PROTECTING OUR BUSINESS & OUR STAKEHOLDERS

Tullow operates in the oil and gas industry, which is intrinsically higher risk than many other sectors. This requires a dynamic and proactive culture across the business, to ensure that we consistently identify, evaluate and mitigate the financial, technical and non-technical risks that we encounter as we manage our diverse portfolio of exploration and production assets.

We recognise the importance of having an effective system of internal controls and risk management. Our Board and Committees work together with the Executive Directors and Senior Management to ensure we achieve strong risk management in how we run our business. This helps us to protect our employees, contractors and Company; to safeguard the communities and the environments where we operate; and to develop productive relationships with our host governments. Given the potential magnitude of some of the risks we face, either in terms of their impact or the opportunity cost, it is clear that the management of risk is central to achieving our long-term strategic objectives and our short-to-medium-term business plans.

Throughout 2013, the Group focused on developing risk management capability in several key areas:

- A new Board-level EHS committee, chaired by non-executive Director Anne Drinkwater, was formed in early 2013 in response to the expanded scope and scale of Tullow's operations. It undertook four meetings during the year. There is a detailed EHS Committee report on pages 96 and 97 of this report;
- The Compliance Committee, chaired by Graham Martin, Executive Director and Company Secretary, provided valuable support to help embed the Code of Business Conduct compliance programme across the Group. The Committee mandated that the annual Code certification process be extended to all employees and contract staff in 2013, an initiative successfully achieved. The Committee also approved recommendations to enhance Tullow's bribery and corruption risk assessment process and update our Code of Business Conduct in 2014;
- Tullow's Global Exploration Leadership Team (GELT) formalised a review of social and political risks associated with prospects in new countries or existing licences. While the GELT remains a technical decision-making body, the evaluation of social and political risks enables the team to consider what mitigation plans may be required prior to any decision to proceed, including whether a seismic campaign or well location could be reconfigured to avoid unnecessary social or environmental impacts;
- In key countries of operations, we have worked to map political stakeholders, establish the potential risks and opportunities and plan accordingly. We have also developed a practical political and social risk guide for business units, to assist them in implementing best practice processes, tools and governance models for political/policy risk identification and mitigation. This includes an issues management framework, risk identification processes and strategic external engagement planning;
- A new Emergency Preparedness, Incident Management and Business Continuity Standard was introduced in 2013 accompanied by a related KPI, which is part of the Group EHS scorecard. The Standard and KPI are designed to ensure appropriate focus is given to the level of emergency preparedness and incident management training being undertaken across all Tullow operations, reinforced through a single Group framework and standard that is aligned with the scale of operation activities associated risks; and
- In early 2014, a new Executive Committee was formed, to assist the Executive Directors in running the business. This Committee comprises the Executive Directors and ten regional and functional leaders. A number of new positions were created as an integral part of the Executive Committee, including a Vice President of Safety, Sustainability and External Affairs, to enhance our approach to the management of above-ground risks.

"THE MANAGEMENT OF RISK IS CENTRAL TO ACHIEVING OUR LONG-TERM STRATEGIC OBJECTIVES."

2013 SHORT-TO-MEDIUM TERM RISKS & UNCERTAINTIES

2013 key risks and uncertainties	Performance during the year
Receive appropriate approvals from Ugandan authorities, followed by commencement of the PoD	A Memorandum of Understanding (MoU) defining the commercial framework for Uganda's oil industry was signed in early 2014 between the Government of Uganda, Tullow, CNOOC and Total. The MoU lays out a market framework for Uganda as a future oil producer, consisting of a crude export pipeline from the Lake Albert Basin to the Kenyan coast, to be developed in parallel with a right-sized petroleum refinery and the use of petroleum for power generation. The Ugandan and Kenyan Governments have in principle agreed joint initiatives for a crude oil pipeline.
Receive TEN PoD approval from the Ghanaian Government and commence development	The TEN development project, Tullow's second operated deepwater development in Ghana, is making significant progress after the PoD was approved in May 2013 and all key contracts have now been awarded. In October 2013, the Centennial Jewel trading tanker arrived in the Jurong Shipyard in Singapore, where it will begin its conversion into the TEN FPSO. The process for reducing Tullow's stake and capital commitments in the TEN Project is ongoing, with proposals being evaluated. First oil is targeted in mid-2016.
Successful management and mitigation of above-ground risks given local elections and political uncertainty in key African countries of operations	To ensure our above-ground risks are being managed in an integrated manner we have restructured our organisation to create a new functional area of Safety, Sustainability and External Affairs (SSEA).
Successful delivery of exploration programme and asset monetisation options	Tullow's exploration programme added over 200 mmboe to contingent resources in 2013 through important wells in Kenya and Norway from an exploration expenditure of $1 billion. In line with Tullow's strategy, the exploration campaigns have now added an average of 200 mmboe per year to the Group's contingent resources over the past seven years. However, not all wells were successful and Tullow's exploration write-offs for 2013 were $871 million. Tullow has completed the sale of its Bangladesh assets and is awaiting Government consent to complete the sale of its Pakistan assets. As previously announced, the sale of our UK and Dutch assets is being restructured. The process for reducing Tullow's stake and capital commitments in the TEN Project is ongoing, with proposals being evaluated.

2014 TO 2016 SHORT-TO-MEDIUM TERM PERFORMANCE RISKS

Each year Tullow identifies a number of key risks and uncertainties with regard to the successful delivery of the Group's business plan. These short-to-medium term risks are set out below, and indicate the principal risks associated with the 2014 to 2016 business plan period.

- Avoid sustained exploration failure and consistently deliver 200 mmboe Contingent Resources each year;
- Deliver major projects on time whilst ensuring safe operations;
- Resolve key commercial and tax issues in Uganda to allow progress to PoD approval;
- Ensure sufficient liquidity by reference to sustained operating cashflow, future capex plans and the delivery of portfolio activity; and
- Successful management and mitigation of above-ground risk given local elections and political uncertainty in key African countries of operations.

More information

To get a more complete view of Tullow's risk profile and mitigation processes, please read the section on the Group's long-term or 'evergreen' risks on pages **72** to **77** of this report.