MONITORING THE PERFORMANCE OF THE BUSINESS

Tullow measures the Key Performance Indicators it believes are useful in assessing the Group's performance against our strategic objectives. This year we have included additional KPIs to better align our performance to our strategy.

Tullow tracks both financial and non-financial metrics across the Group to help us manage our long-term performance and achieve our business plans.

New performance measures for 2013

In 2013, the Executive Directors reviewed Tullow's existing KPIs alongside the components of its business model to ensure appropriate measures were in place that reflect the Group's strategic priorities and business plans. As a result, two additional corporate KPIs have been included: Contingent resources additions and revisions and finding costs which relate to our goal of adding an average of 200 mmboe of contingent resources each year. The Executive Directors considered that all its existing KPIs were still relevant in assessing the overall health and performance of the business. The corporate KPIs have now also been brought more in line with the remuneration performance targets.

Executive Director remuneration

Executive Director remuneration is directly linked to the Group's performance. The performance targets set for Executive Directors were updated for 2013, in line with an overhaul of the Group's remuneration policy. Executive Directors' performance related pay is decided by a balanced scorecard of financial and non-financial objectives that is linked to TSR, the EHS scorecard, working interest production, operating costs per barrel of oil equivalent (boe), finding costs per boe and a set of strategic targets relevant for the year. Each objective has a percentage weighting and financial indicators have a baseline and a stretch performance target.

In 2013, the Committee awarded Executive Directors and employees 30% of the corporate element of their annual bonus potential. Further information is in the table below and within the Directors' remuneration report on pages 108 and 109.

More information

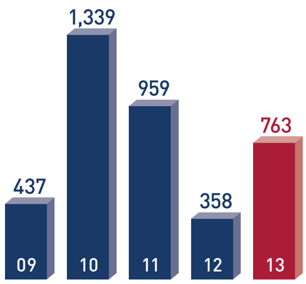
Directors' remuneration report → 98

Executive Directors' performance against remuneration targets

Performance metric	Performance target	% of Award (% of salary maximum)	Actual
Operational (Production)	20% payable at threshold, increasing to 40% payable at target, increasing to 100% payable at stretch	10% (60%)	–
Exploration (Finding Costs)	20% payable at threshold, increasing to 40% payable at target, increasing to 100% payable at stretch	10% (60%)	10% (60%)
EHS	Leading and lagging quantitative and qualitative measures	10% (60%)	6% (36%)
Strategic Targets	Six specific strategic targets (see page 109)	20% (120%)	14% (84%)
Relative TSR	20% payable at median, increasing to 100% payable at upper quintile against a bespoke group of listed exploration and production companies measured over 2013	50% (300%)	–
Total		100% (600%)	30% (180%)

Reserves and resources replacement

763%



Resources growth is an important aspect of high-grading the Group's portfolio. This can include acquisitions, new ventures, new licences and farm-downs. Reserves and resources replacement is a key indicator of exploration success and field performance and measures the percentage of production that has been replaced during the year. In addition, Tullow undertakes active portfolio management as part of driving resources growth.

Measurement

A Group reserves report is produced by an independent expert who conducts a review of each field at least every two years or when there is significant new data that indicates a material change to commercial reserves or contingent resources.

Risk management

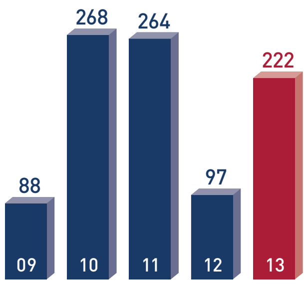
The Group manages replacement risk by exploring for high-value light oil in conventional plays in chosen core areas. We also focus on maximising reservoir performance in producing fields through technical and operational capability.

2013 performance

The Group achieved over 750% organic reserves and resources replacement in 2013 and total reserves and resources are 1,409 mmboe at the year end. Group resources increased due to discoveries in Kenya (Agete) and Norway (Wisting) and further appraisal in Kenya and Uganda.

Contingent resource additions and revisions

222 MMBOE



Tullow's exploration-led strategy targets resource additions of 200 mmboe per annum with an exploration and appraisal investment of $1 billion per annum.

Measurement

Contingent resources are based on a Group reserves report produced by an independent engineer. Resource estimates are reviewed by the independent engineer based on significant new data received following exploration or appraisal drilling.

Risk management

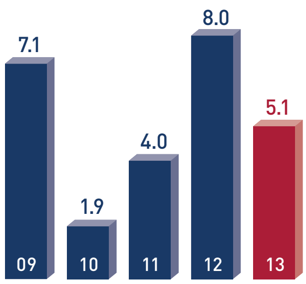
Tullow takes a campaign approach to exploration which reduces the overall risk as activity is spread across numerous prospects. We further reduce the risk with technical excellence and an experienced team.

2013 performance

Tullow's 2013 exploration programme delivered its target of adding 200 mmboe to contingent resources. In 2013, 222 mmboe was added to contingent resources of which 98% was oil.

Finding costs per BOE

$5.1 PER BOE



Finding costs are an indicator of exploration success, financial discipline and operational delivery.

Measurement

Finding costs are calculated by dividing exploration and appraisal capital investment by additions and revisions to contingent resources. The capital investment is based on intangible exploration and evaluation assets additions. Additions and revisions to contingent resources is based on the Group reserves report produced by an independent engineer.

Risk management

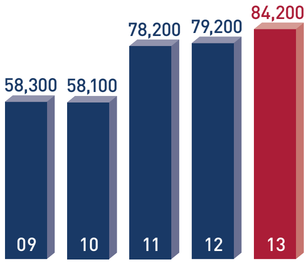
The Tullow Board approves the annual Exploration and Appraisal programme and the portfolio is continually being high-graded. Capital expenditure budgets are approved by the Board annually and senior management approval is required for major categories of expenditure.

2013 performance

Finding costs for 2013 were $5.1/bbl, achieving our stretch target, after delivering 222 mmboe of contingent resources. In this calculation, Norway exploration costs are included net of the 78% rebate, which reflects the substantial tax benefits and consequent net cash costs incurred for Norway exploration activities.

Working interest production

84,200 BOEPD



Tullow sets working interest production targets as part of the Group's annual budget to provide a source of funding for the Group in the form of high-margin significant annual cash flow.

Measurement

Daily and weekly production is monitored for all key producing assets and reported weekly to senior management and on a monthly basis to the Board. Regular production forecasts are prepared during the year to measure progress against annual targets.

Risk management

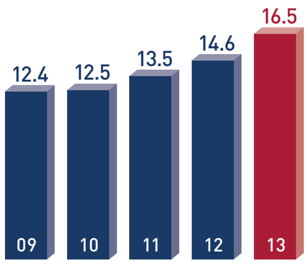
We can mitigate unplanned interruptions through strong production planning and monitoring, developing efficient and cost-effective solutions to any production issues, to protect the reserves and resources of the assets in the long term. We are also transitioning our production from lower-value gas in mature fields to high-value light oil production in new areas.

2013 performance

The Group's working interest production in 2013 was 84,200 boepd, which was below the baseline production target of 91,200 boepd. The shortfall was principally due to the Jubilee field which had operational difficulties on the FPSO. The stretch target for 2013 was 100,320 boepd.

Cash operating costs per BOE

$16.5 PER BOE



Operating expense per barrel of oil equivalent (boe) is a function of industry costs, inflation, Tullow's fixed cost base and production output.

Measurement

Operating expenses are monitored closely to ensure that they are maintained within preset annual targets and are reported each month on an asset-by-asset basis.

Risk management

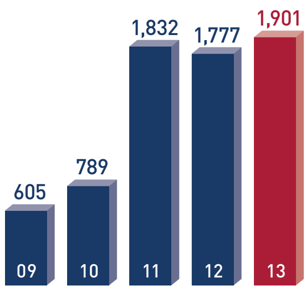
A comprehensive annual budgeting process covering all expenditure is undertaken and approved by the Board. Monthly reporting highlights any variances and corrective action is taken to mitigate the potential effects of cost increases.

2013 performance

Operating expense for 2013 achieved the Group's baseline target of $16.1 per boe, after taking account of the uncontrollable effect of royalty on reported figures in relation to oil price. This was achieved due to strong cost management and operational delivery. The stretch target for 2013 was set at $15.3 per boe.

Operating cashflow before working capital

$1,901 MILLION



Our goal is to ensure that operating cash flow funds a significant proportion of the Group's annual capital expenditure. In 2013, capital expenditure was $1.8 billion and capital expenditure is forecast to be $2.2 billion in 2014.

Measurement

Operating cash flow before working capital and divestment proceeds is reported monthly, with regular forecasting for longer periods to support long-range planning and investment decisions.

Risk management

Strong financial and operating management with disciplined monitoring and reporting. The Group manages liquidity through long-range cash flow forecasting and strong banking and equity relationships. Annual and project budgets require Board approval.

2013 performance

Tullow generated strong operating cash flow of $1.9 billion in 2013. This was a 7% increase on 2012, due to higher sales volumes. Production sales volumes averaged 74,400 boepd in 2013 and realised oil prices were in line with 2012 average levels.

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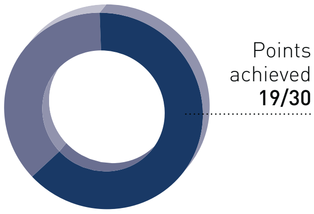
EHS scorecard

19/30



Tullow used an EHS balanced scorecard for a second year in 2013 which provides a more complete view of Tullow's EHS performance and focuses on proactive interventions and learning from incidents, rather than concentrating on statistics of past events.

Measurement

The scorecard consists of 10 leading and lagging indicators that could have a significant impact on Tullow's business. Each indicator is scored on the basis of full delivery (three points), partial delivery (two points), in progress (one point) and failure to deliver (zero). On this basis, delivery of all 10 targets would result in a score of 30. Further details of the EHS scorecard can be found on page 54 of this report.

Risk management

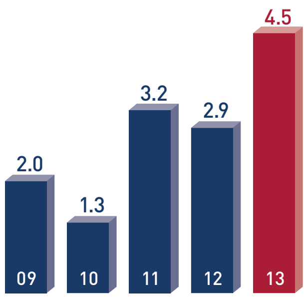
Early identification of potential risks can mitigate EHS events for all of our operations and activities. EHS is the responsibility of all personnel in Tullow and is overseen by the Group's Chief Operating Officer, supported by an EHS strategy group and over 100 EHS professionals embedded in the business.

2013 performance

In 2013, we achieved 19 points out of a total maximum of 30. While we performed well in the majority of leading indicators, we missed our lagging target of reducing the number of uncontrolled releases/loss of containment incidents. We had partial delivery of the closeout of investigations of level 4 and 5 incidents and lost time incidents, and partially met our target in contractor management.

Staff turnover

4.5%



Our workforce grew 14% to 2,034 people in 2013. Tullow has made further progress with succession planning and talent management to ensure we have appropriate people to deliver our future growth plans and major projects. Our goal is to build and retain a strong, unified team and be the employer of choice amongst our peers.

Measurement

Staff turnover rates are measured on an ongoing basis. Leavers go through a debriefing process to collect feedback and to help to improve the Group's people policies and practices. A global employee and contractor survey is conducted every two years which results in clear action plans to resolve issues raised.

Risk management

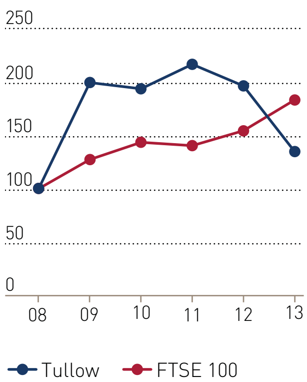
We can avoid unexpected leavers and a skills shortage by appropriately managing, recognising and rewarding our staff. We must continue to develop our people and provide suitable training opportunities in a strong and positive working environment.

2013 performance

Staff turnover in 2013 was 4.5%. We see one of the drivers for the increase in turnover is the growth in our total workforce headcount. There is no specific stretch or baseline target set for staff turnover. Over the past five years the Group has achieved a staff turnover rate of less than 5%.

Total shareholder return

-32%



Tullow's exploration-led strategy is focused on building long-term sustainable value growth. Our primary strategic objective is to deliver substantial returns to shareholders.

Measurement

TSR (share price movement and dividend performance) is reported monthly and at year-end to the Board. TSR is measured against an industry peer group, which is regularly reviewed, and the FTSE 100. For the purpose of remuneration, TSR is calculated from the fourth-quarter average relative share price.

Risk management

Tullow has a consistent and clear strategy. The Group undertakes a three-year business planning process each year, which is reviewed and approved by the Board. Executive Directors are responsible for the safe delivery of the business plan objectives, which are set out in summary on page 13 of this report. The business plan is aligned with the Group's strategy, strategic priorities and business model.

2013 performance

The Group experienced a negative 32% TSR in 2013 based on the year-end share price, compared with negative 9% in 2012. The baseline target is median TSR performance in relation to the peer group and the stretch target is upper quartile performance. Based on the average share price in the fourth quarter of 2013 relative to the fourth quarter of 2012, Tullow was ranked 15th out of 18 peers for TSR performance.