" activities. Copper prices for most of the past decade were too low, evidenced by the long sustained drawdown in stocks. However, stock building and some evidence of demand destruction suggest that recent highs are clearly also unsustainable. Abare, the official Australian state forecaster, sees copper prices averaging $5,550 in 2007. We suspect that most producers would accept this price with open arms.

Spot gas price (p/therm): US vs UK

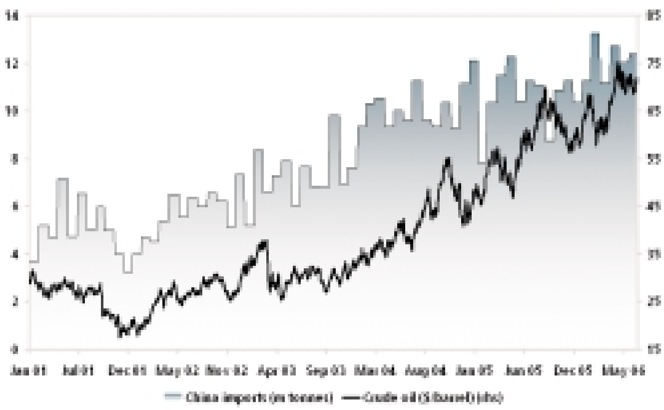


Source: Bloomberg

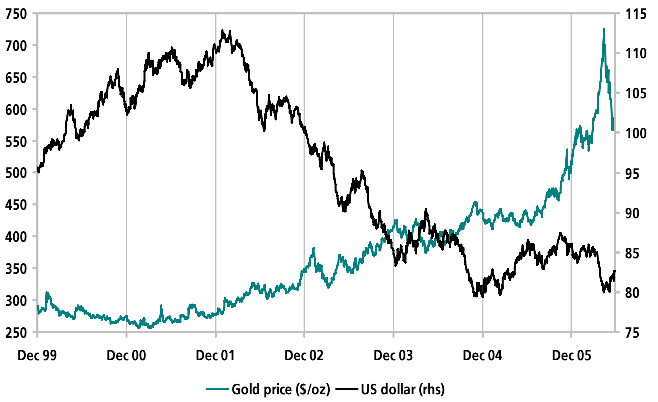
International gas prices

LNG makes up around 6.5% of global gas demand at present. However, it is attracting enormous investment, and planned or scheduled expenditure on LNG projects is estimated at around $175bn. Consequently, the proportion of natural gas consumed sourced through LNG is expected to increase rapidly. This means LNG will play an increasing role in international gas prices. It also means that international gas market pricing will eventually become more uniform and visible. It is also believed that LNG will supply gas at the margin and set a floor. This floor is believed to be in the 25-30p per therm region in the UK or $5 per mcf in the US.

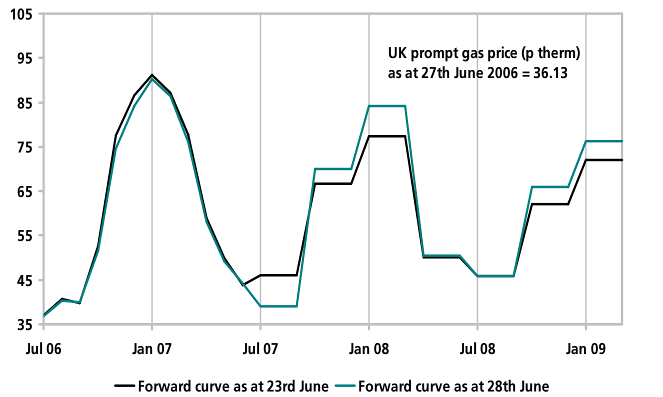
China's crude oil imports vs oil price



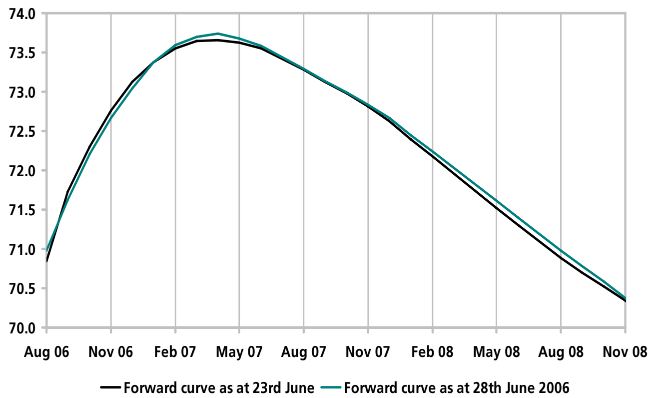
Gold price ($/oz) vs US Dollar



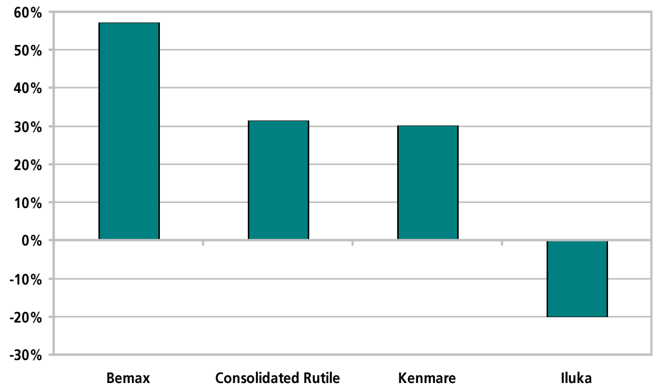
UK gas forward curve (p therm)



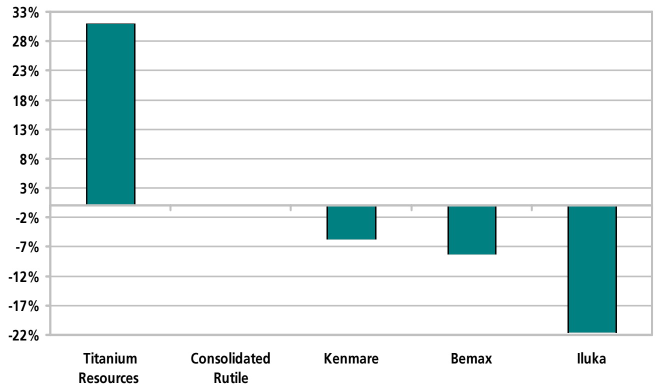
Brent crude forward curve ($/bbl)



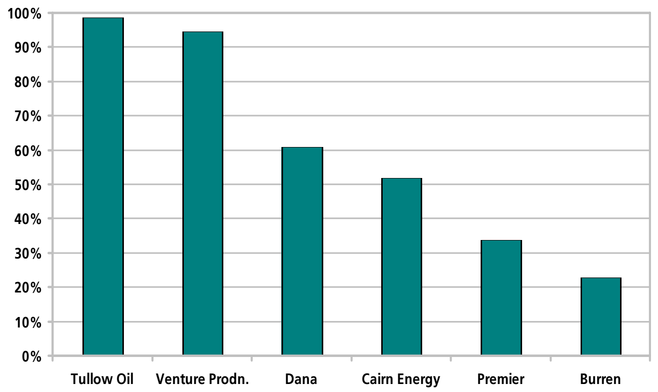
Kenmare peers performance - 12 months (% change, local currency)



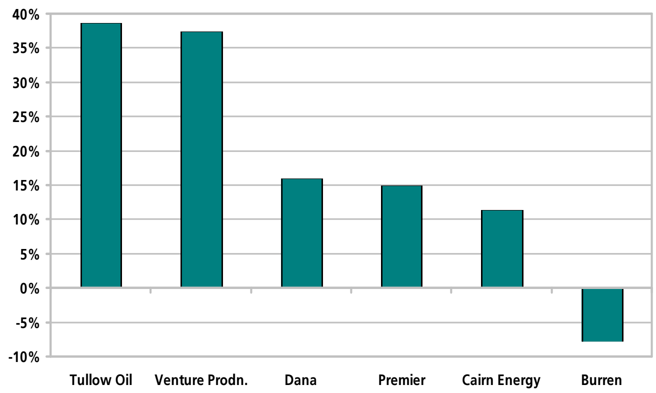
Kenmare peers performance - year to date (% change, local currency)



Tullow peers performance - 12 months (% change, £)



Tullow peers performance - year to date (% change, £)



Dragon Oil

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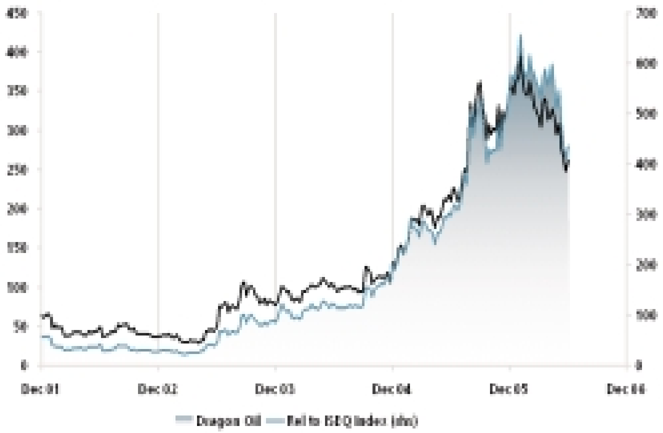
Euro Price (c)	Price (c)	Shares (m)	Mkt. Cap ($m)	E.V. ($m)	Mkt. Cap. / EV (%)	Mkt. Weight (%)	Daily No. Shares Traded (m)	Daily Value Traded ($m)
229	287	510.1	1463.9	1216.0	120.4	1.2	1.392	4.584

Summary Accounts	Dec03	Dec04	Dec05	Dec06F	Dec07F
Profit & Loss ($m)					
Total Turnover	82.8	99.2	248.8	263.0	340.0
Share of Associates' & JV's T.O.	0.0	0.0	0.0	0.0	0.0
Group Turnover	82.8	99.2	248.8	263.0	340.0
EBITDA	**50.8**	**73.7**	**205.1**	**211.0**	**260.0**
Depreciation	13.5	16.6	43.6	60.0	60.0
Goodwill Amortisation	0.0	0.0	0.0	0.0	0.0
Group Operating Profit	37.3	57.1	161.5	151.0	200.0
Share of Associates' & JV's Op. Pr.	0.0	0.0	0.0	0.0	0.0
Total Operating Profit	37.3	57.1	161.5	151.0	200.0
Exceptional Items	0.0	0.0	1.4	0.0	0.0
PBIT	**37.3**	**57.1**	**162.9**	**151.0**	**200.0**
Group Interest	-8.4	-7.3	-3.6	3.5	2.0
Share of Assoc. and J.V.'s Interest	0.0	0.0	0.0	0.0	0.0
Total Interest	-8.4	-7.3	-3.6	3.5	2.0
PBT	**28.9**	**49.7**	**159.3**	**154.5**	**202.0**
Tax	0.0	0.0	-52.9	-13.0	-25.0
Minorities	0.0	0.0	0.0	0.0	0.0
Preference Dividends	0.0	0.0	0.0	0.0	0.0
Profit Attributable (Basic)	28.9	49.7	106.4	141.5	177.0
Average no. of shares (m) - basic	364.9	404.1	471.2	504.0	504.0
Average no. of shares (m) - diluted	367.7	408.7	475.0	508.0	508.0
Per share data (c)					
EPS Basic	7.9	12.3	22.6	28.1	35.1
EPS Diluted (Adj)	**7.9**	**12.2**	**27.0**	**27.9**	**34.8**
Cash EPS (Diluted)	11.5	16.2	36.1	39.7	46.7
Dividend	0.0	0.0	0.0	0.0	0.0
NBV	60.5	72.8	111.3	143.7	178.8
NBV (incl. Goodwill written off)	60.5	72.8	111.3	143.7	178.8
Cash Flow ($m)					
EBITDA	50.8	73.7	205.1	211.0	260.0
Change in Working Capital	4.0	-1.6	-11.4	-5.0	-5.0
Other Operating Cashflows	0.5	-1.2	4.4	0.0	0.0
Capex (net)	-19.0	-76.1	-96.2	-130.0	-150.0
Operating Cashflow	**36.4**	**-5.2**	**101.9**	**76.0**	**105.0**
Dividends from Associates	0.0	1.3	0.0	0.0	0.0
Net Interest	-7.1	-7.3	-0.7	3.5	2.0
Tax	0.0	0.0	0.0	-13.0	-25.0
Ord. & Preference Divs	0.0	0.0	0.0	0.0	0.0
Free Cash Flow	**29.2**	**-11.2**	**101.2**	**66.5**	**82.0**
Acquisitions	0.0	0.0	0.0	0.0	0.0
Disposals	0.0	0.0	0.0	0.0	0.0
Share Issues / (Buybacks)	18.0	0.1	157.8	0.0	0.0
Translation Differences	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	-45.9	0.0	0.0
Change in Net Cash / Debt	**47.2**	**-11.1**	**213.1**	**66.5**	**82.0**
Balance Sheet ($m)					
Tangible Fixed Assets	269.6	342.0	398.7	482.0	572.0
Intangibles	0.0	0.0	0.0	0.0	0.0
Investments	0.0	0.0	0.0	0.0	0.0
Working Capital	**-2.2**	**-13.7**	**-8.2**	**-5.7**	**5.0**
Capital Employed	**267.4**	**328.3**	**390.5**	**476.3**	**577.0**
Financed by					
Ordinary Shareholders Funds	244.4	294.2	561.0	724.2	901.2
Equity Minorities	0.0	0.0	0.0	0.0	0.0
Pref Shares/Non Equity Minorities	0.0	0.0	0.0	0.0	0.0
Net Debt/(Cash)	**23.0**	**34.1**	**-218.2**	**-247.9**	**-324.2**
Deferred Consideration	0.0	0.0	0.0	0.0	0.0
Other L.T. Liabilities	0.0	0.0	47.6	0.0	0.0
Capital Employed	**267.4**	**328.3**	**390.5**	**476.3**	**577.0**
Goodwill Written Off & Amortised	0.0	0.0	0.0	0.0	0.0
Capital Employed incl. G/W	267.4	328.3	390.5	476.3	577.0
Invested Capital incl. G/W	267.4	328.3	342.9	476.3	577.0

***Valuation metrics based on euro price converted to dollars**

Calendar	Date	Ex-Div
Interims		
Finals	18-Apr-06	03-May-05
AGM	21-Jun-06	
Updated	21-Apr-06	

Valuation*	Dec05	Dec06F	Dec07F	Dec05 Rel to Sector	Dec06F Rel to Sector	Dec07F Rel to Sector
P/E	10.6	10.3	8.2	0.4	0.5	0.4
Dividend Yield (%)	N/A	N/A	N/A			
Free Cash Flow Yield (pre divs) (%)	6.9	4.5	5.6			
Price / Book	2.6	2.0	1.6	0.4	0.3	0.3
EV / Sales	4.9	4.6	3.4			
EV / EBITDA	6.0	5.8	4.4	0.5	0.7	0.5
EV / EBIT	7.6	8.1	5.7			
EV / Operating Cashflow	12.1	16.0	10.9			
EV / Invested Capital	3.6	2.6	2.1			
PEG (Hist P/E/4yr gwth)	0.2					



Price Performance (%)	1 Wk	1 Mth	3 Mths	6 Mths	YTD	1 Yr
Absolute	11.3	-12.4	-23.1	-19.8	-23.0	42.1
Rel to ISEQ	11.2	-8.8	-17.0	-20.2	-22.8	25.3
Rel to Sector	1.8	-10.3	-23.3	-29.6	-33.0	-7.1

Price and P/E History	Price High	Price Low	Price Year End	Hist P/E High	Hist P/E Low	Hist P/E Average
2006	350	202		34.8	9.5	23.3
2005	297	90	297	28.0	12.6	18.6
2004	99	44	94	22.1	7.5	12.1
2003	58	14	44	18.5	4.1	10.8
2002	43	17	17	N/A	N/A	N/A
2001	65	28	42	N/A	N/A	N/A

Ratio Analysis	Dec03	Dec04	Dec05	Dec06F	Dec07F
Growth					
EPS Diluted (Adj) (%)	119.2	54.8	121.5	3.3	25.1
Dividend (%)	N/A	N/A	N/A	N/A	N/A
Total Turnover (%)	61.0	19.8	150.8	5.7	29.3
EBITDA (%)	88.4	44.9	178.5	2.9	23.2
Profitability / Activity					
EBITDA Margin (%)	61.4	74.3	82.4	80.2	76.5
Operating Margin (pre. G/W) (%)	45.1	57.5	64.9	57.4	58.8
Sales / Capital Employed (x)	0.31	0.33	1.05	0.61	0.65
Return					
ROCE (before tax, ex. invs) (%)	13.9	19.2	44.9	34.8	38.0
ROE (after tax) (%)	13.1	18.5	29.6	22.0	21.8
Ret. on Inv. Cap. (after tax) (%)	13.9	19.2	41.5	35.8	33.3
WACC (%)	10.4	9.2	N/A	9.6	10.3
Financial / General					
EBITDA Interest Cover (x)	6.1	10.1	57.7	N/A	N/A
Group Interest Cover (x)	4.4	7.8	45.5	N/A	N/A
Debt / EBITDA (x)	0.5	0.5	N/A	N/A	N/A
Debt / Equity (%)	9.4	11.6	N/A	N/A	N/A
Debt / Free Cash Flow (x)	0.8	N/A	N/A	N/A	N/A
Avg. Cost of Debt (before tax) (%)	18.0	25.6	N/A	N/A	N/A
Dividend Cover (x)	N/A	N/A	N/A	N/A	N/A
Working Capital / Sales (%)	N/A	N/A	N/A	N/A	1.5
Net Capex / Depreciation (x)	1.4	4.6	2.2	2.2	2.5
Tax Rate (%)	N/A	N/A	19.8	8.4	12.4

5 Year Growth Average	%
Total Turnover (%)	N/A
EBITDA (%)	N/A
EPS Diluted (Adj) (%)	N/A
Cash EPS (Diluted) (%)	N/A
Dividend (%)	N/A
TSR	40.0

Major Shareholders	%
ENOC L.L.C	59.8
Julius Baer Invt Mgmt	6.8
JP Morgan Securities Ltd	6.0

www.tullowoil.ie

Tullow Oil (Stg)

Analyst: Job Langbroek/Caren Crowley **Email:** job.langbroek@davy.ie/caren.crowley@davy.ie **Sector:** Resource **RIC:** TLW.L **Bloomberg:** TLW LN **ISE Xetra:** TQW

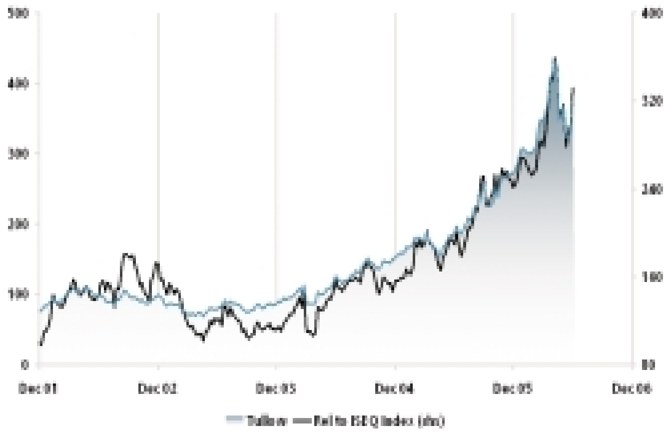
Price (p)	Shares (m)	Mkt. Cap (£m)	E.V. (£m)	Mkt. Cap. / EV (%)	Mkt. Weight (%)	Free Float (%)	Daily No. Shares Traded (m)	Daily Value Traded (£m)
374	648.9	2428.4	2537.0	95.7		100.0	5.854	16.714

Summary Accounts	Dec03	Dec04	Dec05P	Dec06F	Dec07F
Profit & Loss (£m)					
Total Turnover	129.6	225.3	445.2	602.4	625.7
Share of Associates' & JV's T.O.	0.0	0.0	0.0	0.0	0.0
Group Turnover	129.6	225.3	445.2	602.4	625.7
EBITDA	**70.2**	**135.1**	**295.3**	**409.4**	**420.6**
Depreciation	39.6	67.6	117.3	143.7	147.8
Goodwill Amortisation	0.0	0.0	0.0	0.0	0.0
Group Operating Profit	30.6	67.5	178.0	265.7	272.8
Share of Associates' & JV's Op. Pr.	0.0	0.0	0.0	0.0	0.0
Total Operating Profit	30.6	67.5	178.0	265.7	272.8
Exceptional Items	0.0	0.0	20.4	0.0	0.0
PBIT	**30.6**	**67.5**	**198.4**	**265.7**	**272.8**
Group Interest	-6.7	-9.5	-19.8	-10.0	-5.0
Share of Assoc. and J.V.'s Interest	0.0	0.0	0.0	0.0	0.0
Total Interest	-6.7	-9.5	-19.8	-10.0	-5.0
PBT	**23.9**	**58.0**	**178.6**	**255.7**	**267.8**
Tax	-13.0	-25.0	-65.4	-110.5	-112.0
Minorities	0.0	0.0	0.0	0.0	0.0
Preference Dividends	0.0	0.0	0.0	0.0	0.0
Profit Attributable (Basic)	10.9	32.9	113.1	145.2	155.8
Average no. of shares (m) - basic	374.0	533.0	646.6	646.6	646.6
Average no. of shares (m) - diluted	380.0	539.0	659.9	659.9	659.9
Per share data (p)					
EPS Basic	2.9	6.2	17.5	22.5	24.1
EPS Diluted (Adj)	**2.9**	**6.1**	**14.1**	**22.0**	**23.6**
Cash EPS (Diluted)	13.3	18.7	31.8	43.8	46.0
Dividend	1.0	1.8	4.0	4.4	5.0
NBV	30.8	58.7	59.8	78.1	97.6
NBV (incl. Goodwill written off)	30.8	58.7	59.8	78.1	97.6
Cash Flow (£m)					
EBITDA	70.2	135.1	295.3	409.4	420.6
Change in Working Capital	1.2	-0.6	-35.6	-10.0	-10.0
Other Operating Cashflows	12.8	19.8	25.8	60.0	60.0
Capex (net)	-42.5	-95.1	-161.2	-280.0	-200.0
Operating Cashflow	**41.6**	**59.2**	**124.3**	**179.4**	**270.6**
Dividends from Associates	0.0	0.0	0.0	0.0	0.0
Net Interest	-3.8	-6.1	-17.1	-10.0	-5.0
Tax	-12.3	-14.5	-25.4	-110.5	-112.0
Ord. & Preference Divs	-3.8	-7.0	-14.6	-26.0	-28.6
Free Cash Flow	**21.8**	**31.7**	**67.2**	**32.9**	**125.0**
Acquisitions	4.3	-310.0	-240.6	0.0	0.0
Disposals	0.0	0.0	97.0	0.0	0.0
Share Issues / (Buybacks)	14.4	232.5	1.6	0.0	0.0
Translation Differences	0.0	0.0	12.6	0.0	0.0
Other	-6.4	0.0	-10.5	0.0	0.0
Change in Net Cash / Debt	**34.2**	**-45.8**	**-72.7**	**32.9**	**125.0**
Balance Sheet (£m)					
Tangible Fixed Assets	193.3	599.7	160.5	982.3	984.5
Intangibles	0.0	0.0	736.6	0.0	0.0
Investments	0.0	0.0	39.0	38.7	38.7
Working Capital	**-6.6**	**-10.9**	**-166.5**	**-156.5**	**-146.5**
Capital Employed	**186.6**	**588.8**	**769.6**	**864.4**	**876.6**
Financed by					
Ordinary Shareholders Funds	115.9	379.1	389.0	508.3	635.5
Equity Minorities	0.0	0.0	0.0	0.0	0.0
Pref Shares/Non Equity Minorities	0.0	0.0	0.0	0.0	0.0
Net Debt/(Cash)	**20.3**	**68.9**	**141.6**	**108.7**	**-16.3**
Deferred Consideration	0.0	0.0	0.0	0.0	0.0
Other L.T. Liabilities	50.4	140.8	238.9	247.5	257.5
Capital Employed	**186.6**	**588.8**	**769.6**	**864.4**	**876.6**
Goodwill Written Off & Amortised	0.0	0.0	0.0	0.0	0.0
Capital Employed incl. G/W	186.6	588.8	769.6	864.4	876.6
Invested Capital incl. G/W	136.2	448.0	530.6	616.9	619.2

Divisional Analysis	Dec05P	Dec06F	Dec07F
		Sales (£m)	
Oil production	258.0	303.0	295.0
Gas Production	187.0	300.0	330.0
Total	**445.0**	**603.0**	**625.0**

Calendar	Date	Ex-Div
Interims	14-Sep-05	05-Oct-05
Finals	29-Mar-06	10-May-06
AGM	31-May-06	
Updated	06-Apr-06	

Valuation	Dec05P	Dec06F	Dec07F
P/E	26.6	17.0	15.8
Dividend Yield (%)	1.1	1.2	1.3
Free Cash Flow Yield (pre divs) (%)	3.4	2.4	6.3
Price / Book	6.3	4.8	3.8
EV / Sales	5.8	4.2	3.9
EV / EBITDA	8.7	6.2	5.7
EV / EBIT	14.4	9.5	8.8
EV / Operating Cashflow	20.6	14.1	8.9
EV / Invested Capital	4.8	4.1	4.1
PEG (Hist P/E/4yr gwth)	0.4		



Price Performance (%)	1 Wk	1 Mth	3 Mths	6 Mths	YTD	1 Yr
Absolute	15.4	0.8	7.1	37.5	38.2	91.1
Rel to ISEQ	15.2	4.9	15.5	36.8	38.4	68.5
Rel to Sector	3.7	5.1	12.6	18.2	20.9	19.2

Price and P/E History	Price			Hist P/E		
	High	Low	Year End	High	Low	Average
2006	440	280		57.1	21.4	38.4
2005	276	153	270	62.6	25.0	42.1
2004	153	85	153	53.1	24.1	37.1
2003	100	67	86	38.9	19.0	25.5
2002	113	76	99	165.4	31.4	66.8
2001	109	60	77	143.9	128.9	135.7

Ratio Analysis	Dec03	Dec04	Dec05P	Dec06F	Dec07F
Growth					
EPS Diluted (Adj) (%)	-18.4	112.7	130.0	56.6	7.3
Dividend (%)	N/A	75.0	128.6	10.0	13.6
Total Turnover (%)	15.1	73.8	97.7	35.3	3.9
EBITDA (%)	0.6	92.3	118.7	38.6	2.7
Profitability / Activity					
EBITDA Margin (%)	54.2	60.0	66.3	68.0	67.2
Operating Margin (pre. G/W) (%)	23.6	30.0	40.0	44.1	43.6
Sales / Capital Employed (x)	0.68	0.58	0.66	0.74	0.73
Return					
ROCE (before tax, ex. invs) (%)	16.1	17.4	26.2	32.5	31.3
ROE (after tax) (%)	10.1	13.3	24.2	32.4	27.2
Ret. on Inv. Cap. (after tax) (%)	9.5	13.1	21.3	26.3	25.7
Cost of Equity (%)	7.5	7.6	6.5	7.7	7.7
Financial / General					
EBITDA Interest Cover (x)	10.5	14.2	14.9	40.9	84.1
Group Interest Cover (x)	4.6	7.1	9.0	26.6	54.6
Debt / EBITDA (x)	0.3	0.5	0.5	0.3	N/A
Debt / Equity (%)	17.5	18.2	36.4	21.4	N/A
Debt / Free Cash Flow (x)	0.9	2.2	2.1	3.3	N/A
Avg. Cost of Debt (before tax) (%)	17.3	21.3	18.8	8.0	5.4
Dividend Cover (x)	2.9	3.5	3.5	5.0	4.7
Working Capital / Sales (%)	N/A	N/A	N/A	N/A	N/A
Net Capex / Depreciation (x)	1.1	1.4	1.4	1.9	1.4
Tax Rate (%)	54.3	43.2	41.4	43.2	41.8

5 Year Growth Average	%
Total Turnover (%)	124.6
EBITDA (%)	148.4
EPS Diluted (Adj) (%)	216.4
Cash EPS (Diluted) (%)	107.0
Dividend (%)	N/A
TSR	31.8

Major Shareholders	%
Merrill Lynch Invst Mgrs	14.2
Prudential Corp. plc	10.1
IFG Intl Trust Co Ltd	6.9
Columbia Wanger Asset Mgmt	4.2
Drew Finance Ltd	3.3

Market performance and valuation

Company	Quote	Price (c)	No.(m) Shrs	Mkt Cap (€m)	Avg Daily Volume	Price Performance % On Week	3 Mth	On Year	Core activity/ Location
Oil & Gas									
Tullow Oil (Stg) (TLW LN)	Full List	374.3	648.9	3519.4	5.854	16.1	7.3	98.5	North Sea, Africa, South Asia
Burren Energy (BUR LN)	Full List	841.0	139.9	1704.9	1.220	10.6	-18.2	22.0	Turkmenistan, Africa
Dragon Oil (DGO ID)	Full List	287.0	510.1	1167.3	1.392	10.3	-19.6	47.7	Turkmenistan
Providence (PRP ID)	IEX/AIM	7.8	2028.7	158.2	2.229	-7.1	-6.0	44.4	Ireland, UK, Nigeria
Petroceltic (PCI LN)	AIM	15.5	558.1	125.4	4.592	3.3	-17.3	47.2	North Africa, Italy, Ireland
Island Oil & Gas (IOG LN)	AIM	98.0	59.2	84.1	0.270	0.5	-4.4	64.7	Ireland
Aminex (AEX ID)	Full List	42.0	168.4	70.7	0.052	-2.3	-4.6	226.1	US, North Korea, Tanzania
Circle Oil (COP LN)	AIM	28.3	160.2	65.6	1.657	-4.2	-28.0	-41.2	Ireland, Namibia, Oman
Petrel (PET LN)	AIM	47.0	65.1	44.3	0.365	0.0	5.6	38.2	Iraq
Pan Andean (PRE LN)	AIM	12.0	99.1	17.2	0.317	4.4	17.1	19.4	Gulf of Mexico, Texas, Bolivia
Ramco Energy (ROS LN)	AIM	27.5	33.2	13.2	0.161	-5.2	3.8	-9.8	Ireland, Eastern Europe
Mining									
Kenmare (KMR ID)	Full List	53.0	676.9	358.7	0.133	0.0	-24.3	32.5	Titanium Minerals Mine Dev.
Titanium Resources Group (TXR LN)	AIM	74.0	207.2	222.2	0.173	0.0	N/A	N/A	Titanium Minerals Mine Dev.
African Diamonds (AFD LN)	AIM	154.0	74.1	165.4	0.345	2.7	-10.7	205.0	Diamond Exploration
Celtic Resources (CER LN)	AIM	237.5	41.9	144.2	0.432	1.7	2.8	-38.8	Gold Exploration
Mwana Africa (MWA LN)	AIM	36.0	178.2	93.0	0.283	-7.7	-25.8	-37.4	Gold Exploration
Ormonde Mining (ORM ID)	IEX/AIM	23.0	167.6	38.6	0.337	0.0	15.0	76.9	Gold and Copper Exploration
Glencar (GEX ID)	IEX	14.4	226.3	32.6	0.345	-4.0	-12.7	380.0	Gold Exploration
Ovoca Gold (OVG ID)	IEX/AIM	9.6	305.8	29.4	0.166	-4.0	-23.2	-31.4	Gold Exploration
Minco (MIO LN)	AIM	12.0	159.2	27.7	0.643	6.7	-12.7	0.0	Precious Metal Expl. and Dev.
MinMet (MNM ID)	IEX	1.0	1135.2	11.4	2.723	0.0	-33.3	-56.5	Gold Exploration
Lapp Plats (LPP LN)	IEX/AIM	15.3	13.3	2.9	0.010	0.0	-3.2	N/A	Gold Exploration
Resource		**95.7**				**11.3**	**-4.9**	**60.3**	

Company	Price (c)	Market Cap(€m)	Weekly Traded Vol.	NAV/ Share	Risked expl. in NAV (%)	Fwd Cash EPS	Price/ Cash EPS	Net Cash	Core activity/ Location
Oil & Gas									
Tullow Oil (Stg) (TLW LN)	374.3	3519	30.950	400.0	38.0	43.8	8.5	141.6	North Sea, Africa, South Asia
Dragon Oil (DGO ID)	287.0	1167	7.168	188.0	0.0	39.7	7.2	-218.2	Turkmenistan
Providence (PRP ID)	7.8	158	2.788	N/A	N/A	N/A	N/A	7.0	Ireland, UK, Nigeria
Petroceltic (PCI LN)	15.5	125	10.413	34.5	94.0	N/A	N/A	12.0	North Africa, Italy, Ireland
Aminex (AEX ID)	42.0	71	0.025	14.8	0.0	N/A	N/A	6.5	US, North Korea, Tanzania
Mining									
Kenmare (KMR ID)	53.0	359	0.102	84.0	0.0	N/A	N/A	31.0	Titanium Minerals Mine Dev.
Ormonde Mining (ORM ID)	23.0	39	0.023	35.0	33.0	N/A	N/A	3.0	Gold and Copper Exploration
Glencar (GEX ID)	14.4	33	0.042	15.2	95.0	N/A	N/A	1.2	Gold Exploration
Minco (MIO LN)	12.0	28	0.603	N/A	N/A	N/A	N/A	4.0	Precious Metal Expl. and Dev.

Product Prices	Unit Cost	Value	Price Performance % On Week	On Month	3 Months	YTD	On Year
Brent Oil	(US($m) bbl)	71.6	4.9	3.0	11.5	21.7	26.6
US Gas	(US($m) mcf)	6.0	-7.5	5.6	-13.0	-32.9	-14.3
Zinc	(US($m) tonne)	2970.0	0.2	-22.8	13.0	56.3	143.3
Zinc	(EURO tonne)	2368.8	1.2	-21.7	8.9	47.7	134.3
Copper	(US($m) tonne)	7007.0	1.5	-16.2	30.5	54.3	94.7
Gold	(US($m) ounces)	581.0	1.2	-9.7	2.3	12.6	33.0
Silver	(US($m) ounces)	10.2	-3.0	-19.9	-6.5	15.3	43.6
LME Zinc Stocks	(tonnes)	221000	-2.8	-8.7	-24.5	-43.9	-63.8
LME Copper Stocks	(tonnes)	93000.0	-5.7	-12.0	-23.1	3.8	207.4

Tullow Oil metrics based on US$40/bbl
Dragon Oil metrics denominated in US$ terms
* performance in euro

Recent Ormonde comment and newsflow

FREE TO FOCUS ON PROJECTS

With the announcement that it raised funds of just over £3m by way of a new equity issue, Ormonde is now in a position to fully complete an intended feasibility study on its La Zarza copper and gold project in the pyrite belt in Spain.

Moreover, the funds will also allow it to progress its other projects, especially its Salamanca and Tracia gold projects. We expect a year of full activity with sustained newsflow.

While Ormonde's aim is to build itself into a Spanish copper and gold miner, like all small-to-medium-scale explorers in the mining industry, it requires equity funding in the interim to progress its projects.

Having raised the funds referred to here, Ormonde's management is now free to fully progress its various projects. This is particularly the case at La Zarza, a project that has substantial upside for the company.

From Starting Points May 15th 2006

SALAMANCA GOLD PROJECT SCALES UP

Ormonde has reported that its recent work on its gold project at Salamanca indicates a gold system much larger than earlier expectations.

The anomalous gold zone has been extended by a further 1km in length, and the width of the system is now up to 500m. While the scale is impressive, the suite of related trace metals found (such as bismuth) suggest that this is a large 'intrusion style' gold system.

This has important implications for the project because this type of mineralisation/system lends itself to scale - the very thing that the gold industry in general is seeking.

From Starting Points May 2nd 2006

LA ZARZA MAKES ITS MARK

The announcement that it had produced a JORC-compliant resource estimate for its La Zarza copper and gold project in southern Spain was very important for Ormonde, a company with ambitions to become a medium-scale miner on the Iberian peninsula. The estimate, which was based on the top 500 metres of the deposit only, reported a total of 6.8m tonnes of mineralisation. Compared to former non-JORC-compliant estimates, the contained tonnage of copper (85,000 tonnes) was a little higher, gold roughly half the amount (486,000 ounces) assumed earlier, and silver (6.9m ounces) a little lower.

However, Ormonde's recent analysis was based on tighter drilling spacing and a conservative geostatistical analysis. As such, it is best seen as a baseline resource and we fully expect the amount of gold in particular to increase with further infill drilling. Importantly, some 60% of the resource is indicated, a higher level of confidence than inferred. All of this is before the deeper extension of the mineralisation is taken into account, where previous drilling showed some of the best gold and copper grades to be present. The third drilling campaign is now underway and will include both the infill and deeper drilling referred to above. The resource statement underpins La Zarza as a cornerstone asset for Ormonde. This is especially true as all indications from the metallurgical work are that both operating and capital costs will be very competitive.

What does this mean for the share price? Our analysis suggests that based on a gold price of $475 per ounce and a copper price of $3,750 per tonne, every tonne of ore has a net cash value of $20. If we use the current prices, the value per tonne increases to nearly $70, before tax, over three-and-a-half times greater. Sticking with the more conservative metal price estimate and assuming $25m capital development, we estimate that Ormonde's 70% share of the mine is worth 24c per share (versus a market price of 26c).

Bearing in mind that the La Zarza resource will only get bigger, that we have used metal prices significantly below current levels and that nothing else in the group is taken into account—including other potential mining operations—the share still looks especially good value.

From Weekly Book April 28th 2006

ZOOMING IN ON LA ZARZA

Ormonde Mining has announced the first JORC-compliant mineral resource estimate for the La Zarza project in Spain, in which it is earning a 70% interest (for development purposes in the future any mineral endowment will have to be based on a JORC-type assessment).

Following two drilling programmes, it now believes that there are total inferred and indicated resources of 6.8m tonnes of ore containing 85,000 tonnes of copper, 486,000 ounces of gold and 6.9m ounces of silver.

Compared to former non-JORC-compliant estimates, the contained copper is greater but the gold resource is roughly half the former estimate. This reflects less continuity in the gold-rich zone when compared to that assumed by former operator estimates, a feature which has to be taken into account in resource estimates. To increase the gold resource from current levels, more drilling is required. This is now underway and Ormonde believes it will add significantly more gold resources to the current estimate. The above resource estimate is based on drilling down to 500 metres and there also remains considerable potential to extend the deposit at depth.

The resource estimate will now be used with the metallurgical test work to complete the preliminary assessment study with a view to commencing a bankable feasibility study. With tighter resource estimates, metallurgical results that point to lower operating and capital costs than first envisaged and buoyant commodity prices, La Zarza should add significant value to Ormonde for shareholders.

From Starting Points April 24th 2006

TARGETING TUNGSTEN

Ormonde has again shown the benefit of its extensive Spanish business network. It has entered into a six-month option to acquire the Barruecopardo tungsten tailing project located in the permit area of its Salamanca gold project in western Spain.

The tailings are a product of former mining operations on the site. The mine was closed in the early 1980s and recovered around 40% of the contained tungsten. Ormonde will attempt to recover the tungsten that was left in the dumps and tailings. It estimates that there is between 5m and 10m tonnes of material available, grading around 0.09% of scheelite, the main tungsten mineral at the site. The option period will be used to assess the grade, volume and recovery rate of the tungsten tailings. Gold is also present and will be similarly evaluated. The cost of acquiring the project will be paid through an annual royalty and lease fee from production.

A simple low-cost operation using a water-based gravity system is planned. Operating costs will be minimal as will capital outlay. A production rate of around 400,000 tonnes is envisaged which should produce around $2m of cashflow per annum.

Tungsten is best known for its use in lighting filaments and as a hardener in steel manufacturing. Recent tungsten pricing has been in the range of $190–220 per tonne.

From Starting Points February 28th 2006

GOOD DRILLING RESULTS GIVE MANAGEMENT CONFIDENCE TO ACCELERATE LA ZARZA PROJECT

A second set of drilling results from Ormonde's phase-2 drilling programme on its La Zarza project in southern Spain was released on February 16th.

The positive set of assays have proved encouraging enough for management to step up its development of La Zarza: a third phase of drilling on the property is to commence immediately. The continued investment and commitment to this gold-copper project signals Ormonde's increased confidence in the commercial feasibility of a mine in the area. With results from a new drilling campaign and the preliminary assessment study–which will examine the economic feasibility of a mine-in the pipeline, the shape and value of La Zarza will become increasingly certain this year.

Highlights in this set of results include an interval of 20m grading 5.5g/t gold and a 22m grading of 3% copper. These results exceed those values originally used in defining a resource of some 1m ounces of gold and 180m lbs of copper at La Zarza.

From Starting Points February 16th 2006

SALAMANCA SALLIES FORTH

Ormonde has reported very positive results from recent work on its Salamanca gold project in western Spain.

Soil and rock samples have produced a large new zone of anomalously high gold values. The soil sampling has outlined a 1.5km long zone with widths up to 200 metres. The prospectivity is supported by rock sampling which produced several instances of ore-grade gold occurrences. In addition, exploration work over other parts of the licence outside this zone has produced similar results from other rock samples.

The next phase of exploration will involve preliminary drilling later this year to test these targets at depth. Several areas also have potential for tungsten, which has been mined historically in the region. Tungsten, which has risen sharply in price on the back of robust demand from China, is used to increase the hardness of materials. Its use primarily reflects expansion in industrial output. It is found in conjunction with gold in the Salamanca area. Its value in its own right, allied to the value of gold, creates the possibility of a mining project to exploit both metals.

Salamanca is another example of Ormonde's extensive asset base in Spain and its competitive position as an explorer.

From Starting Points January 26th 2006

DRILLING UPDATE FROM LA ZARZA GOLD AND COPPER PROJECT

Ormonde Mining has reported more phase-two drilling results from its La Zarza project in the pyrite belt in southern Spain. This is an infill drilling programme in an established gold and copper mineralised zone on which Ormonde expects to begin a feasibility study with a view to a commercial development later this year.

A further five holes were completed with several showing above-average grades of copper and gold. Further results from the ongoing metallurgical test work were also announced, indicating that in the event of commercial mining development, copper recoveries from the copper-rich zone will be exceptionally high(between 80–90%).

Importantly, the results begin to hint that the optimum development route for any project at La Zarza may be a relatively simple flotation process. If this proves to be the case, it has important positive implications for capital costs (which should be significantly reduced) and for the timing and complexity of the development.

With each announcement, La Zarza appears to be heading inexorably towards becoming a new Spanish gold and copper mine in the future.

From Starting Points January 16th 2006

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