

### Financially secure

Tullow's prospectors, playmakers, geologists and geophysicists focus on finding big oil and as a Group we spend roughly \$1 billion on exploration & appraisal campaigns each year. We spend approximately another \$1 billion on development and production. We have a clear financial strategy to fund this level of business activity. This includes building a high-margin production engine of new fields to underpin our cash flow. In 2013, the business generated almost \$2 billion operating cash flow, more than double our cash flow five years ago. We also need a strong balance sheet to maintain a conservative financial profile. In total, Tullow has \$4.3 billion of debt facilities and had \$1.9 billion of net debt at the year end.

We outlined last year the increasing role that portfolio management has to play in our business model. As the Chairman has discussed in his statement, the industry is currently experiencing a tough market and financial environment. In fact, I would go as far as to say the toughest in all my experience. We have a number of assets to divest in our portfolio management pipeline but it is currently very much a buyer's market, which has recalibrated the timeframe for monetising assets. Our financial strength has allowed us to avoid any distress selling of assets as part of our portfolio management strategy and enabled us to take a longer-term approach to monetisation, ensuring we realise their full potential value.

### The dream of the drill bit

Our focus on frontier exploration creates the opportunity for big rewards and higher returns on investment. Our experience this year also demonstrates that it comes with big risks and justifies our prudent approach to exploration drilling within a balanced portfolio of prospects. Our limited offshore exploration success, outside of Norway, was particularly evident in non-operated French Guiana, with a lack of success after our initial significant Zaedyus-1 discovery in 2011. As I look forward to our extensive 2014 campaigns we have better control over our exploration programme, including timing and expenditure through strategic positions in key basins. This gives us greater flexibility and enables us to apply Tullow's entrepreneurial and pioneering approach. The dream of the drill bit is to find light oil in commercial quantities that can be readily monetised. We quantify this as the addition of, on average, 200 mmbob contingent resources per annum. This is what underpins Tullow's industry-acknowledged world-class exploration expertise.

### Two perspectives on Tullow

As an entrepreneur and particularly as someone who has been around the oil and gas industry for almost 30 years, I view the management of Tullow from two perspectives. On the one hand, my Board colleagues and I consider the macro challenges we face as a business. On the other, we consider the issues we encounter on a day-to-day basis as we run our operations.

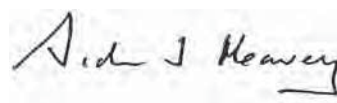
Macro issues, in my view, are where the real challenges to our business lie. These include access to world-class exploration acreage on reasonable terms; social issues and the management of expectations in host countries where knowledge of our industry is very limited; unclear fiscal and regulatory regimes that have the potential to undermine the validity of contracts; safe operations in difficult but very sensitive environments; long-lasting and productive relationships with governments; and creating shared prosperity through a sustainable contribution to social and economic development where we operate.

Day-to-day we face different issues. These include running production in a dynamic reservoir like Jubilee; achieving PoD approval after some delays, as is the case with TEN, delivering projects on time and on budget in areas with negligible infrastructure; and managing our expenditure in an industry where we have limited influence over external factors like cost inflation.

The macro perspective is what shapes and makes Tullow over the long term. Day-to-day activity is what ensures we deliver our three-year business plan. Inevitably, with the short-term perspective there will be disappointments, delays and frustrations. These short-term disappointments are usually reflected by capital markets but the role of the Executive and the Board is to be clear and consistent about the long-term strategic direction of Tullow. That means weighing up our direction as a business against what we believe will be the likely macro issues and possibilities, and asking first, whether we are well-positioned as a business to deliver on our strategy and second, whether we can handle the day-to-day challenges of running our portfolio.

### Promising outlook for 2014

I continue to regard Tullow as the leading independent exploration and production company, particularly in Africa. I believe that our track record for finding and developing oil over the past seven years and our prospects for doing the same over the coming years show we have positioned the business correctly. 2013 was a significant year for the Group in many respects, I personally would like to thank every one of our employees and contractors for their contribution again this year, in the face of both successes and some challenges. Looking ahead, 2014 promises to be another year of strong progress for Tullow.



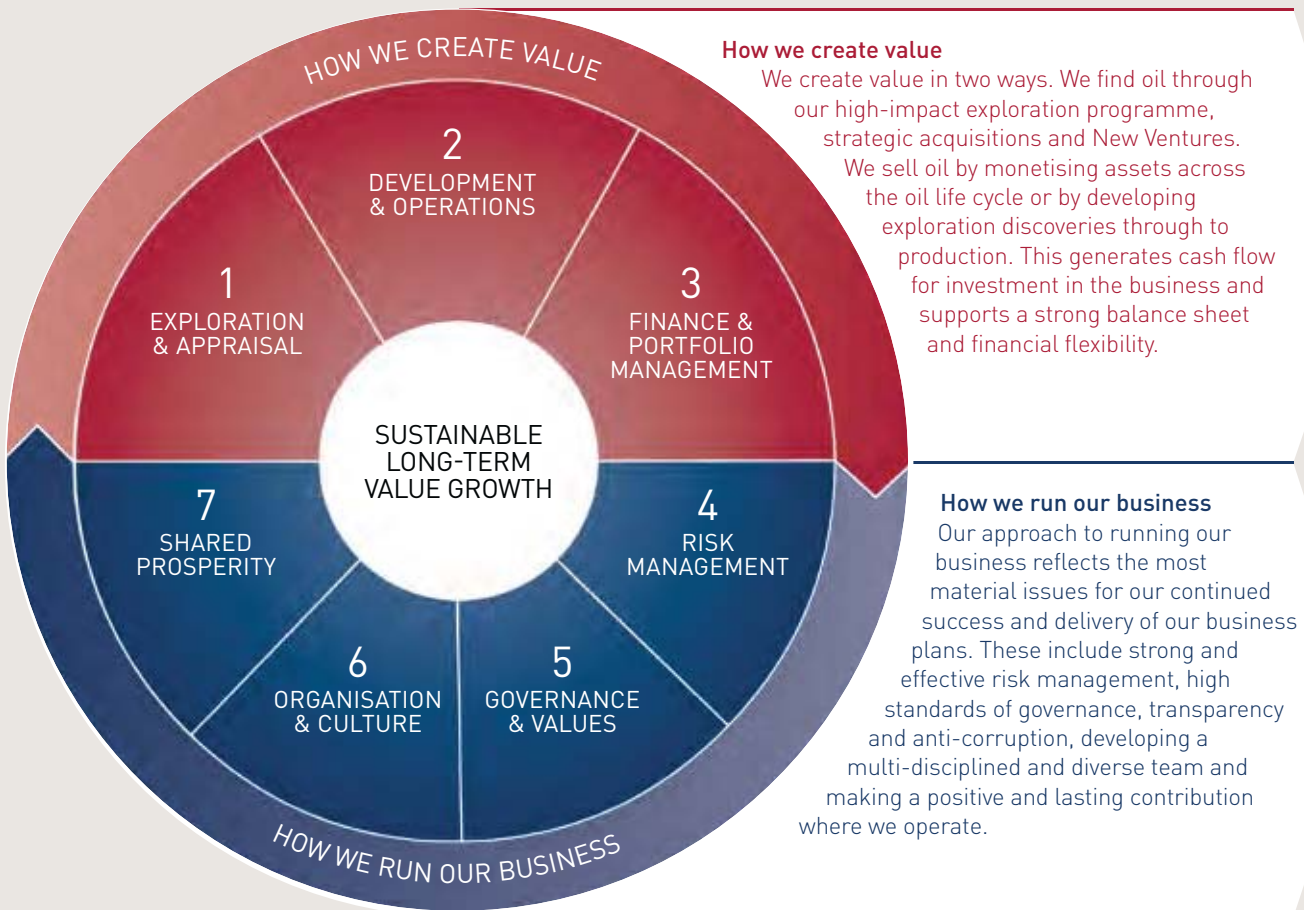
**Aidan Heavey**  
Chief Executive Officer

# BUILDING A BUSINESS WITH AN UNRIVALLED COMPETITIVE POSITION

Our vision is to be the leading global independent exploration and production company and our strategy to achieve this is exploration-led growth.

We want to build a business with an unrivalled competitive position that is differentiated from our peers. We believe we can achieve this through high-impact exploration, selective developments and high-value material production. We will fund the development of our business with operating cash flow, monetisation of assets and access to debt and equity markets.

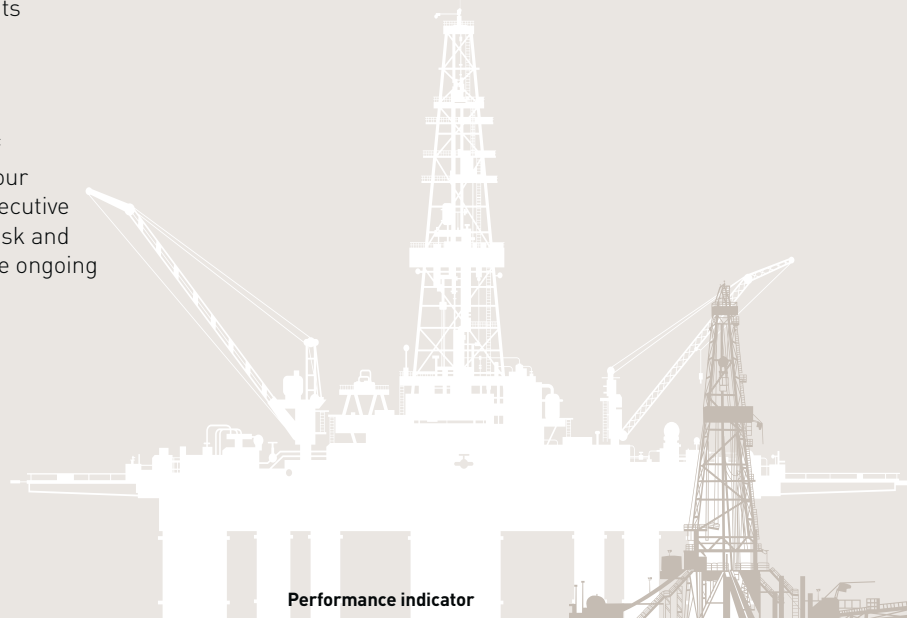
Success will be sustainable value growth for Tullow, substantial long-term returns to shareholders and shared prosperity for our stakeholders. Our exploration-led growth strategy, the scale of our business and the dynamic environments within which we operate require disciplined risk management and ongoing strategic attention to continue to deliver growth and a robust, well-funded business.



## OUR INTEGRATED GOVERNANCE & RISK FRAMEWORK

Strong and effective risk management is central to how we run our business and supports the delivery of our strategic objectives. It also ensures we remain focused on developing long-term relationships with host governments and safeguarding the communities and the environments we work within, ultimately protecting our business, people and reputation.

Our integrated governance and risk framework demonstrates the key risks associated with each of our strategic priorities and how they could impact our performance. The framework also identifies the Executive Directors that have overall responsibility for each risk and the internal committees that are responsible for the ongoing management and monitoring of our risk exposure.



### Strategic priorities



#### Sustainable long-term value growth

### Performance indicator

- Long-term Total Shareholder Return



#### 1. Exploration & Appraisal

Execute selective high-impact E&A programmes.

- Resource growth
- Exploration success ratio
- Portfolio replenishment
- Finding costs per boe



#### 2. Development & Operations

Deliver all major projects and production operations increasing cash flow and commercial reserves, while ensuring safe people, procedures and operations and minimising environmental impacts.

- Yearly operations targets
- EHS scorecard
- Timely delivery of projects



#### 3. Finance & Portfolio Management

Manage financial and business assets to enhance our portfolio, replenish upside and support funding needs.

- Operating cash flow
- Debt profile and capacity
- Gearing and cash operating costs
- Capital expenditure and cost management targets
- Realised commodity prices
- Funding of projects



#### 4. Risk Management

Deliver substantial returns to shareholders.

- Long-term Total Shareholder Return (TSR)
- EHS scorecard



#### 5. Governance & Values

Achieve strong governance across all Tullow activities and continue to build trust and reputation with all stakeholders.

- Code of Conduct training and certification
- Compliance issues and whistle blowing calls and investigations



#### 6. Organisation & Culture

Build a strong unified team with excellent commercial, technical and financial skills and entrepreneurial flair.

- Staff turnover
- Recruitment for key roles
- Localisation



#### 7. Shared Prosperity

Create sustainable, transparent and tangible benefits from the presence of oil in host countries.

- Local content
- Social performance

HOW WE  
 CREATE  
 VALUE

HOW WE  
 RUN OUR  
 BUSINESS

## RISK MANAGEMENT

The Board is collectively responsible for risk management and each Executive Director is responsible for designated strategic risks. In early 2014, a new Executive Committee was formed that assists the Executive Directors in running the business. It comprises the Executive Directors and 10 senior regional and functional business leaders. The Vice Presidents and Business Unit leadership teams are

responsible for managing day-to-day operations and the safe delivery of the Group's business plan. Corporate functions are responsible for managing designated Group-wide corporate risks and assurance of Business Unit activities and operational and financial performance.

Risk Management → 42

Long-term risks → 72



Key risks to our performance	Risk owner	Risk assurance	More info
<ul style="list-style-type: none"> <li>• Strategy focus to meet shareholder expectations</li> </ul>	<b>Aidan Heavey</b> Chief Executive Officer	<ul style="list-style-type: none"> <li>• Board and the Executive Directors</li> </ul>	→ 35
<ul style="list-style-type: none"> <li>• Sustained exploration failure</li> </ul>	<b>Angus McCoss</b> Exploration Director	<ul style="list-style-type: none"> <li>• Executive Committee</li> <li>• Global Exploration Leadership Team</li> </ul>	→ 36
<ul style="list-style-type: none"> <li>• Key operational or development failure</li> <li>• EHS failure or security incident</li> </ul>	<b>Paul McDade</b> Chief Operating Officer	<ul style="list-style-type: none"> <li>• Executive Committee</li> <li>• Board EHS Committee</li> <li>• Development &amp; Operations Leadership Team</li> <li>• EHS Strategy Group</li> </ul>	→ 38
<ul style="list-style-type: none"> <li>• Insufficient liquidity, inappropriate financial strategy</li> <li>• Cost and capital discipline</li> <li>• Oil and gas price volatility</li> </ul>	<b>Ian Springett</b> Chief Financial Officer	<ul style="list-style-type: none"> <li>• Executive Committee</li> <li>• Financial Risk Committee</li> </ul>	→ 40
<ul style="list-style-type: none"> <li>• Strategy fails to meet shareholder expectations</li> <li>• Information and cyber security</li> </ul>	<b>Executive Directors</b> <b>Angus McCoss</b> Exploration Director	<ul style="list-style-type: none"> <li>• Board</li> <li>• Executive Committee</li> <li>• Information Systems Leadership</li> </ul>	→ 42
<ul style="list-style-type: none"> <li>• Bribery and corruption</li> <li>• Governance and legal risk</li> </ul>	<b>Graham Martin</b> Executive Director & Company Secretary	<ul style="list-style-type: none"> <li>• Board</li> <li>• Compliance Committee</li> <li>• Executive Committee</li> </ul>	→ 44
<ul style="list-style-type: none"> <li>• Loss of key staff and succession planning</li> </ul>	<b>Graham Martin</b> Executive Director & Company Secretary	<ul style="list-style-type: none"> <li>• Executive Committee</li> </ul>	→ 48
<ul style="list-style-type: none"> <li>• Failure to manage social and socio-economic impacts</li> <li>• Political risk</li> <li>• Supply chain failure</li> </ul>	<b>Paul McDade</b> Chief Operating Officer <b>Graham Martin</b> Executive Director & Company Secretary	<ul style="list-style-type: none"> <li>• Executive Committee</li> </ul>	→ 51