AFREN

Foundations for Growth

Afren plc
Annual Report and Accounts 2013

Afren plc is a leading African focused independent exploration and production (E&P) company with a premium listing on the London Stock Exchange (AFR.L), and a constituent of the FTSE 250 Index.

Our activities span the full E&P cycle of exploration, appraisal, and development through to production. Our success depends on our ability to create long-term value for all our stakeholders through a clear and consistent strategy, one that recognises that our responsibilities go beyond our operations.

Creating sustainable long-term value

Our Vision

To be a leading major independent upstream exploration and production company.

Our Objective

To maximise shareholder value.

Our Strategy

To optimally acquire and develop a balanced and diversified portfolio of quality assets and create value across the exploration and production value chain.

For more information see:
www.afren.com
www.ar2013afren.com

In this report, we highlight our achievements in 2013 using these strategic identifiers.

- Portfolio management
- Reserves growth
- Production growth
- Operational efficiency and financial discipline
- Working responsibly

For more information see: P22

Strategic report
P02

The Strategic report provides an overview of Afren, our performance, details of our risk management processes and outlook for the Group.

Report of the Directors
P34

Through strategic foresight Afren has assembled a balanced portfolio of world-class assets consisting of high-impact exploration and appraisal opportunities, major development projects and producing assets that are organised into three core business units: Nigeria and other West Africa, Afren East Africa Exploration and the Kurdistan region of Iraq. Read about our operational performance here.

Corporate governance
P74

Corporate governance is about managing our business in the right way to ensure we meet our objectives. Learn more about our approach to corporate governance here.

Accounts
P105

The financial statements provide a summary of our financial performance throughout 2013 and our position as at 31 December 2013. The consolidated financial statements are prepared in accordance with IFRS as adopted by the European Union.

Supplementary information
P152

Our licences, unaudited oil and gas reserves and glossary.

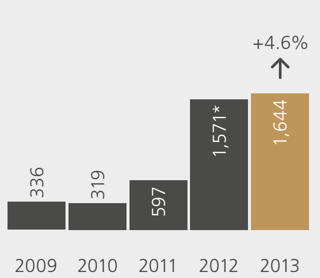
Our highlights

Financial highlights

Revenue
(US$m)

US$1,644m

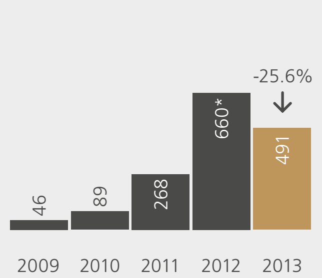
(2012: US$1,571 million*)



Operating profit
(US$m)

US$491m

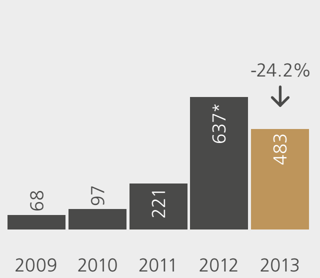
(2012: US$660 million*)



Normalised profit before tax
(US$m)

US$483m

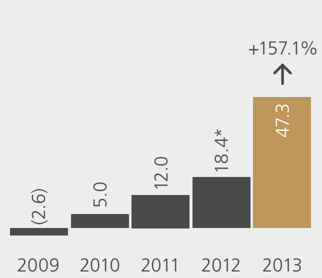
(2012: US$637 million*)



Basic EPS (from all activities)
(cents)

cents 47.3

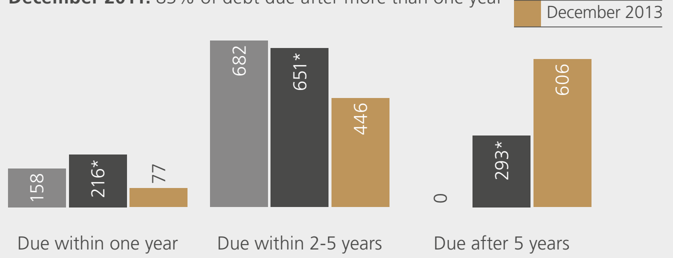
(2012: cents 18.4*)



Debt maturity
(%)

93% due after more than one year

December 2013: 93% of debt due after more than one year
December 2012: 81% of debt due after more than one year
December 2011: 83% of debt due after more than one year

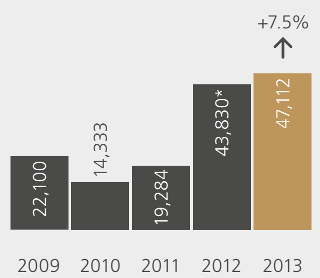


Key Performance Indicators

Net effective working interest production (boepd)

47,112 boepd

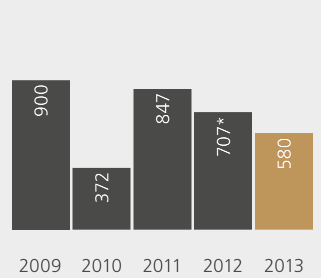
(2012: 43,830 boepd*)



Reserves replacement ratio
(%)

580%

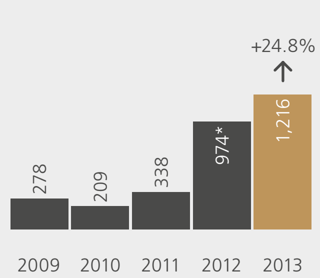
(2012: 707%*)



Operating cash flow
(US$m)

US$1,216m

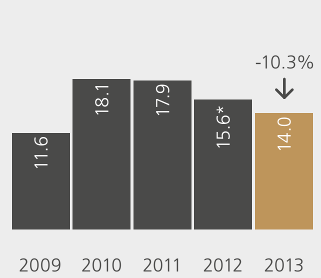
(2012: US$974 million*)



Normalised operating cost per barrel (US$/boe)

US$14.0/boe

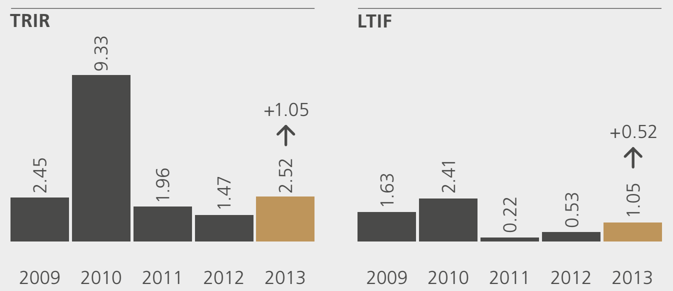
(2012: US$15.6/boe*)



Total Recordable Incident Rate (TRIR) and Lost Time Injury Frequency (LTIF)
(Incidents per million man hours worked)

2.52 TRIR 1.05 LTIF

(2012: 1.47 TRIR, 0.53 LTIF)



*2012 restated numbers

2013 operational highlights

- World-class exploration track record:
  - Play opening discovery at OPL 310, offshore Nigeria, P50 resources estimated to be 774 mmboe, the third largest global discovery in 2013
  - Continued drilling and appraisal success at the Ain Sifni PSC; commerciality declared
  - Group prospective resources now 10,031 mmboe (2012: 7,127 mmboe)
- Record net production of 47,112 boepd – at the top end of guidance, a year-on-year increase of 7.5%
- Record financial results, with sales of US$1.64bn and operating cash flow of US$1.22bn. Five-year tax exemption awarded at Ebok improves forward cash tax position
- Stable and growing platform of producing and development assets targeting gross production of approximately 62,000 bopd in 2014 (approximately 40,000 bopd net to Afren); double-digit growth over the next five years
- Net reserves and resources increased to 11,127 mmboe (2012: 8,147 mmboe), an increase of 37%
  - 2013 2P Reserve Replacement Ratio (RRR) of 201%
  - Active work programme to develop and produce remaining 2P reserves base
- Acquisition by FHN of 16.9% economic interest in OML 113 – synergies expected with the future OPL 310 development
- Crystallising value – sale of CI-11 block and the Lion Gas Plant to Petroci; more than US$150 million generated for shareholders since acquisition (entirely debt funded). Further opportunities to de-risk significant exploration inventory in Côte d'Ivoire

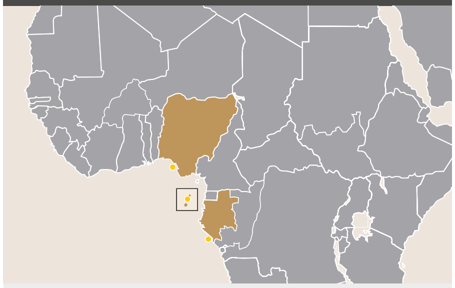
Responsibility highlights

- Total tax, royalties and levies of US$419m in 2013 (2012: US$249m), of which US$400m was paid in Nigeria
- No fatalities or major health and safety incidents at any of our operations
- No material incidents relating to business conduct matters

Afren timeline, the story so far...

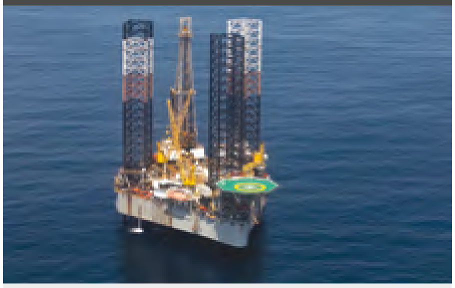
Nine years ago Afren was conceptualised. Today we are a full-cycle international business with assets in some of the world's most prolific and fast-emerging hydrocarbon basins. We have a growing platform of profitable production, a large-scale reserve and resource base, a high-quality pipeline of development projects and an extensive multi-well exploration drilling campaign.

2005



- Admission to AIM and completion of £8 million placing
- Acquisition of Block 1 JDZ
- Zero reserves and production

2006



- Agreement signed with Amni to appraise and develop the Okoro field, offshore Nigeria

2010

- Pan African expansion – acquisition of Black Marlin Energy
- Admitted to FTSE 250 Index

2011

- First oil at the Ebok development, offshore Nigeria
- Strategic acquisition and entry into the Kurdistan region of Iraq
- Acquisition of a 74% interest in the Tanga Block, Tanzania
- FHN completes acquisition of a 45% interest in OML 26, onshore Nigeria
- Afren becomes the first UK listed independent E&P to successfully access the international bond market in size, raising US$500 million in total

Delivering against our strategy

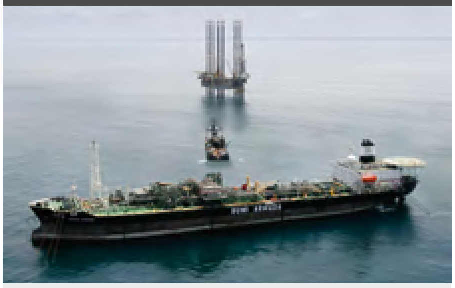
- Portfolio management
- Reserves growth
- Production growth
- Operational efficiency and financial discipline
- Working responsibly

For more information see: P22

2007

- Acquisition of Devon Energy's interests in Ghana and Côte d'Ivoire (entirely debt funded)

2008



- Agreement signed with Oriental Energy Resources to appraise and develop the Ebok field, offshore Nigeria
- First oil achieved in record time at the Okoro field, offshore Nigeria

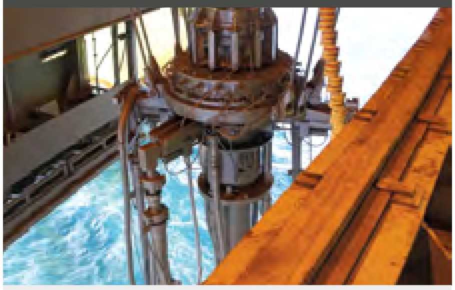
2009

- Successful appraisal programme at the Ebok field more than quadruples gross reserves
- Acquisition of interest in the Okwok field, offshore Nigeria
- First Hydrocarbon Nigeria (FHN) established
- Main board listing achieved

2012

- 88% E&A success ratio – Three significant discoveries announced in Nigeria and the Kurdistan region of Iraq
- Record production driven by strong performance at Ebok and Okoro
- Successful completion of US$300 million bond issue

2013



- Successful exploration track record continues – play opening discovery at OPL 310, offshore Nigeria; one of the world's largest discoveries in 2013
- World-class exploration success leading to a 2P reserves replacement ratio of 201% in 2013
- Second consecutive year of record production, at the upper end of guidance
- Record financial results with sales of US$1.64 billion and operating cash flow of US$1.22 billion
- Successful refinancing of existing debt through the issue of a new US$360 million bond

2013
Market capitalisation
US$2.6 billion

2005
Market capitalisation
US$25.7 million

A transformational increase in market capitalisation within just nine years

Leadership across three business units

Afren's portfolio of world-class assets contains a balance of cash-generative producing assets, high cash return development projects and transformative high-impact exploration and appraisal opportunities.

These are organised into three business units: Nigeria and other West Africa; Afren East Africa Exploration; and the Kurdistan region of Iraq.

In each business unit we hold market leading positions among our peers and are well placed to achieve further growth, capitalising on our early-mover advantage and operational track record.

Key figures from across Afren

Total number of employees and contractors	424
2013 net working interest production (inc. OML 26)	47,112 boepd
Net 2P reserves	286 mmboe
Net 2C resources	810 mmboe
Net reserves and resources	11,127 mmboe

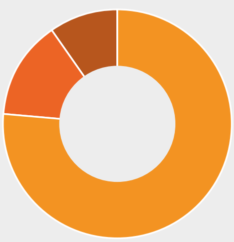
Nigeria and other West Africa
P07

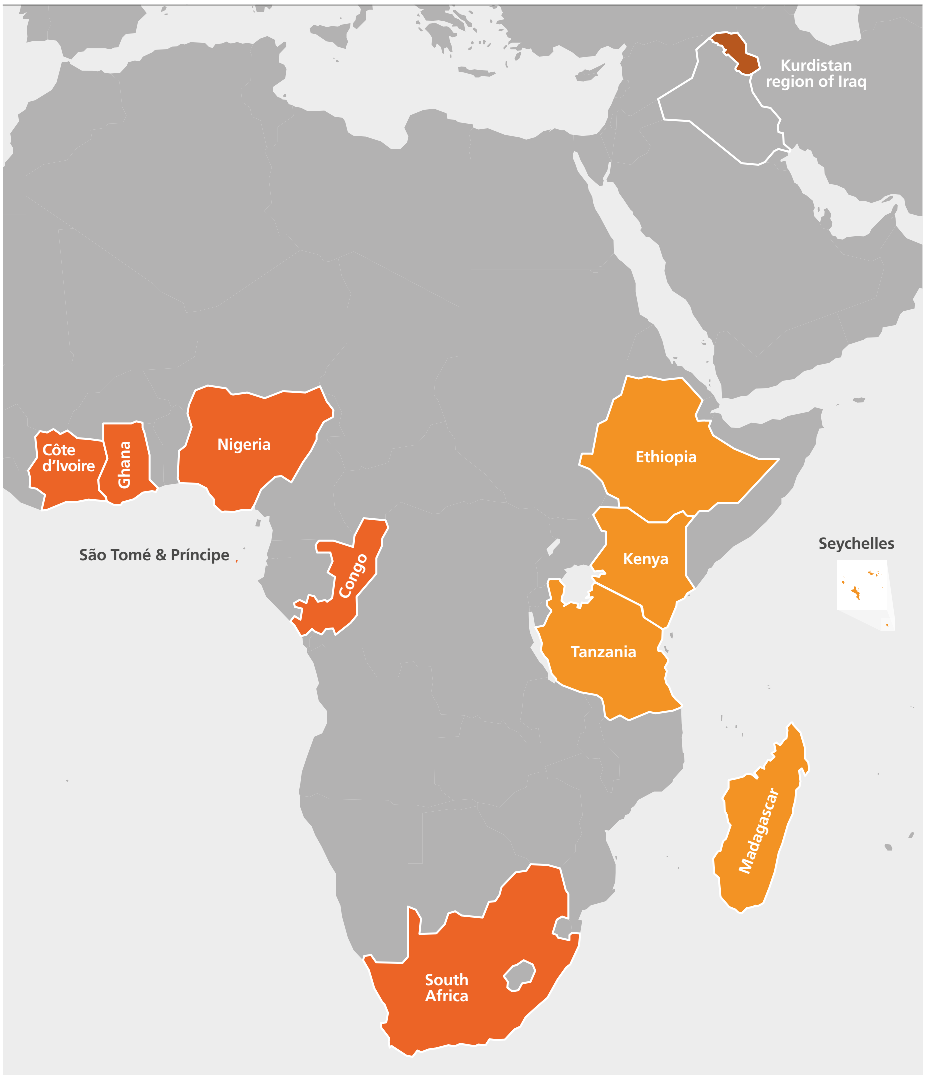
East Africa
P08

Kurdistan region of Iraq
P09

Net reserves and resources

	mmboe
Afren East Africa Exploration	8,501
Nigeria and other West Africa	1,575
Kurdistan region of Iraq	1,051





Nigeria and other West Africa

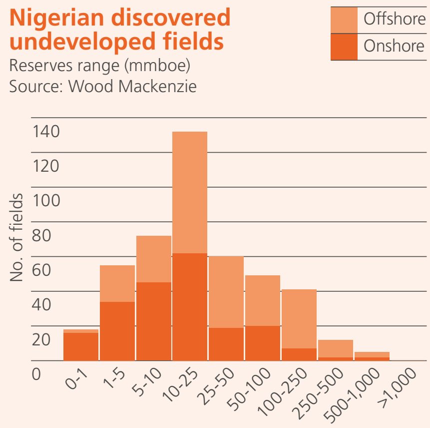
Business activity

- Exploration
- Appraisal & Development
- Production

In summary

- Balanced portfolio of assets across the full E&P cycle
- Proven record as a developer and explorer
- Gross acreage > 20,000 km^2
- Regional office in Lagos, Nigeria

Nigerian discovered undeveloped fields
Reserves range (mmboe)
Source: Wood Mackenzie



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Nigeria's largest independent E&P

From the outset a key strategic priority for Afren was to establish a reliable platform of cash-generating reserves and production that would enable us to build and grow the business in a sustainable way.

Our entry into the region, and specifically Nigeria, allowed us to fulfil this objective and develop the necessary operating track record and cash flow to expand across Africa and the Middle East. To date, we have successfully delivered production from three high-quality Nigerian development projects (Okoro, Ebok and OML 26) and have built a portfolio of further development, appraisal and exploration projects across the region.

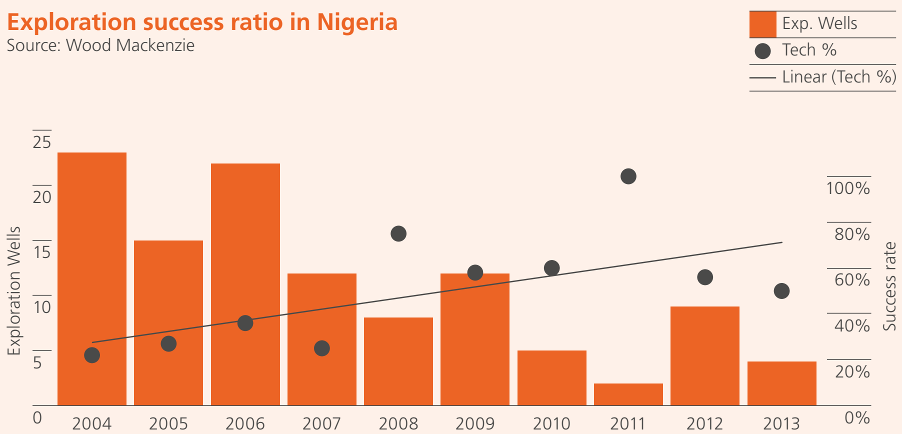
Nigeria and other West Africa remains a prolific oil and gas region, with proven oil reserves of over 53 billion bbls and proven gas reserves of over 204 tcf. In Nigeria alone, home to the majority of our West African portfolio, remaining reserves are assessed at 37 billion bbls of oil and 181 tcf of gas, ranking it tenth in the world for oil reserves, and ninth for gas reserves.

Despite an abundance of opportunities, fewer than 35% of the 770 fields in Nigeria are currently in production. Furthermore, according to Wood Mackenzie, of the approximately 440 fields that remain undeveloped, about 90 contain recoverable reserves of between 50 to 500 million bbls. Most of these fields have either been licensed to indigenous operators or are peripheral within the major international oil companies' portfolios, and would therefore struggle to access the financial and technical resources needed for their development.

This represents a major opportunity for an agile and responsive independent like Afren to capitalise on its established and growing credentials, and act as a strategic partner in bringing these undeveloped assets into production. In addition, as pressure grows to optimise the development of Nigeria's national hydrocarbon resources, a secondary asset acquisition and divestiture market is opening up in the country. Given our platform of cash-generative assets, strong local identity and rich resources, we are very well positioned to continue to grow our presence in the region.

Beyond Nigeria, our West African portfolio includes attractive exploration acreage in Côte d'Ivoire, Ghana, Congo Brazzaville and South Africa across the West African Transform and the South Atlantic Margins.

Exploration success ratio in Nigeria
Source: Wood Mackenzie



Leadership across three business units continued

Afren East Africa Exploration

Business activity

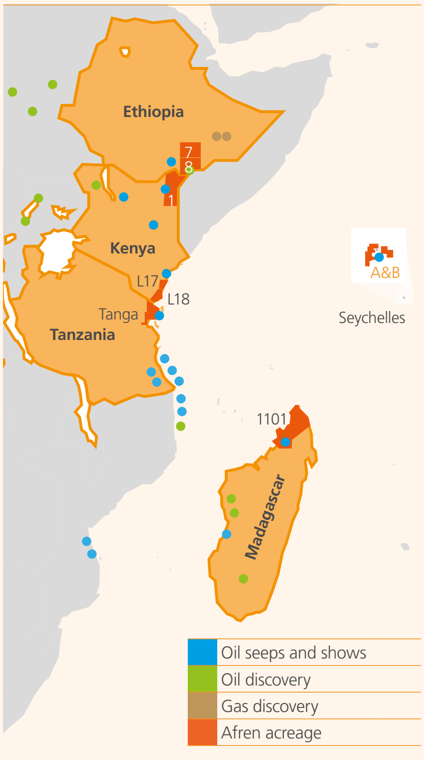
Exploration

In summary

- Diversified geology and play types
- Proven working hydrocarbon systems
- High-equity positions
- In possession of the largest seismic database in East Africa
- Prospects developed to drill-ready status
- Gross acreage of over 82,000 km²
- Regional office in Nairobi, Kenya

Exploring East Africa's petroleum systems

(Source: IHS, Afren)



For more information see:
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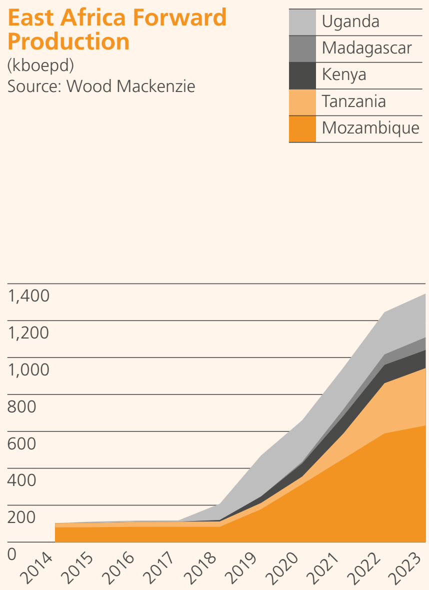
High-impact exploration across the East African Transform Margin and East Africa Rift Basins

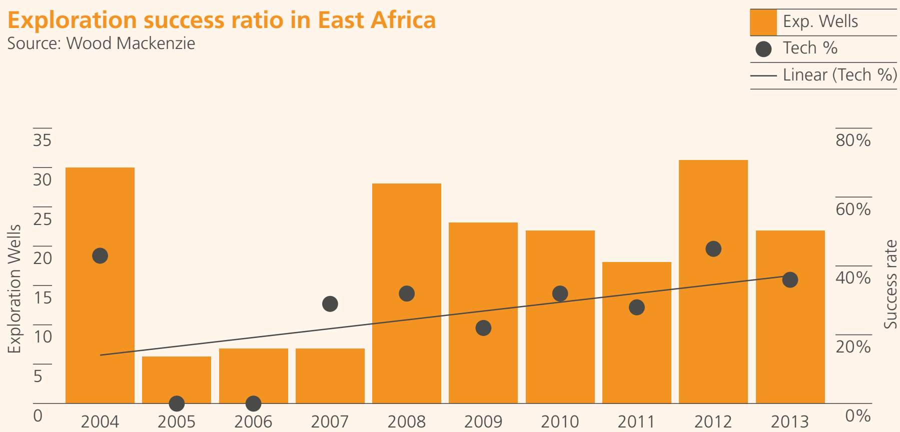
East Africa, both onshore and offshore, remains an under-explored region of Africa, with approximately 500 wells drilled, compared to over 7,400 wells and 9,200 wells drilled in West Africa and North Africa respectively. This has been primarily due to limited early exploration success in the region, which saw the industry divert its attention to focus on more easily accessible offshore opportunities in West Africa and onshore opportunities in North Africa.

However, with the rise in oil prices, and host governments allowing access to the region, there has been more activity in recent years, following high profile discoveries onshore Kenya and Uganda and offshore Tanzania and Mozambique. This has encouraged increased M&A activity in the region from large-cap oil companies and national oil companies looking to position themselves strategically to develop this significant resource base and consolidate smaller players in the region. According to Wood Mackenzie, the region is set to contribute an additional 1.4 mmboe/d to global oil supply by 2023.

Recognising the potential of the region ahead of its peers, Afren deemed 2010 an opportune time to take an East African position of scale, and completed the all-share acquisition of Black Marlin Energy Holdings Ltd (Black Marlin). The acquisition afforded Afren an early-entry position of critical mass in East Africa, consistent with its original mandate of establishing a pan-African presence. The acquisition immediately expanded our exploration inventory by adding several exploration targets across multiple geological basins, play types that have allowed the Group to take advantage of its profitable cash generative production base in Nigeria and other West Africa. In 2011, we augmented our position further by acquiring 74% in the Tanga Block, offshore north-east Tanzania, adjoining our Blocks L17 & L18 in Kenya.

Our East African exploration portfolio today covers over 85,000 km² of multiple play types across Cretaceous, Jurassic and Tertiary rift basins, in geological settings which have yielded significant industry discoveries in nearby Uganda, Sudan, Tanzania, Madagascar, Mozambique and Kenya. Over the last few years, we have significantly increased seismic coverage and interpretation, with a total of 11,506 km 2D and 4,976 km² 3D across the portfolio, the largest coverage in the region. This has helped significantly de-risk the portfolio ahead of an exciting E&A programme that will be targeting 1,237 mmboe in net prospective resources in 2014.





Kurdistan region of Iraq

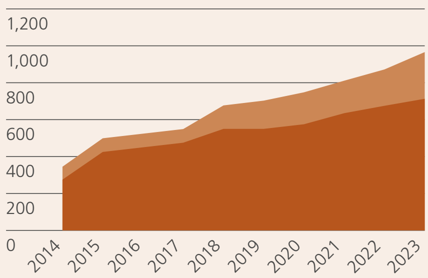
Business activity

- Exploration
- Appraisal & Development
- Production

In summary

- World-class assets located in a prolific hydrocarbon province
- Early-mover advantage (entry cost US$0.68 per 2P & 2C bbl)
- Gross acreage of over 860 km^2
- Regional office in Erbil, Kurdistan region of Iraq

Kurdistan Forward Production
(kboepd)
Source: Wood Mackenzie



For more information see:
P60

Early-mover advantage – further value to come

Kurdistan is a semi-autonomous region in north-west Iraq, believed to contain approximately 30% (c.45 billion boe) of Iraq's oil reserves. It is one of the last major onshore exploration provinces with the potential to deliver abundant hydrocarbon resources in a low-risk geological setting with attractive economics.

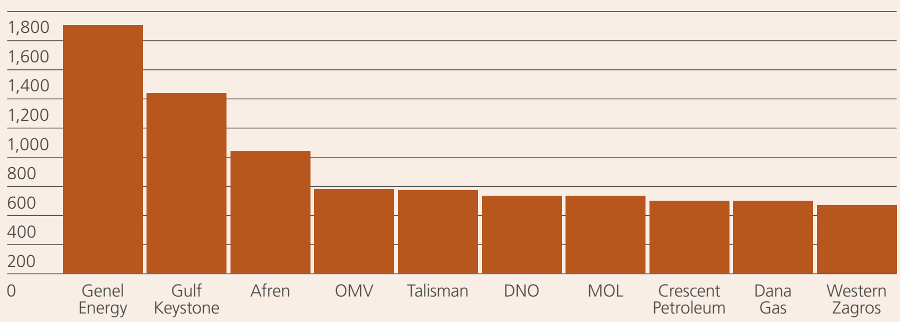
As an opportunity for Afren, Kurdistan is similar to Nigeria in that while oil has been discovered in abundance and plays are proven, political uncertainty has affected the timing of monetising the vast resources in the region. This has created an opportunity for smaller, agile independents to secure, appraise and develop assets with world-class potential, at low entry costs. The region is developing rapidly, with over 40 oil companies awarded production sharing contracts (PSCs) since 2004, including four of the top ten oil majors, which followed Afren's entry into the region.

In recognition of the opportunity to move ahead of the competition and leverage our development track record, in 2011 Afren acquired the Barda Rash (operated) and Ain Sifni (non-operated) PSCs. The acquisition, in line with our strategic priorities, enabled us to deliver independently certified net 2P & 2C resources at US$0.68 per 2P & 2C bbl – well below other regional transaction values.

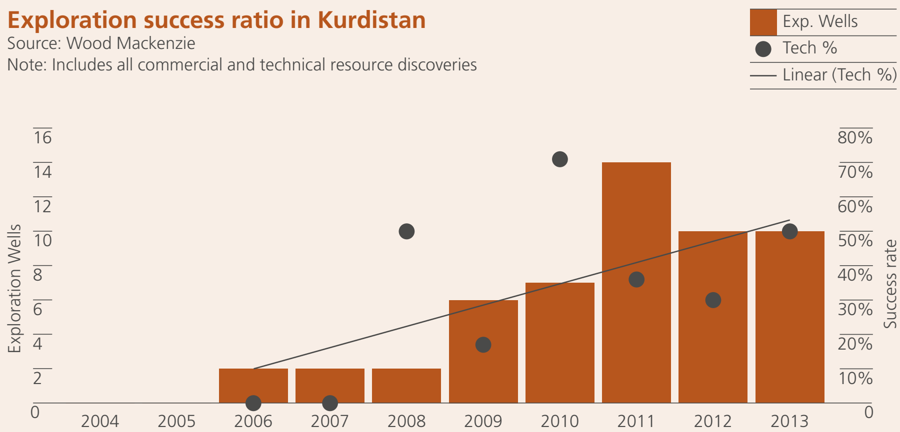
Following our entry, and as a direct result of our ongoing appraisal and development work, RPS Energy have independently reclassified 190 mmbbls of gross 2C resources on the Barda Rash PSC as 2P reserves. In addition, the recent declaration of commerciality at the Simrit discovery on the Ain Sifni PSC, is expected to further grow our reserves and resources in the region. We have an exciting work programme in 2014 that will target increased production from the Barda Rash PSC, as well as ongoing appraisal work on both assets.

Recent political developments, including the completion of the independent oil export pipeline and the inter-governmental gas sales agreement with Turkey, have provided positive impetus to the long-term prospects for the region and should encourage increased levels of investment and M&A activity.

Top 10 ranked Kurdistan resource holders (WI)
(mmboe)
Source: Wood Mackenzie



Exploration success ratio in Kurdistan
Source: Wood Mackenzie
Note: Includes all commercial and technical resource discoveries



Chairman's statement

"2013 was another strong year for Afren. We enjoyed record revenues and cash flow underpinned by strong production from our greenfield developments offshore Nigeria. We continue to achieve industry-leading exploration success and have materially enhanced the business with the basin-opening discovery at Ogo, one of the largest discoveries in the world in 2013."

Egbert Imomoh
Chairman

In just nine years we have made a remarkable transition from an AIM start-up into an established 'mid-cap' independent, through our ability to identify opportunities early, use our technical capability, and achieve sustainable production and reserves growth responsibly. With an established portfolio of significant scale giving us leadership across our three business units, we are now in a strong position to build on these foundations for the next phase of our growth. I am confident that we will continue to create significant value for our shareholders.

Exceptional exploration and appraisal success

For Afren, 2013 was another year of exceptional exploration and appraisal (E&A) achievement.

The highlight for the year was the basin-opening discovery at the Ogo-1 well, located on the OPL 310 licence offshore Nigeria. The well encountered light oil and condensate rich gas in a four way dip closed structure and light oil/condensate in the syn-rift, with estimated P50 gross recoverable resources significantly ahead of pre-drilling expectations at 774 mmboe. The discovery at Ogo was one of the largest in the world in 2013, and the largest in Nigeria for over a decade, a testament to our growing exploration credentials. The Partners have commenced a detailed marine 3D seismic programme ahead of planned appraisal drilling. We are very excited about the long-term prospects for Ogo and the other prospects on the block.

Elsewhere, in the Kurdistan region of Iraq, following the world-class discovery at the Simrit-2 well (1,509 ft of net oil pay and aggregate flow rates of 19,641 bopd) in 2012, we completed drilling on the Simrit-3 well, confirming the eastern extent of the Simrit anticline and achieved a cumulative test rate of 6,293 bopd. Following the declaration of commerciality, the Partners expect to submit a Field Development Plan in Q1 2014, and remain on-track to deliver incremental growth in our reserves and resources base in 2014. The Maqlub-1 exploration well, testing the high potential Maqlub structure on the block, is currently drilling ahead, and has encountered hydrocarbons in the Cretaceous and Jurassic reservoirs. We have an exciting E&A campaign planned over the next 12 months that will be targeting 1,237 mmboe in net resources across proven petroleum systems in established and frontier basins.

Active portfolio management

As part of our commitment to creating sustainable value for shareholders, we constantly review and evaluate the balance of our portfolio to ensure an optimal allocation of resources and capital, targeting projects with the highest cash returns.

In May 2013, we completed the acquisition of an additional 10.4% beneficial interest in First Hydrocarbon Nigeria Company Limited (FHN) to the original 45% interest, for a total consideration of some US$37 million. This enabled us to consolidate the holding of FHN's reserves and production as a subsidiary and augment our existing offshore position in Nigeria by acquiring an attractive onshore portfolio of scale, with net reserves and resources of 433 mmboe (including management estimates of additional 2C upside of 144 mmboe), capable of delivering incremental growth of 18,000 bopd net to Afren by 2016. FHN's portfolio also includes the offshore Aje field, which is contiguous to the OPL 310 block and which has previously tested at commercial rates. In July 2013, Afren further increased its holding in FHN by acquiring an additional 23.3% beneficial interest, increasing our effective holdings at the end of December 2013 to 78%. The acquisitions have been achieved at accretive multiples of under US$2.0/2P & 2C bbl, and we look forward to working closely with NPDC to further increase production and undertake an extensive appraisal and exploration programme on the portfolio.

In August 2013, we completed the sale of our net interest in the CI-11 block and Lion Gas Plant to Petroci, realising a provisional profit on disposal of US$25.3 million. The assets have afforded Afren a stable production and cash-generative base, but we deemed them to be non core to our operations due to the competing capital demands of other higher return projects in the portfolio. Since acquisition, the CI-11 block and Lion Gas Plant have delivered net operating cash flow of over US$150 million.

Record financial performance driven by a high-quality, oil-focused production and development base

I am delighted to report that Afren achieved record revenues and cash flow in 2013, driven by the 7.5% year-on-year growth in net production to 47,112 boepd and continued strength and stability in the oil price environment. We achieved record turnover of US$1.64 billion and generated operating cash flows of over US$1.22 billion. Profit after tax of US$475 million was influenced by the achievement of a tax exemption relating to the Ebok field, largely offset by additional post-cost recovery amounts due to other participants in the field.

Our main production base, in Nigeria, continues to perform strongly and ahead of pre start-up expectations. Furthermore, following our successful exploration campaign in 2012 and 2013, we remain on track to commence the Okoro Further Field Development, Ebok North Fault Block and Okwok in 2014, all of which are expected to generate high-margin cash flow for the Group. These new developments, alongside the ongoing ramp-up in production from OML 26, onshore Nigeria, and the Barda Rash PSC, Kurdistan region of Iraq, will contribute towards delivering double-digit production growth over the next five years.

Progressive de-risking of a material resource base

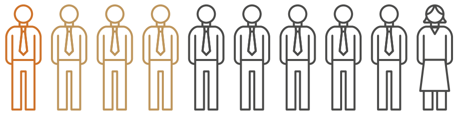
In 2013, we achieved a 2P reserves replacement ratio of 201%, following the approval of the Okwok FDP in January 2014. We expect our 2014 development and E&A campaign to further de-risk our material resource base of 810 mmboe net contingent resources and 10,031 mmboe net prospective resources, as we look to move these assets along the value chain and so produce sustainable growth in organic reserves.

Well-funded and strong balance sheet

The Group is in a strong position, with net debt of US$739 million supported by a stable cash-generative production base that we expect to fund our work programme. We expect capital expenditure for 2014 to be US$845 million and focus both on projects with high cash return, and further exploration drilling.

During the year the Group successfully extended the maturity of its liabilities and lowered the cost of its debt following the refinancing of the Ebok facility and a tender offer for our Senior Secured notes, funded by a new bond issue with a longer term and a lower interest rate. We have also significantly improved our forward cash tax position following the award of a five-year tax exemption at the Ebok field in Nigeria from mid-2011 to mid-2016. The tax exemption at Ebok was awarded in recognition of the positive contribution that independents such as Afren in partnership with local indigenous operators have made to the development of the oil and gas sector in Nigeria. The tax exemption has enabled us to increase capex

Board of Directors and committees



Mr Egbert Imomoh	Chairman N
Dr Osman Shahenshah	Executive Director
Mr Shahid Ullah	Executive Director
Mr Darra Comyn	Executive Director
Mr Peter Bingham	Non-Executive Director A R
Mr John St. John	Non-Executive Director
Mr Ennio Sganzerla	Non-Executive Director A N R
Mr Toby Hayward	Non-Executive Director A N R
Mr Patrick Obath	Non-Executive Director A R
Ms Sheree Bryant	Non-Executive Director N

A Audit and Risk Committee
R Remuneration Committee
N Nomination Committee

at Ebok in 2014 and 2015 in line with our objective of allocating capital towards the highest cash return projects.

Also during the year, we reached agreement with our Partner on the Ebok field to secure future capital allowances and other benefits with a value of US$300 million. This agreement means the Group has secured the full benefit from its capital expenditure.

We continue to maintain an open-dialogue with the relevant authorities and during 2013 we paid circa US$400 million in royalties and taxes in Nigeria.

An exceptional team of people

Afren's growth and success is principally due to the professionalism, creativity and commitment of our people. To ensure we can attract and retain the best people, our remuneration is competitive, encouraging exceptional performance with a balance of short and long-term rewards, and offering comprehensive benefits. We continued to grow our team in 2013, with 58 new appointments taking our total workforce to 424, of whom the vast majority are local nationals. We will continue to evolve our employment practices and policies to ensure we are able to attract and retain the best talent.

Working responsibly

Corporate responsibility (CR) is one of the five strategic priorities we have identified to ensure we achieve our vision, objective and strategy. Our approach is to apply guiding frameworks such as those provided by the industry association IPIECA, to develop a corporate responsibility strategy tailored to the particular requirements of the countries we operate in.

We have identified five key areas of focus to achieve our aim of being a responsible business at all times, these are – environment and climate change, health and safety, communities, business conduct and people. We have developed policies, systems and key performance indicators for each of these key areas. We monitor this information regularly at a senior level throughout the business, and it is a topic of discussion at Board and senior management meetings.

We are in constant dialogue with shareholders and other stakeholders concerning our corporate responsibility performance; this information exchange is important to developing our approach. In the first half of 2014 we intend to further develop the corporate responsibility section of our website so it contains a report in line with the latest reporting guidelines. We also aim to develop our reporting through mechanisms such as the Carbon Disclosure Project.

We include more information on our CR initiatives and performance in 2013 on pages 62 to 73.

Effective risk management

Monitoring and managing risks to the business are integral to Afren's activities. We constantly identify and analyse potential risks that could adversely affect our ability to achieve our objectives and we have a robust and effective system for reporting these to the Board. We continue to enhance our risk management process and its effectiveness within the organisation, so we can identify all risks early and put mitigation measures in place, and to ensure we are fully equipped to deal with our constantly evolving operating and business environment. We are communicating the need to manage risks to all organisational levels, to reaffirm that everyone is responsible for managing risks that may affect their day-to-day work.

Board changes

I am pleased to announce that we have strengthened our Board this year with the appointment of Ms Sheree Bryant, the first female director appointed to our Board. Ms Bryant, who is also a member of the Nomination Committee, joined in October 2013, and brings to the Board valuable experience of leading and developing various corporate responsibility initiatives, a key priority as we increase our operational and social footprint.

Governance

Our collective responsibility as a Board is to promote the long-term success of the Group, providing entrepreneurial leadership within the framework of prudent and effective controls. I firmly believe that high standards of corporate governance are central to achieving this success in a responsible manner that takes account of the interests of all our stakeholders.

Our focus on maintaining high ethical standards and strong personal integrity is formalised in our Group Code of Business Conduct. This is implemented across the business and sets out clear expectations of how our employees and those who work on behalf of Afren should behave. The Board sets the tone, and works with management to establish these values throughout the organisation.

A clear strategy and a positive outlook

This time last year I wrote that Afren had a bright future ahead after an outstanding 2012. We continued to make remarkable progress in 2013 towards our vision to be a leading major independent exploration and production company. Our excellent performance is due to strong leadership by our Chief Executive Osman Shahenshah, his executive colleagues and all our employees, who are committed to building a high-quality, value-driven enterprise. We are in great shape and gearing up for an exciting new phase of growth, underpinned by strong cash flows and financial flexibility, to optimally explore and develop our high quality portfolio well into the future.

On behalf of the Board I would like to thank our shareholders for their continued support.

Egbert Imomoh
Chairman

Governance Board

We are committed to the highest standards of corporate governance and consider it critical for upholding our business integrity wherever we work around the world.

The Board has been fully briefed on the UK Corporate Governance Code and are committed to complying with it.

Mr Egbert Imomoh
Chairman

Dr Osman Shahenshah
Chief Executive

Mr Shahid Ullah
Chief Operating Officer

Mr Darra Comyn
Group Finance Director

Mr Peter Bingham
Non-Executive Director

Mr John St. John
Non-Executive Director

Mr Ennio Sganzerla
Non-Executive Director

Mr Toby Hayward
Non-Executive Director

Mr Patrick Obath
Non-Executive Director

Ms Sheree Bryant
Non-Executive Director

Our governance principles

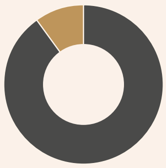
Independence
The independence of each of the Non-Executive Directors is considered upon appointment, annually and at any other time a Director's circumstances change in a way that warrants reconsideration. Following a review of Board composition, the Company has reassessed the independence of all its Non-Executive Directors. It regards all as "independent" within the meaning of the term as defined in the UK Corporate Governance Code.

Knowledge
Our Non-Executive Directors contribute international operational know-how and were chosen for their wide range of skills and experience. They understand the sectors in which we operate and have valuable knowledge of international capital markets. In addition, they bring in-depth understanding of the health, safety, environmental, political and community challenges we face.

Responsibility
The Board has a formal schedule of matters specifically reserved to it for decisions. Responsibility for developing and implementing the Group's strategic and financial objectives is delegated to the senior management of the Group. The roles of Chairman and Chief Executive are separate and the responsibilities of Chairman and Chief Executive are independently defined.

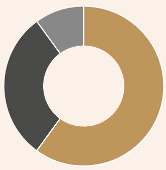
Board of Directors by gender

Male	90%
Female	10%



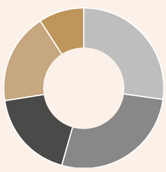
Board composition

Non-Executive Directors	6
Executive Directors	3
Chairman	1



Board experience

Oil and Gas Industry	6
Engineering	4
Finance and Accounting	4
Capital Markets	4
Environmental & Community	2



For more information see:
P78

Industry overview

Oil and gas analysts and forecasters, Groppe, Long & Littell, provide an insight into the economics of the oil and gas industry that we operate in.

Economic context

Global economic growth remained subdued in 2013, with GDP growth declining from 3.2% in 2012 to an estimated 2.9% in 2013. This marked three consecutive years of decline and, in real terms, highlighted a global slowdown in GDP growth rate compared to pre-crisis levels.

This prolonged period of weakness has compelled the major economies to continue various quantitative easing measures and remain unconvinced of changes in the global economic conditions. Financial markets have in turn benefitted, with the FTSE 350 index rising 16% during 2013. Stock prices for oil and gas producers, however, have collectively underperformed the broader index, rising only 8%, as a result of poor exploration success and failure to meet forecasted production guidance. Afren's stock performance was stellar in comparison, rising by 23% on the back of positive exploration results, including the Ogo discovery offshore Nigeria and delivering production ahead of guidance.

Oil consumption in 2013 was essentially flat year-on-year, at 87.3 million barrels per day (mmbpd). Consumption in the developing economies rose 0.5 mmbpd, led by China. The increase was offset by lower consumption in the developed OECD nations, where oil demand has been steadily declining, due largely to the continued expansion of the world's natural gas industry.

The key factor supporting the rise in gas production has been higher oil prices. When oil was US$30 per barrel, or approximately US$5 per mmbtu energy equivalent, corresponding natural gas prices were too low to justify the production, liquefaction and transport of natural gas in most places around the world. However, with an oil price environment in excess of US$100 per barrel, or over US$17 per mmbtu energy equivalent, a level that has been maintained for the better part of three years, resultant natural gas prices have supported increased development and shipment in the form of liquefied natural gas (LNG).

Crude oil prices

Benchmark Brent crude oil averaged US$108 per barrel in 2013, slightly lower than the US$111 per barrel realised in 2012. The price was largely range-bound over the course of the year, having oscillated between US$100 – US$120 per barrel. This relative stability masks several developments which had direct impacts on the oil industry in 2013.

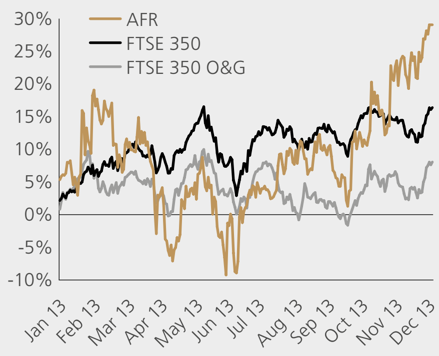
Tightening of economic sanctions continued to reduce oil production in Iran through most of 2013. Production in Libya plunged from July as political instability crippled the nation's oil industry. In all, geopolitical events have constrained oil supply by over 3 mmbpd since the end of 2010.

Left unchecked, these supply constraints would have pushed oil prices significantly higher. However, the outages were offset by increased production, primarily in Iraq, the United States and Saudi Arabia – which acts as the global swing producer.

Development of tight oil reservoirs has reversed the decades-long decline in US oil production. The application of proven technologies – hydraulic fracturing and horizontal drilling – along with higher oil prices, has made it possible to expand production from these lower grade resources. The rapid increase in oil production created logistical bottlenecks that resulted in price discounts for West Texas Intermediate (WTI)-based crudes relative to Brent. The discount has narrowed with the addition of new pipeline capacity, but remains volatile due to the effects of refinery shutdowns, weather and other factors.

Most of the new US production is light oil and has displaced foreign imports of similar quality. US imports from Nigeria have fallen from over 1 mmbbls/d at the end of 2010, to less than 150 kbpd at the end of 2013. This shift could have pressured Brent prices as the Nigerian barrels sought to penetrate other outlets. Instead prices remained relatively stable, as these volumes were used to backfill declining North Sea output and the reduction in Libya's oil production – both predominantly light in quality.

Afren's 2013 share price performance



Estimated proved gas reserves*
Source: Oil and Gas Journal

Rank	Country	Trillion Cubic Feet
1	Russia	1,688
2	Iran	1,193
3	Qatar	885
4	United States	372
5	Saudi Arabia	291
6	Turkmenistan	265
7	Abu Dhabi	200
8	Venezuela	196
9	Nigeria	181
10	Algeria	159

* as of 1 January 2014

Estimated proved oil reserves*
Source: Oil and Gas Journal

Rank	Country	Billion bbl
1	Venezuela	297.7
2	Saudi Arabia	265.9
3	Canada	173.2
4	Iran	157.3
5	Iraq	140.3
6	Kuwait	101.5
7	United Arab Emirates	97.8
8	Russia	80.0
9	Libya	48.5
10	Nigeria	37.1

* as of 1 January 2014

Market outlook

Oil consumption is forecast to remain relatively flat as higher oil prices have set in motion key structural changes. These include greater efficiency of use, and a reduction in government subsidies, in addition to the key shift of fuel substitution to natural gas.

At the same time, oil supply is set to expand significantly. Some resolution of geopolitical constraints is expected along with continued growth in North American production for the near term. Plans are underway to expand oil production in southern Iraq, from the current 3 mmbbls/d to over 9 mmbbls/d by 2017. Infrastructure requirements and political instability may prevent the full goal from being reached, but volumes are still forecast to double.

Oil production in Kurdistan, the semi-autonomous region in northern Iraq, is also poised to expand. The availability of Production Sharing Contracts and sizeable reserves have attracted a range of companies, including large IOCs such as ExxonMobil, as well as smaller independents such as Afren. Based on the success of recent discoveries, the productive capacity in Kurdistan is forecast to triple over the next five years.

Crude oil prices could come under pressure during the next couple of years as supply looks set to outpace demand. Brent prices in the US$70 to US$90 per barrel range are forecast through to 2020. These lower prices will slow additions to oil supply where resources are more expensive to develop, such as the unconventional oil plays in North America. Areas with more competitive cost of supply, and therefore higher operating margins – such as Kurdistan and Nigeria – are likely to be less affected, given robust economics at much lower oil price thresholds.

Africa will continue to play a key role in global oil production. The region saw the greatest expansion in exploration and development activity during 2013, with the number of drilling rigs increasing by over 25% from 2012. Exploration in West Africa continues to expand, with a focus on deep-water and pre-salt drilling. Nigeria remains an important element in global oil supply and ranks in the top ten of worldwide proved oil reserves, with an estimated 37.1 billion barrels. It also holds Africa's largest natural gas reserves at 181 trillion cubic feet.

Global natural gas consumption has been expanding at over 2% per year and currently stands at nearly 60 million barrels of oil equivalent per day. Substantial efforts are underway to help meet this growing need, including investment in exploration, pipelines and LNG. Sizeable gas discoveries in East Africa are set to transform that region into a significant exporter of LNG. A new liquefaction plant is planned for Mozambique and further exploration efforts are well underway in neighbouring countries.

Natural gas prices remain disconnected along regional lines. Expansion of LNG exports is forecast to help narrow the imbalances over the longer term. The significant capital cost required to develop LNG is supportive of gas prices within an environment of strong demand growth.

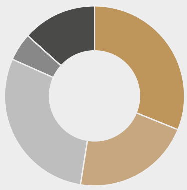
Meeting the energy challenge

Oil and natural gas currently provide over 50% of the world's energy needs. These hydrocarbons will continue to play an important role in the challenge of sustaining global development, especially in nations with developing economies. Global oil and gas markets tend to move in a discontinuous fashion rather than in a straight-line trend, driven by a number of complex factors that influence the industry, including geopolitics, economics, technology, the regulatory environment, and the underlying fundamentals of supply and demand. The resulting uncertainty creates challenges as well as opportunities for oil and gas companies operating in this environment.

Independent operators have an advantage over larger competitors in their ability to respond quickly to shifting market conditions. The most successful companies use their agility to harvest assets while prices are high or make valued acquisitions when prices are low. Crystallising these opportunities requires focus and a disciplined approach to portfolio management over the long term.

Total primary energy demand
Source: IEA

Oil	31%
Gas	21%
Coal	29%
Nuclear	5%
Renewables	13%



Company description
Groppe, Long & Littell has been providing thoughtful, proven insight on the economics of the oil and gas industry since 1975. Recognising that markets move in discontinuous patterns, the firm specialises in forecasting major changes of direction based on thorough bottom-up analysis of supply and demand.

Chief Executive's review

Afren's business continues to go from strength to strength following a significant number of operational successes during 2013. Here, the Chief Executive Osman Shahenshah answers investors' questions.

Osman Shahenshah
Chief Executive and Founder

How would you summarise Afren's performance in 2013?

2013 was another exceptional year for Afren, and a continued validation of our business model and growth strategy. We have achieved record results and performed well against the KPIs and Performance metrics we use to assess the strength of our business.

Our Total Shareholder Return (TSR) for the period was 23%, representing an upper quartile performance compared to the FTSE 350 Oil & Gas Index, a significant achievement given the ongoing market turbulence, and the net equity outflows in the E&P sector. It is worth noting that since listing in 2005, we have achieved a TSR of 746%, significantly outperforming both the FTSE 350 Oil & Gas and FTSE All Share indices.

A number of factors enable Afren's continued success. While we have assembled a world-class portfolio of assets, we have also invested in making sure we have the right people to manage and operate them. We also prioritise long-term relationships with local Partners, host communities and governments, ahead of short-term gains. With a record of project delivery, strategic acquisitions and maturing exploration credentials, we are well placed to continue to create significant value for our shareholders.

What were the year's operational highlights?

There have been a number of significant highlights this year. Of particular note is the continued E&A success. We achieved industry-leading exploration success and a 2P reserves replacement ratio in 2013 of 201%, a testament to our ability to grow organic reserves and de-risk our opportunity-rich portfolio.

In Nigeria, the basin-opening discovery at Ogo was one of the largest in the world in 2013 and the largest in Nigeria for over a decade. P50 gross recoverable resources at the field are estimated to be 774 mmboe, significantly larger than our pre-drill estimates of 202 mmboe. We plan to drill an appraisal well in the second half of 2014, ahead of a planned development. We also enjoyed significant exploration and appraisal success in Kurdistan, with the Simrit-2 well on the Ain Sifni PSC achieving aggregate flow rates of 19,641 bopd. The Simrit-3 well, exploring the eastern extent of the large scale Simrit anticline, completed a multi-zone testing programme resulting in a cumulative rate of over 6,000 bopd. Following the declaration of commerciality on the block, we expect to further grow our reserves and resources base in the region in 2014. The Maqlub-1 exploration well, testing the high-potential Maqlub structure on the block, is currently drilling ahead, and has encountered hydrocarbons in the Cretaceous and Jurassic reservoirs. Early results from our ongoing multi-well E&A drilling campaign have been encouraging, and we have multiple wells planned over the remainder of the year targeting 1,237 mmboe of net prospective resources.

2013 was also a year of strong production growth, which has led to record financial results for the Group. The combined performance of our producing assets yielded a year-on-year net production growth of 7.5% to 47,112 boepd, at the top end of our 2013 guidance. Our main producing assets in Nigeria, the Ebok and Okoro fields, offshore Nigeria, continue to perform ahead of expectations and we remain on track to ramp up production from the Barda Rash PSC, Kurdistan region of Iraq, and OML 26, onshore Nigeria. Our discoveries in 2012 and 2013 have laid the foundations for an exciting phase of development that will ensure Afren delivers double-digit growth over the next five years.

How do you view the balance of the portfolio?

Balance is a very important concept. We believe our portfolio offers an attractive mix of near, medium and long-term growth opportunities, spanning the full E&P value chain. It is this balance which differentiates us from our peers and which has enabled us to establish a leading position across each of our main areas of operation. Our growth ambitions are underpinned by a disciplined approach to financial management and capital allocation.

How would you characterise Afren's exploration strategy?

We have constructed our exploration portfolio around play-based themes, with an emphasis on blending exposure across:

- Low-risk opportunities that are quick to monetise, in and around our major production and development areas in the Niger delta and the Kurdistan region of Iraq
- Moderate-risk, proven-play concepts that offer significant upside along the West African Transform Margin and other parts of the region
- Higher-risk, play-opening opportunities in the rift and coastal basins of East Africa.

We believe that technical maturity of an asset is key to reducing risk and uncertainty, and we use available technologies and data to minimise pre-drill risks and maximise our chance of a successful drilling outcome. We also look to manage our portfolio from a risk/reward perspective, and will consider farm-in and farm-out opportunities as appropriate.

What are your current objectives for the Ogo discovery?

We are aiming for further appraisal drilling in the second half of 2014, and in preparation for this we will gather additional 3D marine seismic to augment our existing seismic database. The discovery at Ogo has significantly increased Afren's net prospective resource and provides a platform to develop a major new production hub in a previously under-developed region of the West African Transform Margin. We are excited about the prospects for Ogo and the neighbouring OML 113 field, which we will also be drilling this year, and look forward to working with our Partners in realising the potential of this significant discovery.

How do you see the East Africa portfolio changing?

East Africa remains an exciting region for Afren. Since assembling the portfolio we have successfully acquired and interpreted over 11,500 km of 2D seismic, 4,976 km^2 of 3D seismic and 25,580 km of gravity-magnetic data. The results of this work have enabled us to increase our net prospective resources from 2,113 mmboe to 8,501 mmboe, representing a fourfold increase since acquisition. Following a period of evaluation at Block 10A, Kenya, the Partners elected to relinquish the acreage in late 2013. We have matured ready-to-drill prospects on the Tanga block in Tanzania and L17/L18 and Block 1 in Kenya, which we expect to drill in 2014.

US$1.22bn
+25%
Operating cash flow

What do you see as your main challenges?

There is intensified pressure on the price of oil, mainly due to expansion in US oil and gas production, and continued political unrest in the Middle East. This remains a factor, though the jurisdictions we operate in and sell to have continued to see high demand, and sales remain strong. To mitigate the effects of negative oil price movements, we maintain an active hedging strategy, described in the Financial Review. Furthermore, the benefits of operating in favourable economic environments mean our projects could continue to break even, at significantly lower oil price levels.

Another major challenge is operating an international company, which means exposure to local political change. Managing this issue remains a high priority, and we ensure all parties we work with pay close attention to it. We are also committed to complying to the highest standards of governance and we will continue to work to achieve the high standards expected of a large mid-cap oil company.

Will you continue to make acquisitions in 2014?

Well, the key here is our quest to maximise shareholder value. While we continue to add resources and reserves organically, we always consider new opportunities if we can see clear potential at an attractive price, and if they fit with our strategic objectives. Our acquisitions to date illustrate our forward-thinking approach, and ability to enter new territories ahead of peers.

What were the recent key corporate responsibility highlights for the business?

Corporate responsibility matters are a very important aspect of our business and directly linked to our licence to operate. We are always looking for ways to improve our approach and performance. For example, at our Ebok field, we recently began injecting gas back into the ground rather than flaring it. We're looking at ways of extending this initiative around the business.

As for business conduct, we believe the Extractive Industries Transparency Initiative (EITI) is important as it encourages transparency of revenues and transactions between host governments and natural resource companies. Consequently, we have decided to become a corporate supporter of the organisation.

We also continue to work closely with local communities to encourage the sharing of economic wealth and the building of local capacity. Our community relations teams are involved in a wide range of education, health and job creation initiatives. You can find information about these on our website.

What steps are you taking to ensure the highest standards of corporate governance?

We will continue to improve our standards of governance. This year, we have strengthened the Board with the appointment of Ms Sheree Bryant who brings to the Board a balanced and unique perspective on corporate responsibility and community development, as we look to expand our footprint across Africa and the Middle East.

What is Afren's growth strategy in the medium term?

Our targets to 2015 remain those we set out in 2011, and we are well on our way to achieving these, as shown in the table opposite. Essentially our strategy is to continue to grow our presence in the main areas of our activity, while ensuring we deploy capital in the most efficient way in relation to our full business cycle, and optimising our production and development operations for maximum value. Technically, in that time frame from 2012-2015, we set out to discover 250 mmboe of net recoverable 2P & 2C reserves and resources from our forward exploration drilling programme; to maintain valuation discipline by targeting 2P & 2C additions at a cost of under US$4/bbl; and to progressively evolve a significant portion of our existing 2C resource base into the 2P reserves category. All this activity is underpinned by aiming for the highest standards of governance and by continually improving our CR performance.

It is evident that Afren made significant progress toward its business objectives, during the period, and we have carried this momentum into 2014.

What will the Company's main focus be in 2014?

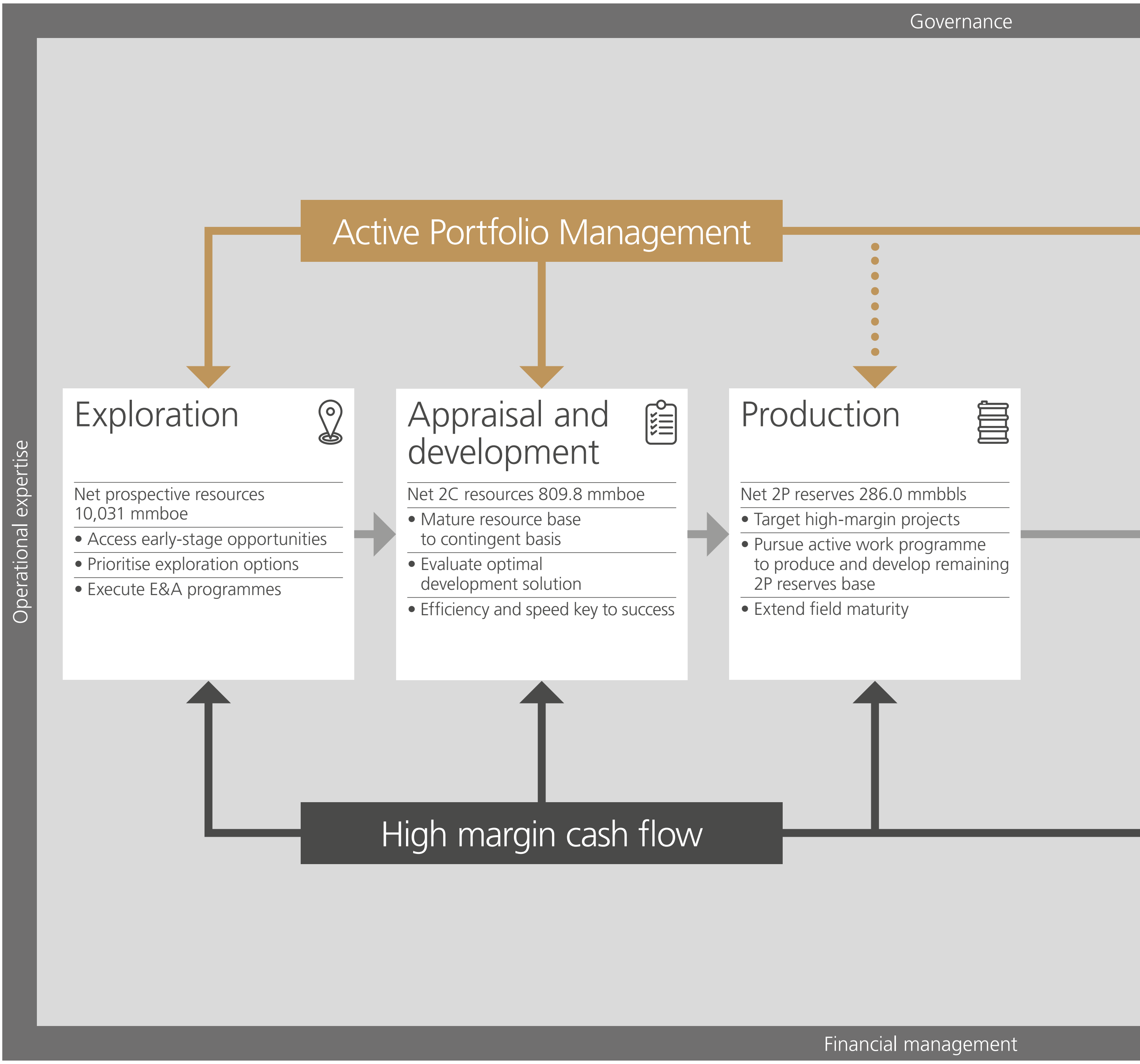
In simple terms, we will continue to create exceptional shareholder value using our technical and financial strengths. Our drilling success over the past two years has created a unique opportunity set from which we can organically grow production and cash flows. Accordingly, we have a busy work programme planned for 2014, both in development and in exploration and appraisal. I am confident that Afren has the right team, the right approach, and the right assets and funding in place to continue our record of delivering operational success and creating significant shareholder value.

Osman Shahenshah
Chief Executive and Founder

Business target	Progress in 2013	Outlook for 2014
Continue to grow Afren's presence in our main areas of activity and geological plays.	We are an established leading independent oil producer in Nigeria and a leading industry participant in East Africa and the Kurdistan region of Iraq. We have 25 assets in 10 countries.	We continue to build upon the successes we have achieved in each of our three business units, through our operational expertise and our partner relationships.
Progressively convert a significant portion of our existing 2C resource base into 2P reserves.	We achieved net 2P reserves growth of 34.1 mmbbls in the year following the successful E&A campaign at Okwok and extension of cost recovery at Ebok. This has resulted in a 2P reserves replacement ratio in 2013 of 201%.	In addition to the approval expected on the FDP submitted on OML 26, we recently submitted a declaration of commerciality on Ain Sifni. These are expected to further grow our reserves and resources base in 2014.
Discover 250 mmboe of net recoverable 2P & 2C reserves and resources from our forward exploration drilling programme by 2015.	We achieved a world-class exploration success in 2013. This is attributable to the three significant discoveries in Nigeria and the Kurdistan region of Iraq. Our discovery in Nigeria has organically added net 2P reserves of 26.4 mmbbls. Since 2012, we have successfully added 73.1 mmbbls of net 2P & 2C reserves and resources and are well on our way to achieve our target of 250 mmboe net recoverable 2P & 2C reserves and resources by 2015.	In 2014 we will target 1,237 mmboe of net prospective resources. This is in adherence to our strategy of focusing on: • Exploration in proven areas which are low risk and easy to monetise (Ebok in Nigeria and Barda Rash in the Kurdistan region of Iraq). • Moderate-risk proven plays that offer significant upside (OPL 310 in Nigeria). • Higher-risk, play-opening opportunities in East Africa (Tanga in Tanzania, Block 1 in Kenya).
Grow production year-on-year.	Like-for-like net production in 2013 increased by 7.5% to 47,112 boepd. This was at the upper end of our production guidance.	Following cost recovery on Ebok, we expect net production in 2014 to average approximately 40,000 boepd.
Manage and optimise our production and development operations to maximise the value of the business.	Production at the Ebok field increased by 16% year-on-year and at Okoro field increased by 7%. At Okoro, production operations have run seamlessly in 2013, with significant progress being made on the Okoro Further Field Development. At Ebok, three production wells were brought on stream in record time.	In 2014 we are looking to build on our strong operating base at Ebok and Okoro. Having reached cost recovery on two greenfield developments they are now self-funding and able to generate sustainable long-term value for shareholders.
Ensure available capital is deployed in the most efficient way and to suit our full cycle business requirements.	Capital expenditure in 2013 was in line with guidance at US$716 million, and balanced across our production, development, appraisal and exploration activities.	Capital expenditure for 2014 is expected to be approximately US$845 million and focuses both on high cash return projects and further exploration drilling.
Continually improve CR performance.	We performed exceptionally well in 2013, achieving, and in some cases exceeding, our targets.	We intend in 2014 to significantly enhance our reporting on corporate responsibility issues, recognising the increasing interest from our stakeholders in these matters.

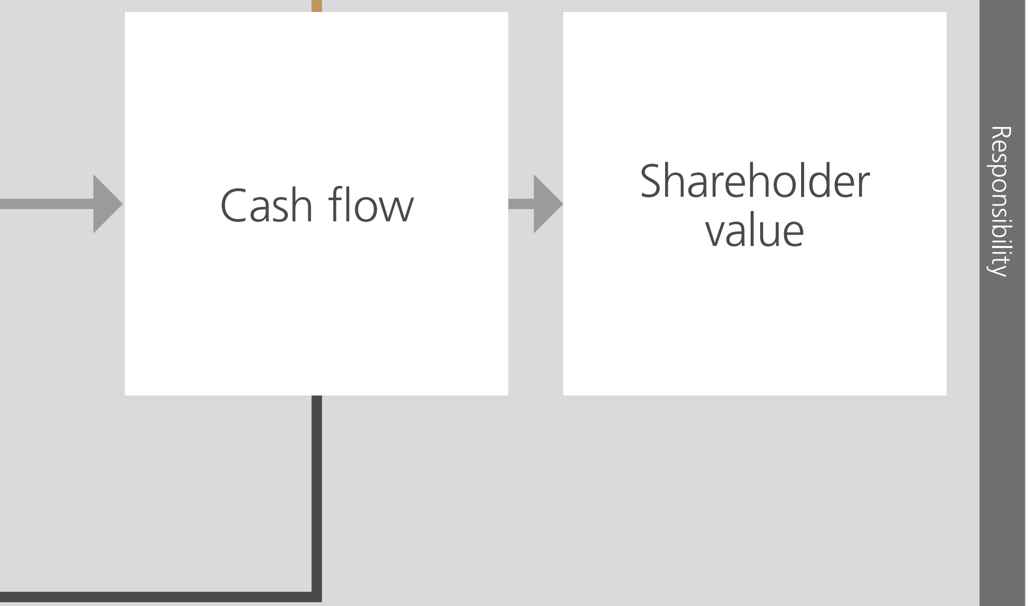
Our business model

At Afren, our business model is designed to create sustainable long-term value for our shareholders across the E&P value chain.



We create value by pursuing a clear and consistent strategy that aims to achieve a balance between exploration, appraisal and development investment, with funding from production and capital financing. To do this successfully and sustainably, our business model is supported by a meticulous planning and financial management process. This focuses on achieving specific 'milestones' within projects, and ensuring we adhere to high standards of governance, corporate and social responsibility.

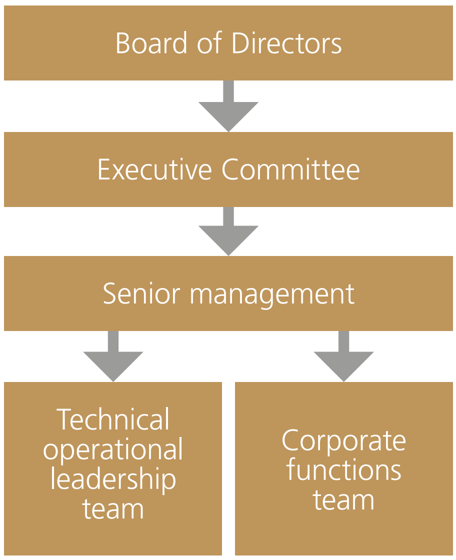
In addition, as part of our ongoing portfolio management process, we continually review and look to optimise our portfolio through farm-outs and strategic divestments. This allows us to mitigate risk and introduce new Partners with complementary skills. It also generates cash flow to re-invest in our growth strategy, and supports a range of funding options to ensure we maintain a strong balance sheet and financial flexibility.



How we are organised

At Afren, we aim to be a responsible and transparent business. The Board has established a management structure with defined lines of responsibility and clear delegation of authority. The various committees are key elements of the overall control structure. The Group has developed a formal business planning process, which operates on an annual cycle. The Board approves the consolidated annual budget, and budget performance is monitored and reported to the Board.

We identify and assess the key risks to our strategy in the context of our business plans, and functional and line managers monitor and act upon the risk registers generated. The Audit and Risk Committee of the Board is then regularly updated of the progress in implementing the risk management systems, and takes steps to mitigate significant business risks.



For more information on the skills and experience of our Board members see: P78

A strategy for achieving long-term growth

Our vision is to be the leading independent upstream exploration and production (E&P) company in each area we operate in.

This is underpinned by a clear and consistent strategy – one designed to provide sustainable long-term growth across the E&P value chain through balanced funding, exploration and production in our main areas of operation – Nigeria and other West Africa, Afren East Africa Exploration and the Kurdistan region of Iraq.

To fulfil our strategy, we have identified five clear priorities focusing on running our business, and growing efficiently and responsibly.

Strategic priorities

Portfolio management

Our opportunistic entrepreneurial approach has enabled us to be successful in accessing low cost reserves. We have been consistent in achieving low entry costs by seizing the early-mover advantage and focusing on areas where we have a strategic and competitive advantage.

We focus on areas where:

- there are proven working hydrocarbon systems
- opportunities have been overlooked, under-developed or may be out of reach to much larger companies
- we have an in-depth understanding of the subsurface, key relationships or local structure we can use to our advantage.

During the year we increased our holding in First Hydrocarbon Nigeria Company Limited by 31.3%. The acquisition has established a large onshore presence, grown our material reserves and resources, and established a solid production platform to continue to grow.

Reserves growth

We place great emphasis on achieving exploration and appraisal success, as this is integral to creating value for our shareholders. Our dedicated E&A team is responsible for identifying exploration ideas, prioritising our prospect inventory, ensuring efficient deployment of capital and executing our exploration and drilling activities.

Our exploration strategy is play led and balanced across key themes:

- Exploration in proven areas, which are low risk and quick to monetise
- Proven play concepts that offer significant upside, with moderate risk
- Higher-risk frontier areas with play-opening possibilities and potential large rewards.

In 2013, our exploration and appraisal campaign yielded remarkable results, with the play-opening discovery in OPL 310, offshore Nigeria, one of the largest discoveries in the world last year and the successful drilling and testing results on the Ain Sifni and Barda Rash PSCs, Kurdistan region of Iraq. Our E&A success has resulted in net 2P reserves addition of 34.1 mmbbls and a 2P reserves replacement ratio for 2013 of 201%.

Production growth

The growth in our production platform has enabled us to generate high-margin predictable cash flows for the Group, which in turn has enhanced our financial flexibility to undertake our work programme efficiently.

In 2013, our production was at the upper end of guidance, having achieved an average net production 47,112 boepd – representing a increase of 7.5% (excluding discontinued operations in Côte d'Ivoire) from the previous year.

With a net 2P & 2C recoverable reserves and resources total of over a billion barrels, the vast majority of which has yet to be developed and brought into production, we have a sustainable platform for long-term growth.

Operational efficiency and financial discipline

We have effective operational and financial management processes which place emphasis on delivery, safety and efficient allocation of capital. As an agile independent company, we employ a range of funding sources, including debt, equity, operating cash flow and portfolio management.

We continue to have strong operating cash flow and a well-funded balance sheet. At 31 December 2013, we had US$1.22 billion of operating cash flow and net debt (excluding finance leases) of US$739 million.

Working responsibly

Working responsibly is important to us. We are committed to ensuring Afren is recognised as a responsible organisation with high standards of corporate responsibility performance.

Maintaining these standards will ensure the business grows successfully for the benefit of all stakeholders, whose concerns and aspirations we must understand if we are to develop long-term successful relationships.

KPIs	Risk
Net effective working interest production 47,112 (boepd)	Effective portfolio management is a critical task that seeks to mitigate the risks associated with the various assets within the portfolio either to access attractive opportunities through acquisition or to divest where, for example, exploration or operating risks are deemed unacceptable. Acquisitions and divestments are the subject of detailed risk assessments in the same way as for other projects and cover issues such as geology, reservoir, production facilities, financial exposure and, where relevant, wider aspects such as the integration of people and management systems. **For more information see:** P30
Reserves replacement ratio (three-year average) 580 (%) **Net effective working interest production** 47,112 (boepd)	By taking a focused view on exploration and appraisal risks we have been able to successfully grow our reserves. The checks in the system are our rigorous third party reviews of our reserves cases that prevent over-statement of our position. **For more information see:** P30
Reserves replacement ratio (three-year average) 580 (%) **Net effective working interest production** 47,112 (boepd) **Operating cash flow** 1,216 (US$million)	Production operations come with a wide range of risks, both subsurface, associated with reservoir and well performance, and above ground in respect of the processing, storage and export of oil. We have complex systems in place to mitigate these various risks, such as our EHSS management system, well planning and engineering and reservoir modelling. Critical to mitigating risks in this area are our close working relations with our key contractors providing drilling, operations and maintenance services. **For more information see:** P30
Operating cash flow 1,216 (US$million) **Normalised operating cost per barrel** 14.0 (US$/boe)	Ensuring operational efficiency is at the heart of managing our field delivery risk and affects all aspects of our operations from executing seismic surveys to drilling and development projects to production operations. We manage these diverse risks by carrying out detailed project risk assessments. Financial discipline has traditionally been one of the main focuses of business risk management and is deeply embedded in our culture. **For more information see:** P30
Total Recordable Incident Rate (TRIR) and Lost Time Injury Frequency (LTIF) (Incidents per million man hours worked) 2.52 TRIR 1.05 LTIF	It is critical to our licence to operate and future new business opportunities that we continue to meet high standards of corporate responsibility performance. Throughout 2014 we will further enhance our monitoring and reporting on these issues to demonstrate to our stakeholders that we are effectively managing risks in this important area. **For more information see:** P30

KPIs (Key Performance Indicators)

How we measure our progress

We measure our progress through five KPIs that are closely aligned with delivering our strategy.

Delivering against our strategy

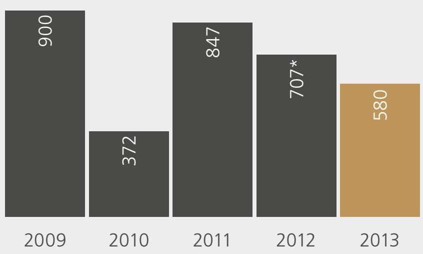
- Portfolio management
- Reserves growth
- Production growth
- Operational efficiency and financial discipline
- Working responsibly

For more information see: P22

Reserves replacement ratio

580%

(%)



Measure and performance

580%

(2012: 707%*)
3 year average, 2P reserves only

Delivering on our strategy

Definition
The ratio of the number of barrels of oil equivalent discovered compared with the number produced over a three year period.

Relevance
An indicator of our ability to replenish reserves through the success of our E&A programme.

Progress
Our successful E&A campaign at Okwok has resulted in net 2P additions in the year of 26.4 mmbbls. In addition, the extension to cost recovery at Ebok has increased net entitlement by 8 mmbbls.

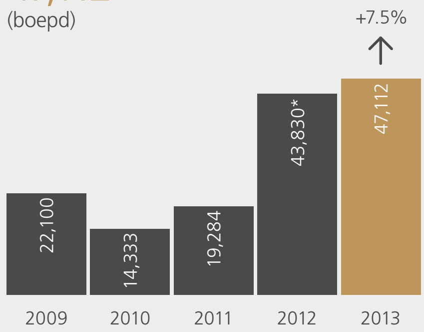
Outlook
The ongoing E&A campaign at Ain Sifni, Kurdistan region of Iraq and at OPL 310, offshore Nigeria is expected to further grow our reserves resources base in 2014.

Risk management
Exploration risks are managed through our wide portfolio of assets, with each asset being subject to rigorous peer review and detailed evaluation of prospects. In addition, the Directors will continue to consider materially accretive acquisitions to supplement organic reserves growth, if deemed appropriate.

Net effective working interest production

47,112

(boepd)



Measure and performance

47,112boepd

(2012: 43,830* boepd)
+3,282 boepd (7.5%) year-on-year increase
*restated to include all of FHN's working interest production from OML 26, following consolidation of FHN. Previously, Afren's interest in FHN's working interest production was included on the Associate accounting basis.

Delivering on our strategy

Definition
Our share of oil and gas production during the year.

Relevance
An indicator of our production growth from existing assets, and the impact of organic and acquired reserves growth on production in the year.

Progress
Net production has been primarily influenced by increased production from the Ebok and Okoro fields in Nigeria.

In July 2013 Afren commenced preliminary crude oil sales from the Barda Rash PSC. Gross production at the field averaged 639 bopd during 2013.

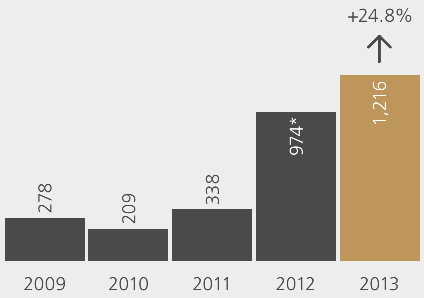
Outlook
The Group maintains a strong base from which it will continue to produce in 2014, whilst continuing the development of the Ebok (and after taking into account the effect of cost recovery in 2014), Okoro, Okwok, OML 26 and Barda Rash assets to achieve production growth going forward.

Risk management
The in-depth geological understanding of our assets and close monitoring and planning of production performance helps us guard against unplanned interruptions and to maximise production.

Operating cash flow

1,216

(US$ million)



Measure and performance

US$ 1,216m

(2012: US$974 million*)
+US$242 million (24.8%) year-on-year increase

Delivering on our strategy

Definition
Cash flow in the year before taking into account movements in respect of capital expenditure and other investments in our E&E and production assets, and financing activities.

Relevance
An indicator of our efficiency in generating cash from the operating profits of the business.

Progress
The Group's strong operating cash flow is driven by production growth from Ebok and Okoro during the year. Favourable working capital movements offset higher taxes paid in 2013 compared to 2012.

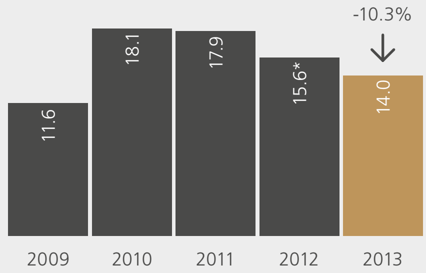
Outlook
Current production levels and growth projects will ensure strong cash flow in the future, although our net equity share of production will be reduced by cost recovery at Ebok.

Risk management
Tight controls over expenditure and detailed monitoring of cash flows enable us to ensure positive cash generation from our operating activities.

Normalised operating cost per barrel

14.0

(US$/boe)



Measure and performance

US$14.0/boe

(2012: US$15.6/boe*)
-US$1.6/boe (10%) year-on-year decrease

Delivering on our strategy

Definition
The normalised operating cost per field divided by the total boe produced in the period. Normalised operating costs exclude profit shares, one-off items and include finance lease and costs.

Relevance
An indicator of the efficiency of our production in the period.

Progress
The decrease reflects the efficiencies from further production growth at the Ebok and Okoro fields within an environment of strong cost control.

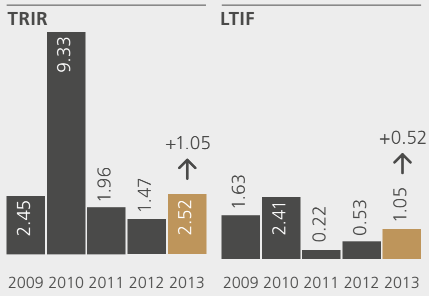
Outlook
Whilst we expect a certain level of operating cost increases year-on-year, our continuous focus on operational efficiency is expected to enable us to maintain a consistent cost per unit in 2014.

Risk management
Budgets are set on an annual basis and these are continually monitored throughout the year to identify and eliminate the cause of potential cost over-runs. Our operations team are challenged to identify and implement areas of efficiency in the production process.

Total Recordable Incident Rate (TRIR) and Lost Time Injury Frequency (LTIF)

(Incidents per million man hours worked)

2.52 TRIR 1.05 LTIF



Measure and performance

2.52TRIR 1.05LTIF

(2012: 1.47 TRIR, 0.53 LTIF)

Delivering on our strategy

Definition
The number of lost time or recordable incidents (the total of fatalities, lost time, restricted workcase, and medical treatment cases) per million man hours worked.

Relevance
Both KPIs are a direct measure of safety performance and have well-established benchmarks within the oil and gas industry, in particular as published annually by the Oil and Gas Producers Association (OGP).

Progress
2013 was a busy operational year across our three business units. Our activities during the year were focused on reinforcing the awareness and implementation of our safety management system and working with our contractors to adopt our high standards. It proved to be a challenging year with increases seen in both the Total Recordable Incident Rate and Lost Time Injury Frequency.

Outlook
In 2014, we will intensify our efforts to reduce the frequency of recordable and lost time incidents in all our areas of operation. In particular, we will continue to work closely with our contractors to ensure our values and standards are reflected in their workforce. We will also focus on recording and analysing near misses and high potential incidents, both of which will provide opportunities to identify improvements to our systems that may prevent future harm.

Risk management
We will be widening our reporting on health and safety performance in line with the IPIECA guidelines to cover issues such as process safety and occupational illness.

* Restated 2012 numbers – Refer to notes 5.1 and 5.15 of the Group Financial Statements

Performance metrics

We also use a number of performance metrics to help us monitor our progress.

Delivering against our strategy

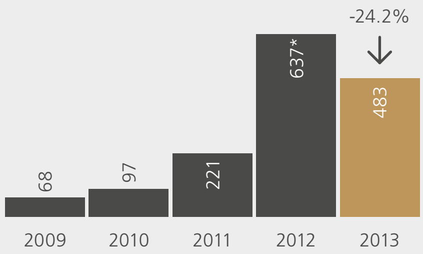
- Portfolio management
- Reserves growth
- Production growth
- Operational efficiency and financial discipline
- Working responsibly

For more information see: P22

Normalised profit before tax

483

(US$ million)



Measure and performance

US$483m

(2012: US$637 million*)
+US$154 million (24%) year-on-year decrease

Delivering on our strategy

Definition
Profit for the year from continuing operations adjusted to remove costs in respect of one-off and non-trading related items.

Refer to note 2.4 of the financial statements for a reconciliation between normalised profit before tax and the before tax reported profit under an IFRS basis.

Relevance
An indicator of operational and financial performance in the year, with one-off and non-cash items removed.

Progress
Normalised profit before tax has decreased by 24%, reflecting higher DD&A charges and royalties resulting from incremental production increases and post cost-recovery amounts due to other participants in the Ebok field.

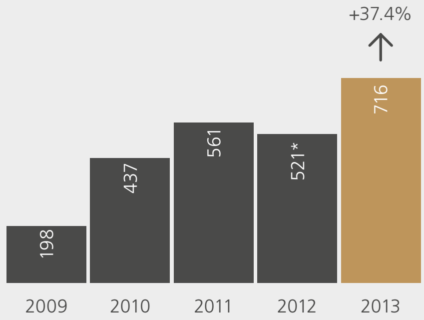
Outlook
Assuming oil prices remain at their current level, our production outlook is expected to enable the Group to remain profitable.

Risk management
Continued profitability can be achieved through the effective implementation and execution of Afren's strategy and business plan.

Capital expenditure

716

(US$ million)



Measure and performance

US$716m

(2012: US$521 million*)
+US$195 million (37%) year-on-year increase

Delivering on our strategy

Definition
Capital expenditure in the year, excluding acquisitions, finance leases and capitalised interest costs.

Relevance
An indicator of our investment in exploration and development.

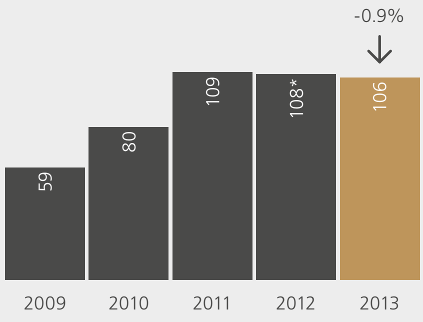
Progress
We have continued the development of the Ebok field as well as investing in the development of Barda Rash and Okoro.

The Group has also maintained its ongoing investment in appraisal and exploration activities in Nigeria, Ghana, East Africa and on Ain Sifni.

Outlook
We will continue to invest in both development and exploration in 2014.

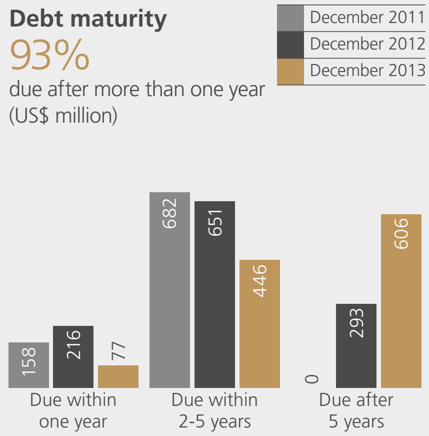
Risk management
Project finances are closely monitored against capital expenditure budgets to ensure that expenditure is focused on value-adding projects and that overruns are minimised.

Realised oil price
106
(US$/bbl)



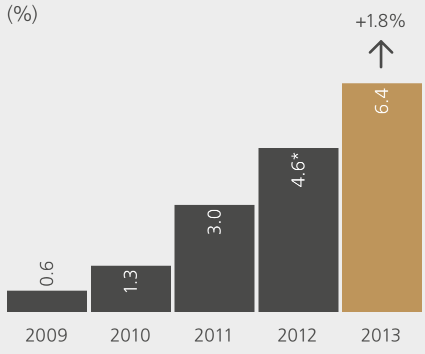
Measure and performance
US$106/bbl
(2012: US$108/bbl*)
-0.9% year-on-year decrease

Debt maturity
93%
due after more than one year
(US$ million)



Measure and performance
93%
December 2013: 93% of debt due after more than one year
December 2012: 81% of debt due after more than one year
December 2011: 83% of debt due after more than one year

Staff turnover
6.4
(%)



Measure and performance
6.4%
(2012: 4.6%*)
+1.8 ppts year-on-year increase

Delivering on our strategy

Definition
The average price achieved, per bbl, through sales of oil made during the period.

Relevance
Strongly linked to financial performance, in particular our revenue earned.

Progress
The hedging policy of the Group is to protect its minimum cash flow requirement in a period of a sustained downturn in oil prices.

Oil prices held at a broadly similar level to those observed during 2012. During the year, the Group realised an average oil price of US$106/bbl.

Outlook
The key driver to realised oil price is the underlying Brent price, which is subject to macro economic volatility.

Risk management
We will continue to manage exposure to oil price volatility through the use of hedging instruments to protect against downside risk.

Delivering on our strategy

Definition
The maturity of our borrowings and other debt facilities.

Relevance
An indicator of the maturity of our capital structure, future commitments and financial flexibility.

Progress
In 2013, the Group has successfully managed to extend the maturity of its liabilities and lowered the cost of borrowing.

Outlook
We will continue to review our capital structure to further optimise our sources of funding and to fund future growth.

Risk management
Future cash requirements are monitored against the production curve and operational and capital expenditure needs.

Delivering on our strategy

Definition
The rate at which staff choose to leave Afren voluntarily.

Relevance
Can result in shortage of key skills, loss of knowledge, high recruitment and transition costs.

Progress
Slight increase year on year. Work underway to enhance employee engagement to ensure Afren remains an employer of choice.

Outlook
The industry continues to face skills shortages and fierce competition for talented staff. Retention is a key issue.

Risk management
Monitoring industry reward levels. Implementation of creative reward initiatives to aid retention of high-performing employees.

* Restated 2012 numbers – Refer to notes 5.1 and 5.15 of the Group Financial Statements

Risk management process

"Strong risk management processes are critical to our future success and are integral to our way of doing business."

Peter Bingham,
Chairman of Audit and Risk Committee

Strengthening risk management to improve business performance

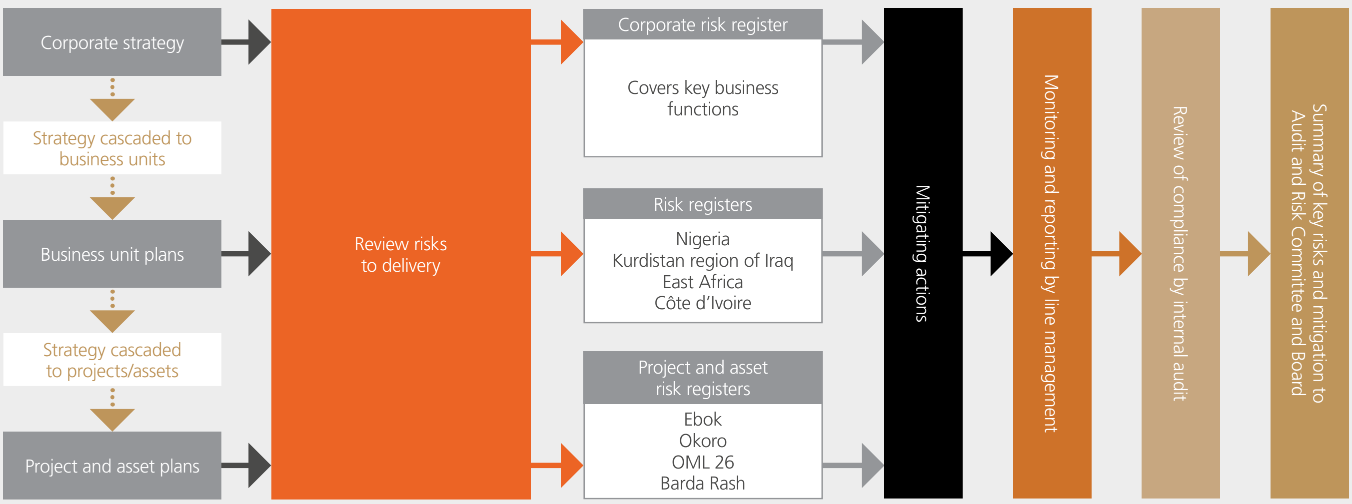
In 2013 we completed three major initiatives to further strengthen Afren's risk management practices. First, Afren established an internal audit function to work closely with the Audit and Risk Committee, to provide assurance that we have established and implemented business controls in the key risk areas. In establishing audit plans, we will prioritise work by level of risk, and so the business risk and internal audit function will work closely, particularly in ensuring that effective controls are in place in areas of high risk.

Continuing from 2012, the second initiative was a detailed examination of field delivery risk and exploration risk, the key operational risks. A small multi-disciplinary team carried out the work, which included internal audit and an assessment of the main components of field delivery risk – drilling, development projects and production operations. Within each area they looked in more detail at specific risk areas such as organisation and competence, planning, contracting and procurement, financial controls and operational execution. They did the same for exploration risk. For each specific risk they recorded the controls in place following industry best practice, and noted any KPIs used for monitoring performance. The review provided assurance to the Audit and Risk Committee that the business functions are adopting appropriate controls for the Group's exposure in these areas. As a follow up they will be auditing specific controls to ensure they are implemented to suitable breadth and depth.

The third key initiative was to conduct an internal audit on the business risk management function within Afren. This compared Afren's risk management process with recognised national and international standards and then checked if the system was implemented by the documented procedure. The audit concluded that the existing procedure compared favourably with the most prominent risk management standards (UK Institute of Risk Management and the International Risk Management Standard ISO 31000:2009). The audit made several recommendations for consistent implementation of the business risk management system. We are currently addressing these with help and advice from KPMG's Enterprise Risk Management team. We intend to have completed the recommendations by mid 2014.

We continued to monitor the risks to the business closely during 2013, with the main focus remaining on the effective execution of exploration and production operations. This will carry on into 2014 with the installation and commissioning of new facilities in Ebok and Okwok, development work at Okoro, consolidation of our operations in Kurdistan, and the start of exploration drilling in East Africa. In 2014, we will continue to monitor and assess the emerging risk landscape including the critical areas of business conduct, anti-bribery and corruption.

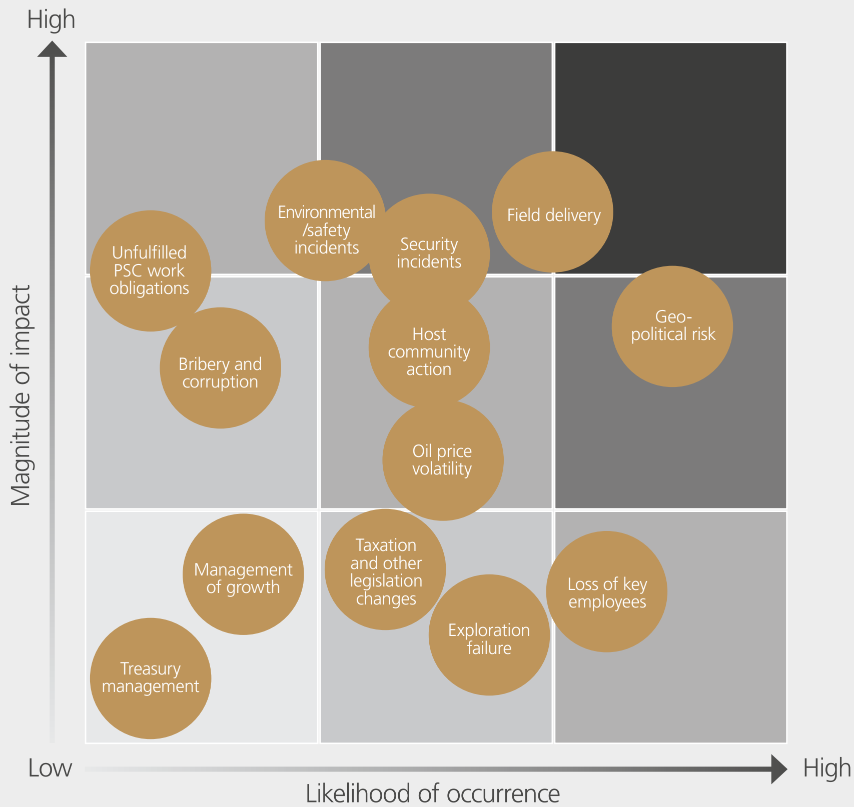
Process for ongoing risk management



Risk management roles and responsibilities

Board	The Board has ultimate responsibility for risk management. This responsibility encapsulates an understanding of the key risks, recognition and oversight of the measures in place to manage risks and acceptance of the residual risks. Any areas where the Board is uncomfortable with the risk exposure are investigated further, to ensure that either additional controls are implemented to reduce the risk to an acceptable level, or if not possible, that the activities giving rise to the risk are curtailed.
Audit and Risk Committee	The Audit and Risk Committee oversees the business risk management system and regularly reviews the corporate risk register, to ensure it reflects the key risk areas of the business and that controls are in place to mitigate risks. The other important role of the Committee is to ensure we audit key controls as necessary, to provide assurance that they are effective in mitigating risk.
Executive Directors	The Executive Directors are responsible for ensuring they fully understand the key risks within their remit and that mitigating measures are in place. The Chief Executive is generally responsible for strategic risks, with the Chief Operating Officer overseeing the majority of the field delivery and exploration risks and those associated with environment, safety, community and security. The Group Financial Director is responsible for finance-related risks including treasury management, taxation and hedging.
Business unit and asset managers	Within Afren's operating business units, risk management is everyone's responsibility, but particular responsibilities lie with the business unit and asset managers. They should ensure the specific country and asset risks are communicated effectively to both the local workforce, who then implement the mitigating measures, and to senior management, to ensure risks are appropriate for the corporate strategy and risk appetite.
Risk manager	The Risk manager is responsible for maintaining and implementing the business risk management system. The role involves reviewing and updating the risk management procedures and supporting the business to refresh and review their risks regularly. The manager works with the risk owners to ensure new and emerging risks are identified and reported to the Audit and Risk Committee in regular updates on business risks.
Audit manager	The Audit manager is responsible for the independent monitoring and assessment of internal controls based on the business risk profile. This involves preparation of a risk based Annual Plan, providing an independent review of business activities making recommendations to improve the internal control framework, and contributing to the development of risk and controls awareness throughout the organisation. The Audit manager reports directly to the Audit and Risk Committee.

What are our key risks?



Principal risks and uncertainties

During 2013 we have continued to monitor and review the following principal risks and uncertainties relating to the Group's business performance.

Key risk	Description and impact	How we manage it
Operational risk		
Field delivery risk	• Field delivery risk applies to all phases of the E&P cycle from seismic acquisition through to production operations. At each phase the mitigating measures will be different. However, failure to control risks will lead to project delays, cost over-runs, high production costs, early field decommissioning and, ultimately, lower than expected reserves. • In 2013, development continued at our producing assets in Nigeria and Kurdistan, with significant drilling campaigns in Ebok and Barda Rash, and the engineering and fabrication of the new Ebok Central Fault Block extension platform. • During 2014, we will closely manage the installation, hook-up and commissioning of the new Ebok facilities, to ensure safe operations and to minimise any impact on production.	• All operations are subject to risk reviews, to identify as early as possible any potential risks to success. • Our engineers analyse results from appraisal and development wells, and determine the appropriate course of action for the drilling programme and facility design. • We closely monitor all projects to ensure they go to plan and so we can take action to maintain progress. • We monitor project finances alongside their budget to minimise over-runs. • We monitor production operations closely to ensure we minimise unplanned downtime and control operating costs tightly. • We compare actual production regularly to forecast production.
Exploration failure	• Exploration activities can be capital intensive and may involve a high degree of risk. Sustained exploration failure will affect the Group's growth potential. • In 2013, we achieved world-class exploration success. The highlight of the year was the discovery at Ogo, offshore Nigeria, the third largest discovery in 2013.	• Exploration assets are subject to a rigorous peer review process. • We evaluate exploration risk for each prospect by looking in detail at how to de-risk the key elements of the subsurface data, source rock, reservoir, trapping and seal mechanisms. We subsequently rank prospects and approve budgets.
Environmental or safety incidents	• As Afren's activities continue to expand there is a continuing focus on preventing major pollution or loss of life due to failure of systems, equipment or human action.	• We have implemented comprehensive EHSS management systems based on best industry practice, at both corporate and country level, with an annual independent audit programme to ensure effective implementation. • Afren oversees its contractors closely to ensure they accept and meet our EHSS standards. • Specific EHSS teams in each area of operation. • Contingency plans in place and tested regularly.
Unfulfilled work or PSC obligations	• Loss of production interest or exploration licence due to incomplete fulfilment of work or PSC obligations.	• The operations, finance and legal teams jointly monitor compliance with licence obligations. • We maintain good, open working relationships with local governments in the countries of operation.
External risk		
Geo-political risk	• The countries in which Afren operates continue to face political, socio-economic and legal uncertainties. • 2013 has seen political tensions in all of the areas in which we operate and these continue to be closely monitored to minimise the impact on our operations. • Disputes between the Iraqi and Kurdistan authorities over licences and oil exports continue to pose uncertainties for all E&P companies operating in the Kurdistan region of Iraq.	• Through close liaison in each relevant country, we monitor the situation from the perspective of our safety and security. • Contingency plans in place and tested regularly. • Through our contacts in governments and industry, as well as though specialist advisors, we continuously monitor and evaluate the potential impacts on our business arising from changes in the geo-political environment.
Security incidents	• Afren continues to operate in regions where kidnapping, piracy and criminal attacks occur.	• Security teams in each area of operation. • Rigorous security management programme. • Security risk assessments for each asset and operation.
Oil price volatility	• Oil prices can fluctuate significantly.	• We will protect our minimum cash flow requirements in a sustained downturn in oil prices. • Group strategy is to hedge between 25-35% of production through financial instruments that allow us to protect the risk.
Host community action	• Our operations both on and offshore have the potential for interruption by our host communities if relations are not well established. • We have continued our close relationships with our host communities and have seen no community action against our operations in 2013.	• Afren has a tried and tested system for managing community affairs, which is applied to all operations. • Community affairs teams are in place where required. • Contingency plans in place and tested regularly.

Delivering against our strategy

- Portfolio management
- Operational efficiency and financial discipline
- Reserves growth
- Working responsibly
- Production growth

For more information see: P22

KPI/Performance metric	Strategic priorities	Responsibility	See also	Change	Assessment
• Net effective working interest production • Capital expenditure • Operating cost per barrel		Chief Operating Officer	Operations review	Increase. Field delivery risks in 2014 will remain high as a consequence of the installation and commissioning of the new Ebok and Okwok facilities.	High
• Reserves replacement ratio • F&D cost		Technical Director	Operations review	No change. We continue to rigorously assess exploration risks and to rank prospects accordingly.	Medium
• LTIF • TRIR • Number and volume of spills		Head of EHSS	Corporate responsibility	Increase. We will mitigate the increased risks posed by the installation and commissioning of new facilities by effective planning, monitoring and supervision.	High
• Work plan and budget		Chief Operating Officer	Operations review	No change. We maintain close working relations with relevant ministries and monitor compliance with licence conditions.	High
• Civil or political unrest		Country MDs	Operations review	No change. We will continue to monitor geo-political risks at the regional and local level.	High
• Security incidents		Head of EHSS	Corporate responsibility	No change. We will maintain robust security programmes across all operations.	High
• Realised oil price		Group Finance Director	Finance review	No change. We will continue to hedge in line with current Group strategy in order to protect against significant downturns in oil prices	Medium
• Host communities incidents • CR spend		Head of EHSS	Corporate responsibility	No change.	High

Principal risks and uncertainties continued

Key risk	Description and impact	How we manage it
Strategic risk		
Bribery and corruption	• As an international oil and gas operator, bribery and corruption represent an ongoing risk to our business.	• Afren has implemented a Code of Business Conduct and Anti-Bribery and Corruption Policy across all its operations. We will be updating them in 2014, and will accompany this with a further round of training for the Board, all employees and key contractors. • We continued to review our anti-bribery and corruption practices during 2013. • We have established an independent whistle-blowing hotline to enable concerns about poor practice to be voiced without fear of reprisal. • We review and update specific Anti-Bribery and Corruption policies and procedures annually and quarterly respectively, to meet the stringent requirements of the UK Bribery Act as well as the UK Ministry of Justice Guidance. • We provide new starters and existing employees with training on anti-bribery and corruption as part of the induction process and as an ongoing programme. • We provide quarterly updates to the Audit and Risk Committee regarding anti-bribery and corruption, including any whistle-blowing reports and their subsequent resolution.
Management of growth	• We have continued to develop and consolidate our management systems, to take into account the changing needs of a growing organisation. Management of growth is a reducing risk.	• All acquisitions are subject to thorough due diligence, to create an effective integration plan. • We design remuneration policies to incentivise, motivate and retain key employees as well as to attract new personnel as required.
Loss of key employees	• Loss of knowledge and skills to the Group, in particular in countries of operation. • Intensified competition for human talent in Africa and the Middle East. • As the Group has expanded so have the strength and depth of senior management. Loss of key personnel reduces as a risk as Afren continues to grow, and is also mitigated by our remuneration policies.	• We consider succession planning Group-wide, taking into account the development of the executive and senior management. • We design remuneration policies to incentivise, motivate and retain key employees including Directors. • We set salaries and reward of senior executives, including Directors, at competitive levels using third-party benchmarks.
Financial risk		
Taxation and other legislation changes	• There is a risk that future changes in tax regimes and other legislation may impact our profitability.	• Our financial and legal teams monitor current legislation and proposed changes and incorporate these into our working practices. • Maintenance of good, open working relationships with local authorities in the countries of operation. • Involvement with industry groups in the country of operation to discuss sector issues.
Treasury management	• The availability of financing to maintain the ongoing operations of the business is key.	• The Group continued to optimise its capital structure during 2013 and successfully extended its debt maturity and lowered its cost of debt. • We continue to manage our expenditure and monitor cashflow to ensure that future cash requirements are appropriately controlled.

Delivering against our strategy

- Portfolio management
- Operational efficiency and financial discipline
- Reserves growth
- Working responsibly
- Production growth

For more information see: P22

KPI/Performance metric	Strategic priorities	Responsibility	See also	Change	Assessment
• Number of whistle-blowing incidents • Number of reportable fraud incidents		Group General Counsel	Business ethics	No change. We recognise the perceived risk to our business from bribery and corruption and during 2014 will re-issue and retrain all personnel on the requirements of our Code of Business Conduct and Anti-Bribery and Corruption Policy and procedures.	Medium
• Staff turnover • Inability to recruit for key positions		Chief Executive	Human Resources	No change. We will continue to closely monitor our KPIs to confirm that this risk remains low.	Low
• Staff turnover		Head of HR	Human Resources, Directors' remuneration report	Increase. We have seen an increase in staff turnover in 2013 and will be actively engaging with employees in 2014 to mitigate this trend.	Medium
• Effective tax rate		Group Finance Director	Financial review	No change. We will continue to actively monitor potential changes in tax regimes that may impact our business.	Medium
• Liquidity		Group Finance Director	Financial review	No change.	Low

Financial review

"We achieved record financial results in 2013, with sales revenue of circa US$1.64 billion and operating cash flow of over US$1.2 billion. In 2014 we will allocate our internally generated capital to the highest return projects and continue to deliver sustainable shareholder value."

Darra Comyn
Group Finance Director

Delivering against our strategy

- Portfolio management
- Reserves growth
- Production growth
- Operational efficiency and financial discipline
- Working responsibly

For more information see: P22

Financial highlights

Performance

Turnover

US$1,644 million

+5%

(2012: US$1,571 million*)

Realised oil price

US$106 per barrel

-2%

(2012: US$108 per barrel*)

Gross profit for the year of

US$643 million

-19%

(2012: US$791 million*)

Profit after tax for the year from continuing operations

US$475 million

+251%

(2012: US$189 million*)

Normalised profit before tax**

US$483 million

-24%

(2012: US$637 million)

Cash flow

Cash flow from operations

US$1,216 million

+25%

(2012: US$974 million*)

Oil and gas additions in the year

US$716 million

(2012: US$521 million*)
(excluding finance leases and the acquisition of the interests in Barda Rash and Ain Sifni in 2012; excluding capitalised interest)

Debt repayments

US$510 million

Outstanding principal

US$1,153 million

(excluding unamortised issue costs)
(2012: repayments of US$253 million; outstanding principal of US$1,189 million)

Financial position

Cash position

US$390 million

-35%

(2012: US$599 million)

Net debt (excluding finance leases)

US$739 million

(2012: net debt of US$561 million)

93%

debt due for repayment after more than one year (2012: 81%)

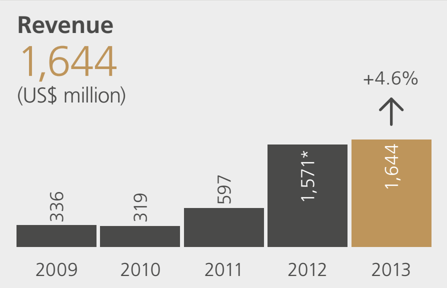
Gearing at 31 December 2013

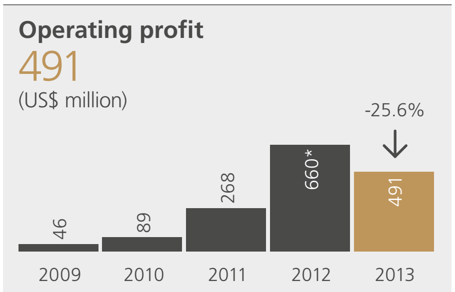
41%

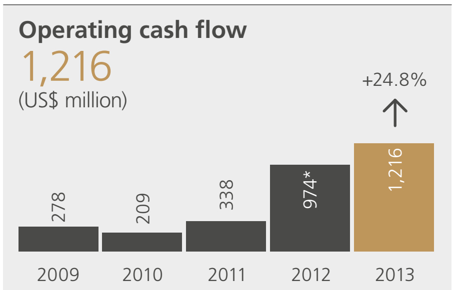
(2012: 39%)

* Restated 2012 numbers – Refer to notes 5.1 and 5.15 of the Group Financial Statements
** From continuing operations. Refer to note 2.4 of the financial statements for reconciliation to statutory profit before tax.

Financial review continued







* Restated 2012 numbers – Refer to notes 5.1 and 5.15 of the Group Financial Statements

1. Result for the year

Strategic alignment

Revenues

Revenue for 2013 was US$1,644 million, an increase of 4.6% from 2012 (2012: US$1,571 million). The increase arises principally from increased production from the Ebok field, which contributed US$1,320 million compared to US$1,154 million in 2012.

Working interest production for the year was approximately 47,112 boepd, compared to 43,830 boepd in 2012, principally driven by the year-on-year increase in net production from the Ebok and Okoro fields.

In 2013, the Group realised an average oil price of US$106/bbl (2012: US$108/bbl), before all royalties. The average Brent price for the period was US$108/bbl (2012: US$111/bbl).

Gross profit

Gross profit from continuing operations for the year was US$643 million, a decrease of 19% on the prior year (2012: US$791 million), the decrease principally reflecting provisions made for residual net profit interest due on our fields.

The DD&A charge for oil and gas assets, which reflects levels of production and estimates of future capital commitments, was US$404 million, an increase of 7% on the prior year (2012: US$377 million).

The timing of liftings led to a decrease in crude oil stock at the year end, therefore resulting in a charge for stock adjustment of US$9 million, compared with a credit of US$7 million at 31 December 2012. Movements in overlift and underlift balances resulted in a credit to cost of sales of US$33 million, compared to a charge of US$26 million in 2012, reflecting the movement from an overlift to underlift position.

The Group achieved a normalised operating cost of US$14.0/boe. The decrease from 2012 (US$15.6/boe) reflects efficiencies generated from increased production at Ebok and Okoro. Normalised cost per barrel excludes costs and production from the Barda Rash field and certain one-off expenses (including fees in respect of certain licence arrangements and the costs of projects which are not directly related to production operations) and DD&A. All other field costs are included on an annualised basis.

Tax

An income tax credit for the year of US$157 million (2012: income tax charge of US$380 million) includes changes arising from the award of a five-year tax exemption obtained by the company holding the Ebok asset. The tax credit includes reversal of prior year current tax and deferred tax provisions of US$381 million, following the receipt of confirmation that the tax exemption will apply from mid-2011 to mid-2016.

The effective tax rate for the Group's other producing assets remained consistent with 2012.

Taxes borne and paid in 2012 and 2013

2012	Government royalties (US$m)	Corporate income tax (US$m)	Payroll, duties and other taxes (US$m)	Total taxes borne (US$m)	Taxes collected and paid on behalf of third parties (US$m)	Total tax paid (US$m)
Nigeria	183	11	–	194	39	233
Other West Africa	–	–	1	1	–	1
East Africa	–	–	2	2	–	2
Kurdistan region of Iraq	–	–	–	–	–	–
UK and USA	–	–	3	3	10	13
Total	**183**	**11**	**6**	**200**	**49**	**249**

2013	Government royalties (US$m)	Corporate income tax (US$m)	Payroll, duties and other taxes (US$m)	Total taxes borne (US$m)	Taxes collected and paid on behalf of third parties (US$m)	Total tax paid (US$m)
Nigeria	271	58	9	338	62	400
Other West Africa	–	–	2	2	–	2
East Africa	–	–	3	3	–	3
Kurdistan region of Iraq	1	–	–	1	–	1
UK and USA	–	–	4	4	9	13
Total	**271**	**58**	**18**	**348**	**71**	**419**

In addition, the Group pays other taxes, in the form of royalties, withholding taxes and non-recoverable VAT, locally in the areas in which it operates. In 2013, these amounted to US$419 million (2012: US$249 million), as detailed in the table on page 36.

Finance charges and financial instruments
Finance costs for 2013 were US$157 million (2012: US$91 million). US$49 million of the increase in finance charges relates to the cost of the partial repurchase of the 2016 and 2019 Bonds which was completed in December 2013. The repurchase was funded by the issue of US$360 million 2020 Bonds, with a coupon of 6.625%, which reduces the expected future Group borrowing costs. The Group capitalised US$42 million of finance charges in the year, largely relating to the development of the Barda Rash field which has been financed using part of the Group's Bond proceeds (2012: US$59 million).

During the year the Group recognised a loss from derivative financial instruments of US$47 million (2012: US$60 million). US$31 million of the loss related to crude oil hedging contracts, which comprises a realised loss of US$42 million relating to the premiums paid on the hedging instruments and unrealised gains of US$11 million reflecting the position on these hedging instruments compared with the oil price outlook as at 31 December 2013 (2012: realised loss of US$40 million, unrealised loss of US$20 million). A further mark to market loss of US$15 million was recorded, relating to an interest rate swap which swaps a proportion of our fixed rate debt into floating rate by linking interest payments to the performance of certain indices.

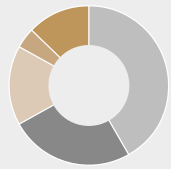
Profit for the year
Profit before tax from continuing operations for the year ended 31 December 2013 was US$318 million (2012: US$569 million). Normalised profit before tax from continuing operations was US$483 million (2012: US$637 million). Normalised profit before tax is reconciled to statutory profit before tax in note 2.4 of the financial statements.

The impairment charge on oil and gas assets of US$61 million (2012: US$15 million) relates to the write-off of costs of Kenya Block 10A, which is to be relinquished, and the Group's share of the cost of Kola-1 and Kola-2 wells at La Noumbi, which were drilled during the year and assessed as commercially unsuccessful. A further impairment has been charged in relation to La Noumbi following the partnership's agreement to a 50% relinquishment on the block.

Profit for the year is also stated after the recognition of US$27 million loss from joint ventures, which principally relates to the impairment of Afren's interest in JDZ following the decision to withdraw our participation from the JDZ Block 1.

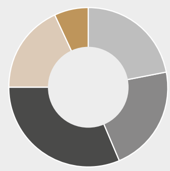
December 2012 debt profile

2016 Notes	42%
2019 Notes	25%
2020 Notes	0%
Ebok facility	16%
Corporate facility	4%
FHN facilities	13%



December 2013 debt profile

2016 Notes	22%
2019 Notes	22%
2020 Notes	31%
Ebok facility	18%
Corporate facility	0%
FHN facilities	7%



2. Financing and capital structure

Strategic alignment

Operating cash flow

Operating cash flow before movements in working capital was US$1,005 million (2012: US$1,108million). After movements in working capital, which included advances and payments to Partners, and tax payments of US$58 million (2012: US$12 million), net cash generated by operating activities was US$1,216 million (2012: US$974 million).

The Group's strong operating cash flow is driven by annual production from Ebok and Okoro. This cash has principally been used to fund the Group's continued investment in its development, exploration and appraisal activities, and the acquisition of additional equity in FHN.

On achievement of the five-year tax exemption relating to the Ebok field, we agreed to make a payment of US$300 million in order to amend the structure of our partnership on the asset. This payment helped to secure additional cost recovery and future tax benefits relating to the rights to available capital allowances.

Financing

In December 2013, the Group successfully completed a third Bond issue, facilitating an extension of the maturity of its liabilities and reducing the cost of its debt. The proceeds from the new issue were US$360 million, before issue costs, and were used to repay US$246.6 million of the 2016 Bonds and US$50 million of the 2019 bonds. The coupon on the new 2020 Bond is 6.625%, a significantly lower rate than on the 2016 and 2019 Bonds. All three Bonds in issue are listed on the Luxembourg Stock Exchange.

Gross debt at 31 December 2013 was US$1,129 million which includes the 2016, 2019, and 2020 Bonds, the Ebok reserve-based lending facility, and other corporate facilities, excluding finance leases (2012: US$1,160 million).

Loan repayments in the period, excluding payments in respect of finance leases, were US$510.4 million reflecting part settlement of the 2016 and 2019 Bonds, early redemption of the FHN convertible loan note (US$62.5 million), repayment of the FHN acquisition and development facility (US$101.3 million), and repayment of the Group corporate facility (US$50.0 million). Cash at bank at 31 December 2013 was US$389.9 million, resulting in net debt (excluding finance leases) of US$739.2 million (2012: cash of US$598.7 million; net debt of US$561.3 million).

Financing outlook

In February 2014, the Group refinanced its OML 26 facility and replaced it with a new US$100 million facility.

3. Development, appraisal and exploration activities

Strategic alignment

Exploration and appraisal

The Group's investment in exploration and appraisal activities has continued during 2013, with expenditure of US$260 million in the period (2012: US$189 million, excluding amounts relating to the Okoro Further Field Development which were transferred to development assets in the year).

As shown in the chart below, the main areas of expenditure were Nigeria (mainly US$62 million on Okwok, and US$72 million on OPL310 where the Ogo-1 well was drilled), and Ain Sifni in the Kurdistan region of Iraq (US$44 million). Exploration outside of these areas related to ongoing seismic and pre-drilling studies across the Group's East African exploration portfolio.

As noted previously, write-offs in respect of unsuccessful exploration costs were incurred in respect of two wells drilled on the La Noumbi licence in Congo Brazzaville. Cumulative costs incurred on Kenya Block 10A were also written-off, along with the Group's investment in the JDZ Block 1 joint venture, following the decision to relinquish the Group's interest in these blocks.

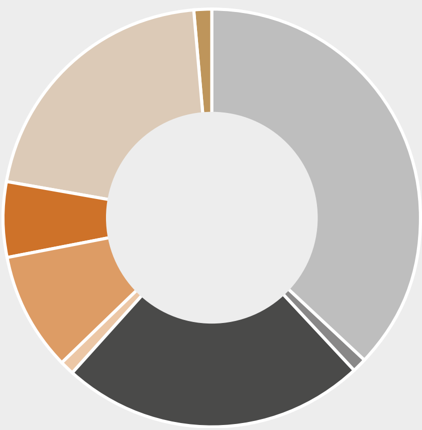
Development expenditure

Expenditure on oil and gas assets was US$457 million (2012: US$276 million), comprising the continuing development of the Ebok and Okoro fields and Barda Rash.

An additional US$108 million of payments due to Partners were capitalised relating to securing agreement for the Okoro Further Field Development and a package of related benefits to be spread over the life of the project. Payments for these costs will be spread over a number of years, starting late 2014.

Capex by area
(%)

	%
Ebok	37
Okoro	1
Barda Rash	24
OML26	1
Afren East Africa exploration	9
Kurdistan region of Iraq exploration	6
West Africa exploration	21
Other	1



4. Our commitments

Strategic alignment

The Group has operating and capital commitments as at 31 December 2013 of US$781 million (2012: US$716 million), largely in respect of rig and field equipment leases, and the Group's ongoing exploration and evaluation programmes.

5. Review of our hedging arrangements

Strategic alignment

The Group's current hedging strategy was put in place in the context of volatile oil prices during early 2011. The Group holds put options which provide minimum floor prices whilst allowing the Group to benefit from the upside in oil price movements. The premiums on the options are deferred until maturity.

At 31 December 2013, the Group held hedges covering approximately 5.2 million barrels of production between the period 1 January 2014 and 30 June 2015, with the majority of minimum floor prices on these volumes of between US$90 and US$95/bbl before premiums.

The policy of the Group is to protect its minimum cash flow requirement in a period of a sustained downturn in oil prices. As such, the minimum amount of our net entitlement we would seek to protect with these arrangements is between 25-35% of estimated production for a rolling period of 18 to 24 months forward. Based on our current outlook, the hedges above cover approximately 26% of production for 2014 and the first half of 2015.

6. Outlook

Strategic alignment

After taking into account the effect of cost recovery at Ebok in 2014, which will result in a decreased net equity share of production from the field, the Group will continue to look to fund its exploration, appraisal and development activities through its operational cash flows, prioritising capital to the highest cash return projects.

Operations review

In 2013, Afren achieved full year average net working interest production of 47,112 boepd (at the upper end of our guidance). This was driven by the continued strong production performance from our greenfield developments located offshore Nigeria, the Ebok and Okoro fields.

Notably during the year, we continued our industry-leading exploration success with the play-opening Ogo discovery at OPL 310, offshore Nigeria, one of the largest global discoveries in the year, with P50 gross recoverable resources of 774 mmboe.

Our exploration record in Nigeria over the past two years has enabled us to successfully appraise and de-risk our portfolio as we undertake an exciting programme of development at the Okoro Further Field Development, Ebok North Fault Block and Okwok, all of which will generate high-margin cash flow. These new developments should ensure that Afren achieves double-digit growth over the next five years.

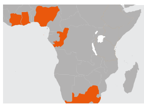
With proved plus probable recoverable reserves of 286 mmbbls, we have a stable platform for growth and continue to de-risk our material resource base.

Asset production overview

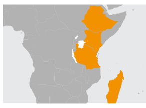
FY 2013 (boepd)	Working interest	Average gross production	Average net production
Okoro	50%	18,041	9,020
Ebok	100%/50%(1)	34,910	34,481
OML 26	45%	3,472	1,562
CI-11 & LGP(2)	47.96% & 100%	2,864	1,665
Barda Rash	60%	639	384
Total		**59,926**	**47,112**

(1) Pre/post cost recovery.
(2) Includes production volumes to 27 August 2013, the last business day before the completion of the sale of CI-11 & LGP to Petroci.
Note: All production data remains subject to reconciliation.

Nigeria and other West Africa



Afren East Africa Exploration



Kurdistan region of Iraq

Business activity key

- Exploration
- Appraisal & Development
- Production

Nigeria and other West Africa

Nigeria and other West Africa contributes the majority of Afren's production, providing valuable funding for our operational and exploration activity. Our portfolio spans the full cycle E&P value chain of exploration, appraisal and development, through to production, and is located in several of the world's most prolific and fast-emerging hydrocarbon basins.

Nigeria
Okoro

Business activity

Appraisal & Development

Production

Working interest
50%*

Owner and local Partner
Amni International Petroleum Development Ltd.

Gross 2P certified reserves
55.4 mmbbls**

2013 Gross production
18,041 bopd

Work programme
Production and development

* Working interest post cost recovery.
** Source NSAI, reserves remaining as at 31 December 2013.

Optimising production and maximising oil recovery

Production operations continue to run smoothly at the Okoro field. Following the successful discovery in early 2012, Afren and Partner, Amni International Petroleum Development Company Ltd. (Amni), commenced early development drilling at the Okoro Further Field Development. The early development well – the Okoro 14 well – continues to produce at stabilised rates of approximately 4,700 bopd.

Total gross production at the Okoro field in 2013 was 6.5 mmbbls of oil, representing a gross average daily rate of 18,041 bopd (year-on-year increase of circa 7%), and a process uptime of 98.6%. Since the start of production in 2008, the Okoro field has continued to

Strategic alignment

- Portfolio management
- Reserves growth
- Production growth
- Operational efficiency and financial discipline
- Working responsibly

For more information see: P22

perform ahead of expectations, delivering aggregate gross production volumes to end December 2013 of c.32.4 mmbbls, significantly above the original 2P scenario of 26.2 mmbbls, a remarkable achievement for our first green field development project.

During the year, the Partners commenced the Front End Engineering Design (FEED) and development plans for the fabrication of a new wellhead platform and production unit required for the full Okoro Further Field Development. The Okoro Further Field Development Well Head Platform (WHP) will be a conventional four-pile platform, with a single piece jacket and deck capable of accommodating wireline and coil tubing units. The WHP will have 12 well slots capable of holding dual trees, which would enable the platform to host up to 24 wells. The Okoro Further Field Development platform will be located close to the existing Okoro Main wellhead platform and the two will be linked by a bridge. The Partners have decided after careful deliberation to install a new Mobile Offshore Production Unit (MOPU), as close as possible to the Okoro Further Field Development WHP, which will also be linked by a bridge.

2014 outlook

The Partners expect the FEED to be completed and for the project to be sanctioned in H1 2014. The wellhead platform will be in place by Q1 2015 with development drilling commencing in Q2 2015.

18,041 bopd
Gross production

"We have entered an exciting phase of growth that is focused on optimising our portfolio and maximising value by allocating capital towards the highest cash return projects. We remain on course to deliver double-digit growth over the next five years and continue to build our exploration track record."

Iain Wright
Technical Director

Nigeria and other West Africa continued

Nigeria
Ebok

Business activity

Appraisal & Development

Production

Working interest
100%/50%*, **

JV Partner
Oriental Energy Resources Ltd

Gross 2P certified reserves
103.8 mmbbls***

2013 Gross production
34,910 bopd

Work programme
Production and development

* Working interest post recovery.
** 30% net profit interest is due to original field owners post cost recovery.
*** Source NSAI, reserves remaining as at 31 December 2013.

Continued strong production performance at the Ebok field

In 2013, the Ebok field produced 12.74 mmbbls of oil, representing a gross average daily rate of 34,910 bopd and a process uptime of 97.8%, in line with expectations.

Following the discovery in 2012, the Partners successfully drilled three production wells and one water injector well into the Ebok North Fault Block (NFB) in 2013. These wells have been tied back to the existing West Fault Block (WFB) infrastructure. The Partners also successfully drilled and brought on stream an additional production well in the WFB. The wells are currently producing at an aggregate rate of approximately 12,000 bopd.

Creating a production hub offshore south-east Nigeria

Our development strategy is to systematically bring each proven area of the Ebok field onstream and, through ongoing drilling, continue to increase reserves from the field over the coming months and years. We plan for the MOPU and Floating Storage Offloading vessel (FSO) to become a central facility, not just for the immediately surrounding Ebok structure, but also for the broader Ebok/Okwok/OML 115 area. This will facilitate low cost and rapid tie-back of production from future potential developments on the acreage.

Beneficial tax terms

During the year, the Partners significantly improved their forward cash tax position following the award of a five-year tax exemption from mid-2011 to mid-2016. The award was given in recognition of the positive contribution that independents such as Afren have made working with local indigenous operators to bring marginal offshore fields such as Ebok successfully into production.

2014 outlook

In 2014, the Partners plan to install the Central Fault Block Extension platform and to subsequently drill five production wells and two injection wells from the platform. The Partners are also looking at additional development drilling for the NFB, which will involve drilling development wells from an extended WFB platform with production through to the existing MOPU. Our forward development capex programme at Ebok reflects cost recovery being achieved in 2014 and has been accelerated in lieu of the tax award, and is expected to generate further high margin returns for the Group.

34,910 bopd
Gross production

Nigeria
Okwok

Business activity

Appraisal & Development

Working interest
70%/56%*

JV Partner
Oriental Energy Ltd., Addax Petroleum (Nigeria Offshore) Ltd.

Gross 2P certified reserves
46.6 mmbbls**

Work programme
Production and development

* 70% pre cost recovery effective working interest, 56% post cost recovery effective working interest (subject to gross volumes lifted). Once hurdle point is achieved, Afren's effective working interest becomes 35%. Hurdle point is achieved when post royalty value lifted by the parties outside of any cost recovery period is greater than US$1.2 billion.

** Source NSAI, reserves remaining as at 31 December 2013. Classified to 2P post year-end following FDP approval.

Overview

Okwok is an undeveloped oil field in OML 67, 50 km offshore in 132 ft of water and close to the Afren/Oriental owned Ebok development.

Successful appraisal drilling at Okwok-11ST

Following the successful appraisal drilling results in 2012 from the Okwok-10 appraisal well and the Okwok-10 side track well, the Partners successfully drilled one side-track well, the Okwok-11ST in 2013. The well was drilled to a total measured depth of 3,997 ft and successfully encountered 95 ft of net oil pay in the D-2 reservoir. The data acquired, together with the results of the Okwok-10 well (encountering 72 ft of net oil pay in the D-1 reservoir) and Okwok-10 side-track well (encountering 89 ft of net oil pay in the LD-1B reservoir), were integrated into the field model and used to update volumetric models and optimise a Field Development Plan (FDP), which was submitted to the Nigerian authorities prior to year end.

2014 outlook

In January 2014, the Partners received approval for the FDP for Okwok from Nigerian authorities. Consequently, Okwok has now been reclassified as a reserve, a strong endorsement of the successful appraisal work undertaken by the Partners since acquisition.

The development plan for Okwok comprises the installation of a separate dedicated production processing facility and Well Head Platform (WHP) with an export pipeline for stabilised crude oil tied back to, and sharing, the Ebok FSO located approximately 13 km to the west. The work programme for 2014 includes the finalisation of detailed reservoir models and detailed development well planning and optimisation. The partnership is looking at the option of pre-drilling at least two production wells during the second half of the year, once the wellhead jacket installation has been completed. This wellhead jacket has been fabricated and is currently in transit to the Okwok field area.

Nigeria
OML 115

Business activity

Exploration

Working interest
100%/50%*

JV Partner
Oriental Energy Resources Ltd.

Work programme
Exploration drilling

* 100% pre cost recovery effective working interest; 50% post cost recovery effective working interest.

Overview

OML 115 surrounds the Ebok and Okwok development area, where Afren is also partnered with Oriental, and is close to the giant Zafiro Complex in Equatorial Guinea. The block offers an attractive opportunity to further capitalise on our extensive knowledge of the area, exploring the same reservoirs that have already proved oil-bearing and productive at Ebok and Okwok. The southern portion of the Okwok structure (Okwok South) extends into OML 115 and additional prospectivity has already been defined within the deeper Qua Iboe, Biafra and Isongo formations. With production processing, storage and export infrastructure in place at the Ebok field, we have a readily available export route for any potential future development in the area. At the same time, we expect to benefit from cost synergies, lowering the economic threshold for potential new barrels.

2014 outlook

Following the completion of Ocean Bottom Cable 3D Seismic over the whole Ebok/Okwok/OML 115 area, Afren and its Partner, Oriental, are looking to spud the first exploration well during the latter part of 2014. The Ufon and Ameena East structures are both drill-ready opportunities and additional leads are being pursued with new seismic and advanced reprocessing projects underway.

Nigeria and other West Africa continued

Nigeria
OML 26

Business activity

Exploration

Appraisal & Development

Production

Working interest
45%*

JV Partner
NPDC

Gross 2P certified reserves
133.3 mmbbls**

Gross contingent resources
68.0 mmbbls

2013 gross production
3,472 bopd***

Work programme
Production and development

* Held through First Hydrocarbon Nigeria Company Limited (FHN), a subsidiary of Afren plc with a 78% beneficial holding.
** Source NSAI, reserves remaining as at 31 December 2012, adjusted for 2013 production.
*** Subject to final stock reconciliation.

Overview

OML 26 is located onshore Nigeria in Delta State and covers 480 km². The block has two producing fields – the Ogini and Isoko fields, both of which offer large scale upside through implementation of a phased development programme and three discovered but as yet undeveloped fields (Aboh, Ovo and Ozoro). Significant additional exploration potential has also been defined on OML 26, with estimates of 615 mmboe gross unrisked prospective resources across multiple prospects that will continue to be worked up in parallel to and integrated with development plans.

Following shareholder approval on 20 May 2013, Afren announced on 29 May that it had completed the acquisition of an additional 10.4% beneficial interest in First Hydrocarbon Nigeria (FHN) for a total consideration of US$37 million in cash. Afren now consolidates its holding of FHN's reserves and production as a subsidiary (including prior year comparatives). Its position onshore Nigeria was further strengthened in July 2013, when Afren increased its holding in FHN further by acquiring a beneficial interest in an additional 23.3% taking its total holding to 78%.

During the year, gross average production from the Ogini and Isoko fields was 3,472 bopd. Production in 2013 was affected by periodic repairs on the Trans-Forcados Pipeline and delivery lines, as well as start-up issues with the newly installed compressor. Another 5.2 mmscfd compressor was installed and commissioned in December, while the installation of two new 30 kbbls export pumps is in progress. The Lease Automatic Custody Transfer (LACT) unit has been tied-in to the Eriemu manifold and commissioning is ongoing.

The Partners submitted the Ogini FDP on 29 July 2013, and are currently awaiting approvals from the Department of Petroleum Resources. The Ogini FDP consists of the drilling of 37 production wells, executing 13 short-to-medium-term work-overs, installing a new 18" delivery line, two 50,000 bbl/d 3-phase separators, as well as water treatment and disposal facilities.

2014 outlook

The proposed work programme following approval of the FDP consists of drilling up to two new horizontal wells and one water injector well in 2014. In March 2014, the operator of the Forcados Terminal, Shell declared force majeure due to the challenges being experienced in carrying out repairs on the 48" Export Line leak.

Nigeria
OPL 310

Business activity

Exploration

Working interest
40%*

Operator
Optimum Petroleum Development Ltd.

JV Partner
Lekoil Ltd.

Work programme
Seismic acquisition, interpretation and appraisal drilling

* 40% effective economic interest post cost recovery.

Overview

OPL 310 is located in the Upper Cretaceous fairway that runs along the West African Transform Margin. Extending from the shallow water continental shelf to deep water, the block lies in an under-explored basin with a proven working hydrocarbon system. It is also in close proximity to the West African Gas Pipeline (WAGP) which allows gas discoveries to be readily developed. Detailed pre-drill evaluation of the block identified several prospects lying in the same Turonian, Cenomanian and Albian sandstone intervals that have yielded significant discoveries in Ghana and Côte d'Ivoire.

On 14 May 2013, Afren announced the completion of a farm-out agreement with Lekoil Limited, subject to Nigerian Ministerial Consent, in the OPL 310 licence. Under the terms of the farm-out, Afren received a total carry of up to US$50 million in respect of the drilling campaign at the Ogo prospect. Post farm-out, Afren's economic interest in the licence is 40% once Afren and Optimum Petroleum Development Ltd, the operator, achieves cost recovery. Afren provides technical assistance to Optimum in respect of Optimum's obligations under a Technical Assistance Agreement.

World-class exploration success – one of the largest global discoveries in 2013

Afren and its Partners spudded a first exploration well, the Ogo-1 well, in Q1 2013, drilling into a four-way dip-closed structure in the Turonian to Albian sandstone reservoirs, and targeting 78 mmboe of gross P50 prospective resources. The drilling programme included a planned side-track, testing a new play of stratigraphically trapped sediments that pinch-out onto the basement high targeting 124 mmboe of gross P50 prospective resources. In total, the Partners were targeting 202 mmboe of gross P50 prospective resources.

On 26 June 2013, the Partners announced that the Ogo-1 well was drilled to a total measured depth of 10,518 ft (10,402 ft true vertical depth subsea), and encountered a gross hydrocarbon section of 524 ft, with 216 ft of net stacked pay. Following the conclusion of drilling operations at Ogo -1, the Partners spudded the planned side-track, the Ogo-1ST well. The well reached a total measured depth of 17,987 ft (12,050 ft true vertical depth) and encountered hydrocarbon intervals in the same Turonian, Cenomanian and Albian reservoirs that were successfully drilled and logged at the Ogo-1 well. In addition, the syn-rift section encountered a 280 ft true vertical thickness gross hydrocarbon interval.

Based on the well and 3D seismic data, the Partners estimate the P50 to P10 gross recoverable resources range to be significantly ahead of pre-drill expectations, at 774 to 1,180 mmboe respectively across the Ogo four-way dip-closed and syn-rift structures. Additional upside potential is expected in the syn-rift play. The Partners expect the syn-rift to contain a light oil or a condensate rich gas.

Whilst circulating bottoms up at TD, the drill string parted at 3,390 ft and during good progress towards recovery of the drill string from the well bore, the well took a hydrocarbon kick. After the kick was safely controlled, the Partners considered it prudent to move to permanently secure the well.

2014 outlook

Afren and its Partners commenced an extensive 2,716 km² marine 3D seismic programme across OPL 310 and the neighbouring OML 113 licence in March 2014 to complement the existing coverage on the two licences. The seismic programme will establish the full extent of the syn-rift play and further dip-closed structures to the north and east of the Ogo discovery. The Partners expect to commence appraisal drilling following the completion of the seismic programme.

Nigeria
OML 113

Business activity

Exploration

Appraisal & Development

Working interest
16.875%*

Operator
Yinka Folawiyo

Gross contingent resources
167 mmboe**

Work programme
Seismic acquisition, appraisal drilling and development

* Effective economic interest, held through FHN, a subsidiary of Afren plc.
** Source: Management estimates.

Overview

On 17 July 2013, FHN, a subsidiary of Afren, completed the acquisition of a 16.9% economic interest in OML 113 for a total consideration of US$40 million. OML 113 is in the Dahomey-Benin Basin, offshore Nigeria, and is contiguous to the OPL 310 block.

Background to the Aje discovery

The Aje oil and gas field was discovered in 1996 and is 24 kilometres offshore Nigeria on block OML 113 in water depths up to 1,476 ft. Pending ongoing exploration and appraisal work at OPL 310, the field is estimated to be one of the largest oil fields in Nigeria outside the Niger Delta basin.

Three (Aje-1, Aje-2 and Aje-4) of the four wells drilled on the field have encountered oil and gas in various intervals across the Turonian, Cenomanian and Albian sands, and two (Aje-1 and Aje-2) of the wells have comprehensively tested at commercial rates.

The JV Partners estimate the Pmean contingent resources to be 167 mmboe, principally related to the Aje field, with an additional 205 mmboe of mean prospective resources on the block.

2014 outlook

Post period end, the JV Partners submitted the Field Development Plan (FDP) for the Aje field to the Nigerian Department of Petroleum Resources (DPR). The FDP was approved in March 2014 and is primarily focused on the development of the Cenomanian oil reservoir. The first phase of development includes two subsea production wells, tied back to a leased FPSO. These wells will most likely comprise the recompletion of the existing Aje-4 well, and a new well drilled to the Aje-2 subsurface location. The FDP envisages first oil commencing in late 2015 with mid-case reserves of 32.4 mmbbls, a Final Investment Decision (FID) is expected to be taken by the JV Partners shortly.

In parallel with the seismic programme at OPL 310, Afren has commenced an extensive 2,716 km² 3D seismic across the two licence areas to better define prospectivity in both licences and in particular the full extent of the syn rift structure encountered at the Ogo discovery. The seismic programme will also assist in the future development of OML 113.

Nigeria São Tomé & Príncipe: JDZ Block 1

Business activity

Exploration

Appraisal & Development

Working interest
4.4%*

Operator
Total

Work programme
Withdrawal of licence

Overview

JDZ Block 1 extends over approximately 700 km² in water depths ranging from 5,249 to 5,905 ft.

During the first half of 2012, Total commissioned and completed the drilling of two appraisal wells on the block, the Obo-2 well and the Enitimi-1 well, both encountering oil and gas pay. Ultimately, the oil and gas pay was evaluated to be sub-commercial and Afren is in the process of withdrawing its participation from the licence.

Côte d'Ivoire: CI-11 and Lion Gas Plant

Business activity

Production

	CI-11	Lion Gas Plant
Working interest	47.96%*	100%*
Operator	Afren	Afren
2013 gross production (boepd)	2,302	562

* Until disposal in August 2013.

Portfolio optimisation – creating value

On 28 August 2013, Afren completed the sale of its net interest in the CI-11 Block and Lion Gas Plant (LGP) to Petroci, realising a provisional profit on disposal of US$25.3million.

The assets had afforded Afren a stable production and cash generative base, but were deemed to be non-core to Afren's operations due to the competing capital demands of other higher return projects in the portfolio. Since acquisition, the two assets had brought the Group net operating cash flow in excess of US$150 million.

Gross production at the CI-11 Block and Lion Gas Plant averaged 2,864 boepd from 1 January 2013 to 31 August 2013.

Côte d'Ivoire
CI-523

Business activity

Exploration

Appraisal & Development

Working interest
20%

JV Partner
Taleveras 70%
Petroci 10%

Work programme
Seismic acquisition and exploration drilling

Côte d'Ivoire
CI-525

Business activity

Exploration

Appraisal & Development

Working interest
51.75%*

JV Partner
Taleveras 38.25%
Petroci 10%

Work programme
Seismic acquisition and exploration drilling

* Afren's working interest in the Eland and Kudu fields within CI-525 is 61.875%.

Reallocation of Block CI-01 into CI-523 and CI-525

In Q3 2013, Afren reached an agreement with the Côte d'Ivoire Government regarding the reallocation of the CI-01 Block in which Afren held a 65% interest.

The agreement involves the CI-01 Block (gross area of 1,208 km^2) being divided into two new larger blocks, CI-523 (gross area of 1,494 km^2) and CI-525 (gross area of 1,221 km^2). The new CI-523 Block includes the legacy CI-523 acreage as well as the southern portion of the legacy CI-01 Block, thereby extending our acreage to the south. The new CI-525 Block includes the legacy CI-505 Block and the northern portion of the legacy CI-01 Block, thereby extending our acreage to the north. The new CI-523 Block will be operated by Taleveras Group. The new CI-525 Block will be operated by Afren.

Located along a proven petroleum system along the prolific West African Transform Margin adjacent to the borders of Ghana in the Tano-Ivorian basin, the new CI-523 and CI-525 blocks significantly increase Afren's existing exploration acreage and upside potential in the region.

2014 outlook

The first three-year exploration phase on both blocks involves undertaking an extensive 1,800 km^2 3D seismic acquisition programme in the first quarter of 2014 followed in 2015 by the drilling of an exploration well.

Ghana
Keta Block

Business activity

Exploration

Working interest
35%

Operator
Eni

Work programme
Seismic acquisition and exploration drilling

Overview

The Keta Block is in the Volta River Basin in Eastern Ghana, next to the maritime border with Togo. The block has both Tertiary and Cretaceous prospectivity, with the principal exploration focus being the Cretaceous Albian to Campanian sections. The block offers multiple prospects and leads, with a variety of trapping and depositional settings. A number of these show potential for significant stratigraphic trapping and giant fields.

On 6 February 2012, Afren announced that Eni had commenced drilling of the Nunya-1x (formerly named Cuda-2) exploration well, in the Keta Block, with the Marianas semi-submersible drilling rig. The objective of the Nunya-1x exploration well was to explore a large four-way dip closed Upper Cretaceous structure. On 25 April 2012, Afren announced that the well intersected 502 ft of very good quality sandstone reservoirs. However, they were interpreted as water bearing. The well, which was drilled to a total depth of 14,928 ft in a water depth of 5,535 ft, has provided important information with which to calibrate and further enhance the Group's understanding of this under-explored block in what remains a high-potential basin.

As part of the extended two-year exploration phase, the Partners completed the acquisition of 1,582 km^2 3D seismic survey in December 2012, which is currently being interpreted, and will be integrated with data from the Ophir Starfish-1 well and the Nunya-1x exploration well.

2014 outlook

A one year extension to this licensing phase has been granted. The work programme will be decided based on the results of the ongoing seismic interpretation.

Congo Brazzaville
La Noumbi

Business activity

Exploration

Working interest
14%

Operator
Maurel et Prom

Work programme
Under review

Overview

The La Noumbi permit is located onshore Congo Brazzaville, to the north and on trend with the large producing M'Boundi oilfield. The Partners have entered the next exploration phase of the block.

2014 outlook

Following completion of drilling operations at Kola-1 and Kola-2 in 2013, the partnership has agreed to a 50% relinquishment of the block and is discussing a possible forward work programme.

South Africa
Block 2B

Business activity

Exploration

Working interest
25%*

Operator
Thombo

Work programme
Seismic acquisition and interpretation

* Working interest increases to 50% and operatorship transferred to Afren if Afren exercises its option to drill an exploration well.

Overview

Block 2B is in the Orange River Basin, an offshore shallow water area lying between the Ibhubesi gas field and the Namaqualand coast. The block covers an area of approximately 5,000 km^2, with water depths ranging from shore line to 820 ft. The main reservoir objectives are the fluvial and lacustrine sands of Lower Cretaceous age, which occur in three sequences. The A-J1 exploration well, drilled in 1989, successfully encountered oil in these sequences and tested good quality 36° API oil. Reprocessing of 2D seismic data has since defined several other Lower Cretaceous rift graben prospects, analogous to the prolific Lake Albert play in Uganda. Further prospectivity has also been identified within a fractured basement (analogous to Yemen), which could form a secondary exploration play on the acreage.

2014 outlook

In 2013, we acquired 686 km^2 of broadband 3D seismic data which has now been processed. The interpretation of this data is currently being finalised.

Afren East Africa Exploration

Our portfolio of East African assets covers an extensive area of over 82,000 km^2 located in basins of proved working hydrocarbon systems. We focus on onshore rift basins and Cretaceous/Tertiary plays in the offshore, which are geological settings that have yielded significant discoveries in Uganda, Sudan, Tanzania, Madagascar, Mozambique and most recently in Kenya.

Since the acquisition of Black Marlin in 2010, we have increased our seismic acquisition to 11,506 km 2D seismic and 4,976 km^2 3D seismic. This has enabled us to upgrade our mean net prospective resources to 8,501 mmboe. We look forward to continuing our multi well E&A drilling programme in 2014.

Strategic alignment

- Portfolio management
- Reserves growth
- Production growth
- Operational efficiency and financial discipline
- Working responsibly

For more information see: P22

Kenya
Block 1

Business activity

Exploration

Working interest
80%

Operator
Afren EAX*

Work programme
Seismic acquisition and exploration drilling

* EAX is a wholly owned subsidiary of Afren plc.

Overview

Block 1 is on the western margin of the Mandera-Lugh Basin in north-eastern Kenya, bordering both Somalia and Ethiopia, where it is connected to the Ogaden Basin. The Upper Triassic and Jurassic formations that have been identified are considered to be the primary zones of oil prospectivity. An oil seep discovered by the Tarbaj well in the south-west corner of the block confirms the presence of hydrocarbons. Analogous data with the Ogaden Basin also suggests there may be other potential source rocks and reservoirs. The Bur Mayo and the Kalicha-Seir formations in the Mandera-Lugh basin appear comparable to the Lower and Upper Hamanlei (Jurassic) formations in the Ogaden Basin. If analogous, these formations should have high total organic content (TOC) source rocks and good quality reservoirs.

In 2013, we concluded the interpretation of 1,900 km of 2D seismic, which identified leads and prospects and a number of new play concepts. Many of these prospects have successful analogues in the Ethiopian sector of the basin immediately north of Block 1. The new data set has also enhanced our view of the oil prospectivity in the south of this large frontier block.

2014 outlook

The forward plan for the acreage includes shooting 150-250 km additional 2D seismic in the first half of 2014 followed by an exploration well.

"Since acquiring our significant acreage position in East Africa we have invested in 2D and 3D seismic to help identify a rich pool of exploration opportunities. We are now looking forward to unlocking the potential of these with a multi-well drilling programme."

Galib Virani,
Director, Afren EAX Ltd

Afren East Africa Exploration continued

Kenya
Block 10A

Business activity

Exploration

Working interest
20%

Operator
Tullow Oil

Work programme
Relinquishment

Overview

Block 10A is in the Anza Basin onshore northern Kenya, part of the Central African Mesozoic rift system that includes the Muglad Graben in Southern Sudan, and the Lamu Graben in Kenya. The block covers a total of 14,747 km^2. Three exploration wells were drilled by Amoco in Block 10A (Sirius-1, Bellatrix-1 and Chalbi-3) throughout 1988 and 1989, in the southern part of the block. The presence of oil and gas shows and the high maturity level of organic rocks in wells Bellatrix-1 and Sirius-1 are evidence of a working hydrocarbon system on the block. The latter well notably established the presence of an Upper Cretaceous lacustrine source rock that may have generated low-sulphur/paraffinic oil.

Having satisfied all seismic work commitments with the acquisition of 750 km of 2D seismic over the block in 2011, the operator commenced exploration drilling at the Paipai prospect in September 2012.

On 1 March 2013, the operator, Tullow Oil, announced the temporary suspension of the Paipai-1 exploration well. The well, which was drilled to a total depth of 13,960 ft, encountered light hydrocarbon shows across a 180 ft thick gross sandstone interval. Following a period of evaluation, the Partners elected to relinquish the acreage in November 2013.

Kenya
Blocks L17 & L18

Business activity

Exploration

Working interest
100%

Operator
Afren EAX*

Work programme
Seismic acquisition and exploration drilling

* EAX is a wholly owned subsidiary of Afren plc.

Overview

Blocks L17 and L18 are in the Lamu Coastal Basin, south-east Kenya, covering an area of approximately 4,881 km^2. There is an onshore component to L17 and water depths vary from a few feet along the shoreline to up to around 2,625 ft in the Pemba Channel in the offshore portions.

There are several potential source rocks for the Tertiary and Cretaceous plays in the southern areas of the basin including the Permo-Triassic Karoo interval, the Middle Jurassic and high Total Organic Carbon (TOCs) are recorded within the Eocene section in the Pemba-5 well. There are oil seeps in the Lamu Basin and Pemba Island linked to a Jurassic source which implies that the structures in Blocks L17 and L18 are most likely oil bearing. The hydrocarbons are expected to have been generated in the deep Pemba trough south of Block L18 and in the Tembo Trough to the east.

In January 2012, Afren completed the acquisition of 1,207 km of additional 2D seismic data targeting the deeper water portion of the blocks. Interpretation of the data has identified four new highly encouraging prospects, in addition to the previously mapped prospects in the shallow water. These prospects represent a major new play and together have increased mean prospective resources on the blocks, from 94 mmboe to 2,021 mmboe, since the Black Marlin acquisition. As a result, Afren, in close consultation with the Ministry of Energy, completed the acquisition of 1,006 km^2 3D seismic during December 2012, in lieu of the well commitment, to better understand the deep water prospectivity prior to exploration drilling. In addition, we commissioned an onshore 2D seismic survey of 120 km in September 2012 to simultaneously continue maturation of the shallow water/onshore play. This survey was completed in December 2012.

Interpretation and rock property studies on the 120 km onshore 2D seismic and the 1,006 km^2 offshore 3D seismic are underway. The seismic data has highlighted an expansive shallow-water/onshore trend called the Mombasa High.

2014 outlook

Our 2014 programme includes a planned airborne gravity and magnetic survey followed by additional 2D seismic to help define closures across the Mombasa High in preparation for a two well drilling campaign in 2015.

Tanzania
Tanga Block

Business activity

Exploration

Working interest
74%

Operator
Afren

Work programme
Exploration drilling

Overview

The Tanga Block is located offshore and onshore north-east Tanzania. The block lies south of, and is contiguous with, Afren's 100% owned and operated Blocks L17 and L18 in Kenya. It contains a southerly extension of the same coastal high and basin trough plays, allowing us to use our regional expertise and knowledge.

Interpretation of previously acquired 2D seismic data reinforced the Partners' view that the prospectivity in the deeper water parts of the acreage represents a potentially lower geological risk exploration opportunity.

In early July 2013, Afren initiated seismic interpretation on the 620 km^2 3D seismic survey. Afren and its Partners have been simultaneously working up both a shallow-water (Chungwa-1, previously Orpheus) and deeper water prospect (Mkonge-1, previously Calliope). EIA surveys and drilling prognosis have been completed for both the Chungwa-1 and Mkonge-1 wells, which are both ready to drill. In addition the 3D has led to the recognition of an additional deepwater prospect named Nanasi that sits between Chungwa and Mkonge. This is being fast-tracked to provide a third potential well location.

2014 outlook

The Partners are now in the process of securing a suitable rig for the shallow water Chungwa-1 prospect with exploration drilling scheduled for the second half of 2014. The Chungwa-1 well will test Tertiary, Cretaceous and Jurassic reservoirs, targeting Pmean resources of 300 mmbbls of oil. Mean prospective resources on the block are currently 1.9 bnbbls.

Afren East Africa Exploration continued

Seychelles
Areas A & B

Business activity

Exploration

Working interest
75%

Operator
Afren EAX*

Work programme
Seismic acquisition and interpretation

* EAX is a wholly owned subsidiary of Afren plc.

Overview

Areas A and B are in the Seychelles micro-continent, in shallow to deep water in the northern half of the Seychelles plateau and cover a combined area of approximately 14,319 km^2.

The main exploration targets are the Permo-Triassic Karoo interval, which comprises non-marine sands inter-bedded with shales and a Cretaceous marine rift basin underlain by Jurassic platform source rocks. The Karoo formation contains both the source rock and the reservoir. Between 1980 and 1981, three exploration wells were drilled, all of which encountered oil shows and confirmed the presence of a working hydrocarbon system.

Seismic data previously acquired by the Partners revealed the presence of several large-scale structures in the two licence areas that are located in shallow to deep water in the northern half of the Seychelles plateau. A major new 2D survey in Q4 2011 (3,733 km) focused on these areas to better define their true prospectivity.

In 2013, Afren completed a major 3D seismic programme, the first 3D survey to be conducted in the Seychelles, of two surveys in Afren's licence areas. The first 3D survey was in the southern portion of the licence over the Bonit prospect and covered 600 km^2. The second survey was in the northern section of the licence area and covered an area of 2,775 km^2. Interpretation of this new 3D seismic is underway. Early results have confirmed pre-3D prospectivity in the southern deep water portion of Area A1.

2014 outlook

Results from the northern deep water 3D are expected imminently and will be evaluated in conjunction with the southern deep water 3D ahead of planned exploration drilling.

Gross un-risked prospective resources for the two areas are estimated at 2,994 mmboe.

Madagascar
Block 1101

Business activity

Exploration

Working interest
90%

Operator
Afren EAX*

Work programme
Seismic acquisition and interpretation

* EAX is a wholly owned subsidiary of Afren plc.

Overview

Block 1101 is on the eastern flank of the Ambilobe Basin, onshore northern Madagascar. The block encompasses an area of approximately 11,175 km^2. The main exploration targets are sands of the Isalo formation. There are proven heavy oil accumulations in the Isalo formation in Central Madagascar such as Bemolanga and Tsimiroro, indicating good reservoir conditions.

In June 2013, Afren ran a successful field trip across the block with OMNIS, the state oil and gas company, viewing exposures of the probable reservoir targets.

2014 outlook

Additional 2D seismic acquisition and a shallow borehole coring programme are planned for Q2 2014 after the rainy season to enhance our subsurface understanding ahead of exploration drilling. The planned work programme will focus on the Mantalay prospect and the Antso lead.

Gross un-risked prospective resources on the block are estimated at 846 mmboe.

Ethiopia
Blocks 7 & 8

Business activity

Exploration

Working interest
30%

Operator
New Age

Work programme
Exploration drilling

Overview

Blocks 7 and 8 are in the Ogaden Basin and are both part of the same PSC, covering an overall area of 23,162 km^2. Exploration in Ethiopia began in the 1970s with Tenneco discovering the Calub and Hilal gas fields approximately 200 km to the east of Block 6. Exploration continued throughout the 1980s. Three wells, El Kuran-1, El Kuran-2 and Bodle-1, have been drilled on the blocks. Both of the El Kuran wells encountered hydrocarbons and oil was recovered from the Jurassic Hamanlei formation. The main potential reservoirs in the basin are carbonates in the Jurassic Hamanlei formation and clastic sediments of the Triassic age Adigrat formation and Carboniferous age Calub formation. In addition, some permeable Jurassic carbonate rocks in the Hamanlei formation can be considered potential reservoirs.

2014 outlook

The Partners spudded the El Kuran-3 well on 13 October 2013 using the Sakson 501 drilling rig.

The drilling programme was expected to test the reservoir productivity in the Adigrat and Hamanlei zones, targeting 100 mmbbls of gross prospective resources. Following hydrocarbon shows, the well was extended below the initial target depth to a new total depth of 11,574 ft to evaluate the deeper Gumboro zone. The well is currently undergoing logging and evaluation to determine the quality of the reservoir and to assess the potential commerciality given the remote location.

Kurdistan region of Iraq

Barda Rash

Business activity

Appraisal & Development

Production

Working interest
60%

Operator
Afren

Gross 2P certified reserves
190 mmbbls*

Gross contingent resources
1,243 mmbbls*

Gross production
639 bopd

Work programme
Production and development

* Source: RPS Energy. Reserves and Resources remaining as at 31 December 2012, adjusted for 2013 production.

A world-class development project

The Barda Rash PSC is 55 km north-west of Erbil, and holds the 14,015 mmbbls STOIIP and 1,433 mmbbls gross recoverable Barda Rash oil field. The field is defined as an elongated anticline with surface expression of 20 km length and up to 7 km width. The reservoirs are fractured carbonates of various depositional settings.

In 2009, the BR-1 discovery well was drilled to 12,290 ft and successfully encountered oil in Cretaceous to Jurassic reservoirs. Well tests were carried out on the Jurassic Mus and Adaiyah formations, each yielding rates of around 3,200 bopd, with a subsequent extended test of the BR-1 well producing 440,000 barrels of 30° to 32° API oil over a three-month period. During this time, oil was trucked from onsite storage and sent to local refineries. Two further wells were drilled at the field in 2010, BR-2 and BR-3, both encountering oil full-to-base in all reservoirs. The field is defined by 326 km² of good quality 3D seismic data.

In 2012, we commenced the phased development of the field, initially targeting the development of light oil reserves. Having begun an extensive testing programme at the BR-1 well in July 2012, and establishing oil rates in excess of 6,000 bopd of 28° to 32° API oil, as well as obtaining valuable information on the production characteristics of the Mus/Adaiyah reservoir, we initiated production operations in August 2012. In July 2013, we commenced preliminary crude oil sales from the Barda Rash PSC to the local market. Gross production at the field averaged 639 bopd during 2013.

2014 outlook

Afren has now moved to the second phase of development on the field, which involves drilling new wells to increase production capacity and acquiring modern log and core data to better understand and delineate the field.

The Partners commenced drilling on the BR-5 well in Q1 2013 using the Romfor-23 drilling rig which is currently operating at circa 14,436 ft. They also commenced drilling the BR-4 well in May 2013, using the Viking I-10 rig. The well reached a total depth of 13,800 ft. As part of an ongoing programme BR-4 has tested two horizons in the Triassic Kurra Chine formation at 6,100 bopd and 1,750 bopd respectively. The BR-5 well has intersected a similar hydrocarbon-bearing sequence in the Kurra Chine formation and will be tested in due course. Flow lines and facilities will be updated to bring BR-4 and BR-5 into production during 2014.

Strategic alignment

- Portfolio management
- Reserves growth
- Production growth
- Operational efficiency and financial discipline
- Working responsibly

For more information see: P22

Ain Sifni

Business activity

Appraisal & Development

Working interest
20%

Operator
Hunt Oil Middle East Ltd

Gross contingent resources
42 mmbbls*

Work programme
Development

* Source: RPS Energy. Resources remaining as at 9 June 2011.

Overview

The Ain Sifni PSC is located 70 km north-west of Erbil, and is operated by Hunt Oil Middle East Limited. Drilled on the crest of the Simrit anticline in 2010, the JS-1 discovery well logged continuous oil from 3,642 ft to 10,072 ft in Cretaceous and Jurassic reservoirs. Triassic reservoir targets were not penetrated by the well and no oil water contact was established.

On 17 April 2012, the Group announced that the Simrit-2 exploration well had successfully encountered an estimated 1,342 ft of net oil in Cretaceous, Jurassic and Triassic age reservoirs. The well was initially drilled to its prognosed total measured depth of 12,139 ft but was subsequently deepened to a revised total depth of 12,467 ft to test additional zones of prospectivity. The Partners completed drilling on the Simrit-2 exploration well in July 2012. The objective of the well was to test the western extent of the Simrit anticline, a large-scale east to west trending structure located on the northern part of the Ain Sifni PSC. Analysis of data collected over the deepened section of well indicated the continual presence of light oil shows, and extended the estimated oil shows encountered by the well to 1,509 ft throughout Cretaceous, Jurassic and Triassic age reservoirs.

Following the conclusion of drilling operations at Simrit-2, a comprehensive well test programme was undertaken. Operator Hunt Oil completed the Simrit-2 Extended Well Test (EWT) programme during the second half of 2013. Produced crude was trucked to local markets. The Simrit-3 well, exploring the eastern extent of the large scale Simrit anticline, tested a cumulative rate of 6,293 bopd. The well has been configured as a produced water disposal well.

2014 outlook

In June 2013, operator Hunt Oil spudded the Maqlub-1 well testing the high potential Maqlub structure to the south of the block and is currently drilling ahead in the Jurassic reservoirs. To date hydrocarbons have been encountered in the Cretaceous and Jurassic reservoirs as confirmed by wireline, Logging While Drilling (LWD), cuttings and gas data.

Operator Hunt has submitted a declaration of commerciality on the block. Simrit-4 was spudded in early 2014. This well will target the Jurassic and Triassic reservoirs.

Following the success at Simrit, the Partners expect further growth in reserves and resources at Ain Sifni in 2014.

Corporate responsibility

We aim to:

- Minimise the effects of our activities on the environment and meet the climate change challenge
- Provide a healthy and safe workplace
- Contribute positively to our local communities
- Conduct all of our business activities fairly
- Be a first-class employer

The Afren approach to corporate responsibility

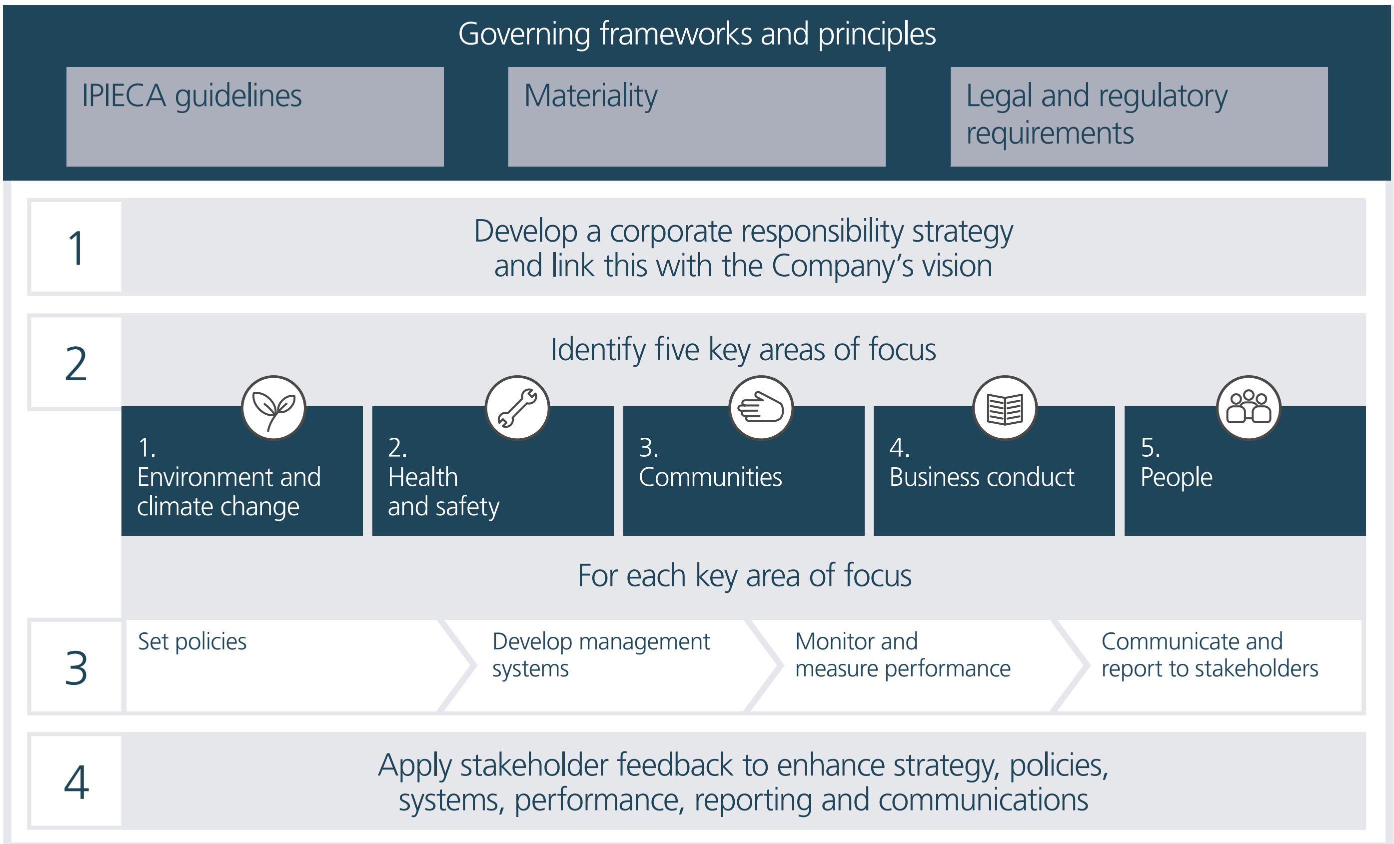
One of the five strategic priorities that we have identified to achieve our vision is ensuring that our corporate responsibility performance achieves the highest standards.

In 2013 we altered how we describe our corporate responsibility areas of focus. We have adapted the IPIECA industry guidelines so that they are aligned with the information requirements of our key stakeholders. We now refer to environment and climate change, health and safety, people, communities and business conduct as our key areas of focus.

Our overall approach to corporate responsibility is governed by the IPIECA guidelines, the relevant legal and regulatory frameworks and materiality. For each of the five focus areas we have:

- Designed policies that reference the appropriate international accords;
- Put in place management systems that are in line with industry best practice and the appropriate international standards;
- Developed KPIs (key performance indicators) and regularly monitored our performance by comparing these measures to targets and industry benchmarks; and
- Communicated and entered into dialogue with our stakeholders about this important aspect of our business. We have then applied this feedback to enhance our policies, systems and performance.

Figure 1.



"Corporate responsibility is clearly an aspect of our business that is of considerable interest to many of our shareholders and other stakeholders. It presents us with significant challenges and also opportunities to demonstrate the quality of our management, our understanding of local issues, our management of risk and our growth potential in the medium and long term."

Shahid Ullah
Chief Operating Officer

Figure 2. Our areas of focus

The Afren approach to corporate responsibility continued

Framework for 2014 EHSS targets

Issue	2013 target	2013 performance
Environment and climate change		
Greenhouse gas (GHG) emissions	Record and report all fuel use and other sources of GHG emissions.	✓ This was achieved to support the new UK reporting requirements.
Energy use	Record and report total energy use in GWh.	– Ongoing as part of the exercise required to conduct GHG reporting.
Flaring	Record and report the quantities of flared gas.	✓ Completed as part of the exercise required to conduct GHG reporting.
Biodiversity	Conduct environmental impact assessments before all project activity.	✓ Completed.
Spills to the environment	Record and report spills greater than 1 bbl of oil. Fewer than five spills in total.	✓ Isolated spills during 2013 resulted in the loss of approximately 12 bbls of oil.
Discharges to water	Record and report the PPM and total tonnage of oil in produced water. Record and report tonnages of cuttings and muds discharged.	– In progress.
Waste	Record and report tonnages of hazardous and non hazardous wastes. Record and report tonnages of wastes that are recycled.	– In progress.
Audits and management systems	Establish a programme of environmental audits.	✓ Completed. Environmental audits conducted in Nigeria and Kurdistan against the ISO14001 standard.
Health and Safety		
Occupational injury	LTIF <1.11 TRIR <3.04 Record, investigate and report all motor vehicle accidents.	✓ LTIF 1.05 TRIR 2.52 There was a single motor vehicle accident in 2013 that involved a crew bus in Kurdistan, no-one was injured.
Fatalities	Zero fatalities.	✓ Zero fatalities.
Process safety and asset integrity	Record, investigate and report all breaches of process integrity. Implement a corporate Operations Integrity Maintenance System (OIMS) and establish a gate process for the design of new facilities.	– In progress.
Audits and management systems	N/A. New for 2014.	N/A
Incident notification	Roll out the new incident notification system to all business units. Review the corporate incident reporting and investigation procedure.	✓ Incident notification system rolled out to all business units.
Security	Ensure security risk assessments are conducted for all operations. Establish a system for quality assurance of security measures. Conduct security reviews for all new facility designs.	✓ Completed.
People		
Contractor management	Incorporate Company environmental, health and safety and security requirements into all contracts.	✓ Completed.
Network meetings	Establish a programme of regular network meetings on environmental, health and safety and security matters.	– In progress.
Communities		
Local community impact	Conduct social impact assessments before conducting project activity.	✓ Completed.
Social investment	Record and report social investment spend. Evaluate effectiveness of investment projects over $150k.	– In progress.
Business conduct		
Anti-bribery and corruption	Provide Company-wide refresher on Code of Business Conduct and Anti-Bribery and Corruption Policy and procedures. Monitor compliance with the gifts register on a quarterly basis. Record, investigate and report all cases of whistleblowing.	– In progress.
Crisis management	Revise and issue the corporate crisis management plan. Provide training on the plan.	✓ Completed.

2014 target
Develop and disclose a comprehensive climate change strategy.
Improve the Company's data collection.
Review and confirm accuracy of reported GHG emissions in particular for flaring and set flaring reduction targets for 2015.
Conduct environmental/social impact assessments before all project activity.
Achieve a target of fewer than three spills (oil or chemicals) of over 1 bbl to the environment;. Run an oil spill response exercise at all operated assets.
Discharges to be within limits and fewer than three excursions over the limits during the year. Monitor and report total oil discharges to the environment from produced water for operated assets.
Record and report tonnages of hazardous and non hazardous wastes. Record and report tonnages of wastes that are recycled.
Develop and implement a consistent framework for environmental management across operated assets, consistent with the requirements of ISO14001.
Drive down the LTIF and TRIR values. Achieve an LTIF of below 0.92 and a TRIR below 2.77.
Zero fatalities.
Fewer than five process integrity breaches (Loss of Primary Containment) resulting in release of hydrocarbons in operated assets.
Conduct British Safety Council 5 Star audits in Nigeria and Kurdistan. Operations senior managers to have at least one EHSS objective in their annual performance targets.
Promote the reporting and investigation of near misses.
Ensure security risk assessments are conducted for all operations. Establish a system for quality assurance of security measures. Conduct security reviews for all new facility designs.
N/A
N/A
Implement a consistent framework for engagement with local communities across all operations. Have no community disruptions (causing shut down or lost productivity) to operated assets.
Incorporated in the local community impact target above.
Update and re-issue the Code of Business and Anti-Bribery and Corruption Policy and procedures and retrain all personnel. Have no successful prosecutions or other legal actions brought against Afren for bribery or corruption. Become a corporate supporter of the Extractive Industries Transparency Initiative (EITI).
Review and re-issue the corporate Crisis Management Plan and hold an exercise.

2013 highlights

Transparency and reporting

During 2013 we undertook a number of activities to improve the levels of clarity, transparency and quality of our CR communications and reporting. These included changing the way we describe our approach to CR and adapting the industry IPIECA guidelines concerning our areas of focus to achieve greater clarity for a wide group of stakeholders. This new approach is recorded on pages 64 and 65 of this Annual Report.

We met the new requirements concerning the reporting of greenhouse gas emissions by conducting a review exercise of our measurement and data collection systems and ensuring that they met the new requirements. This process also involved an examination of the classification of our emissions taking into account their origin, our level of responsibility for them and other related matters.

We intend to continue this process in 2014 by, in particular, producing our first online corporate responsibility report in line with the Global Reporting Initiative and IPIECA reporting guidelines. We are also placing greater emphasis on reporting this aspect of our activities to our current and potential shareholders.

Environment and climate change

In 2013 the Company aimed to improve the monitoring of its environmental performance by designing and commencing a programme of environmental audits. This was performed with the support of an experienced third party service provider. A periodic programme has been set up to assess all the Company's sites against ISO14001 standards, policies and procedures.

Progress was also made with establishing systems that will assist the Company with monitoring and recording quantities of oil in produced water and tonnages of cuttings and muds discharged and hazardous and non-hazardous waste that is produced.

Health and Safety

The Company's health and safety systems were improved in 2013 following the rollout of a new incident notification system to all business units. The purpose of these improvements was so that we could make absolutely sure that events are being reported promptly and accurately to the appropriate levels of management. We have also implemented an Operations Integrity Maintenance System to improve our process safety systems.

People

We continued our process to achieve a uniform approach towards employees and contractors by incorporating our environmental, health and safety and security requirements into all of our contractor contracts.

Communities

Our teams in the countries where we operate developed a number of projects that are focused on our key areas of education, skills, employability and health. A list of current examples, conducted in partnership with local and international NGOs, our business Partners and the local authorities, are recorded within the corporate responsibility section on our website. Of particular note is the work we are doing with the education sector in Nigeria to improve the employability skills within the local workforce.

Business conduct

Our anti-bribery and corruption processes are the subject of regular management review. During 2013 we monitored compliance through the operation of the Anti-Bribery and Corruption Register. This lists transactions such as gifts and entertaining and separately identifies those involving government officials. The Code of Business Conduct is due to be revised and updated in 2014.

Environment and climate change

Key objective

We will minimise the effects of our activities on the environment and meet the climate change challenge.

Policy highlights

- We will comply with the relevant local and national regulations, frameworks, guidelines and best practice at all times.
- We will conserve resources and protect the environment where we operate and minimise any adverse impacts resulting from our operations.
- We will apply re-use and re-cycling methods wherever possible throughout our operations.
- We will endeavour to meet the challenges presented by climate change.
- We will minimise waste generation and dispose of waste responsibly.
- We will conserve and protect local biodiversity in the areas where we operate.
- We will minimise our use of water and carefully control our discharges to water.

System highlights

- All our exploration and production projects are the subject of a detailed environmental impact assessment process before they proceed.
- We have a detailed environmental management system that applies to all of our operations.
- We engage a third party specialist to conduct periodic environmental audits against ISO14001 standards, policies and procedures.
- We have weekly (for senior operations management), monthly (for senior operations management and Executive Directors) and quarterly reporting (for the Board of Directors) mechanisms for our environmental performance. Incident reports are completed immediately and distributed to senior operations management and the Executive Directors.
- The Company has comprehensive assessment procedures concerning all of its suppliers and contractors that are conducted as part of the contract and procurement process.

Developing the Company's climate change strategy

Tackling climate change means addressing the greenhouse gas (GHG) emissions associated with our operations. These arise primarily from energy use (i.e. generation of electricity from the burning of hydrocarbons either in our own facilities or in power stations) and from venting or flaring of excess gas.

Energy use will tend to grow as our business develops, however we take steps to ensure that we utilise energy as efficiently as possible, thereby minimising the associated GHG emissions.

Our current focus however is the flaring of excess gas in our production operations. In the absence of any local infrastructure to get gas to market we have limited options for dealing with gas within our facilities. In the first instance maximum use is made of gas for power generation to avoid the use of diesel or other fuels. We also use gas to assist with the production of oil through gas-lift technology. Beyond this, the options for gas are limited to flaring or re-injection underground.

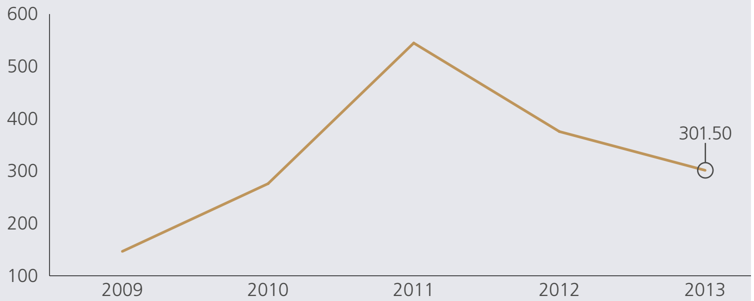
We have been developing a number of technical solutions for reducing our level of flaring. This led in 2013 to the conduct of our first flaring reduction programme at the Ebok field in Nigeria where we have commenced re-injecting gas back into the ground as part of the production process. We are also assessing the feasibility of dedicated gas disposal wells at Ebok and extending flaring reduction to our other operations.

We have been reporting on GHG emissions for the past two years in our Annual Reports and as part of our 2013 commitments we have taken a more detailed look at our emission sources and the way in which we are monitoring and reporting emissions. We commissioned PwC's sustainability team to conduct an independent review of our GHG emissions at Ebok with a view to confirming the accuracy of reporting and making recommendations on how to better manage the data in order to meet the new UK reporting requirements. By understanding the measurement and reporting of emissions we also hope to be able to better manage our efforts on emissions reduction.

The recommendations made by PwC include more frequent monitoring and measurement and suggestions about improving emissions accuracy (in particular relating to flaring). The team's advice also covered the scope of Afren's reporting of emissions (for instance what to include and exclude), classification (Scope 1, 2 or 3) and defining boundaries that reflect the nature of the Company's operations and structure. The project's outcomes are reflected in our reporting of this information within this Annual Report and will be applied in our reporting of this information going forward on our website and within other disclosures (for example our annual submission of information to CDP).

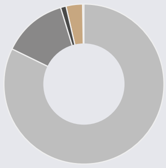
In the course of conducting this work we have also reviewed our historical emissions and present the amended data, together with the data for 2014, in the graph below.

Intensity ratio
(Tonnes CO_2e/1000 tonnes of hydrocarbon produced)



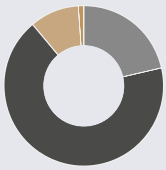
Emissions by location 2013
(Percentage of total 707,296.63 tonnes of CO_2e equivalent)

Nigeria	82.25%
Côte d'Ivoire	13.16%
East Africa	1.02%
Kurdistan	3.51%
Corporate offices	0.07%



Emissions by activity 2013
(Percentage of total 707,296.63 tonnes of CO_2e equivalent)

Offices	0.09%
Production	21.42%
Flaring	67.43%
Drilling	10.13%
Seismic	0.93%



Greenhouse gas emissions reporting

In previous years we have voluntarily reported on greenhouse gas emissions. Under the new Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 there is now a statutory requirement to disclose emissions information in a prescribed format.

Baseline and reporting year

We have been collecting data on our greenhouse gas emissions since 2009 (see graph on page 68). Consequently we have chosen this year as the baseline year for our emissions reporting.

Our reporting period for our emissions data continues to be consistent with the Company's financial reporting period, being the calendar year ending 31 December 2013.

Organisation and operating boundaries

In line with the guidance issued with the new UK legal reporting requirement, we report all of the emissions from the assets where we are the operator and therefore have operational control. We do not report emissions from our joint venture operations where one of our Partners is the operator as in these instances we do not have operational control.

In terms of our operating boundaries we have continued to report emissions associated with all field activities, whether they be related to production, drilling or seismic activities, transportation or logistics; this includes all contracted services associated with the running of the field.

We have captured data on both Scope 1, direct emissions and Scope 2, indirect emissions. Scope 2 emissions are currently limited to those associated with electricity use in our offices and make up less than 0.1% of our emissions.

Methodology

Our direct emissions are generally calculated from fuel use data, either gas used to power turbines and other equipment, gas flared or diesel used in generators. Calculations are made for carbon dioxide, methane and nitrous oxide being the main gases produced through the combustion process.

We then calculate carbon dioxide equivalent (CO_2e) based on the relative global warming potential of each gas; for example methane is 21 times more effective as a greenhouse gas than carbon dioxide and has a global warming potential of 21. In this way the carbon footprint for the business can be expressed as a single number.

The other greenhouse gases, hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride, are not closely associated with oil and gas exploration and production. The total emissions of these gases are therefore expected to be small and have not been calculated.

Offshore emission factors for greenhouse gas calculations were derived from the UK Department of Energy and Climate Change (DECC) Environmental Emissions Monitoring System (EEMS) calculation tools used by the UK offshore industry to report on greenhouse gases.

Onshore emissions were calculated using emission factors derived from the American Petroleum Industry Compendium of Greenhouse Gas Emissions Methodologies for the Oil and Natural Gas Industry (2009).

This methodology has been used to derive emissions data from 2009 to 2013.

Intensity ratio

The nature of oil and gas exploration and production is such that there is no clear intensity metric that covers all situations. In particular, using oil production or revenue as the intensity ratio does not take into account the fact that exploration activities may not be successful in delivering increases to production. Despite this limitation we have opted to report an intensity ratio of tonnes of CO_2e against 1000 tonnes of hydrocarbon production.

As a measure of the efficiency of our production operations we have also decided to investigate the value of reporting production emissions from energy, processing and any flaring against the volume of fluids being produced. This metric is much more closely associated with the efficiency of individual production operations and may provide a means for comparing our different facilities.

Data on intensity ratios is shown in the graph opposite.

Health and Safety

Key objective

We will provide a healthy and safe workplace at all times and at every location.

Policy highlights

- We will comply with all relevant local and national regulations, frameworks, guidelines and best practice at all times.
- We will establish and apply health and safety standards across all of our businesses according to industry best practice and ensure that they are communicated to all of our employees and contractors.
- We will encourage and promote knowledge sharing around the business and within our peer group to ensure that the causes of incidents are fully understood and health and safety risks are minimised.
- We will ensure that all of our employees and contractors have the necessary health and safety skills and expertise by applying regular training and education methods in line with industry best practice.

System highlights

- All our exploration and production projects are the subject of a detailed health and safety assessment process before they proceed.
- We have a detailed health and safety management system that applies to all of our operations.
- All staff receive regular training on health and safety matters.
- Our health and safety policies and systems extend to our contractors as well as our employees.
- We have weekly (for senior operations management), monthly (for senior operations management and Executive Directors) and quarterly (for the Board of Directors) reporting mechanisms for our health and safety performance. Incident reports are completed immediately and distributed to senior operations management and the Executive Directors.

Use of HAZIDS and HAZOPS

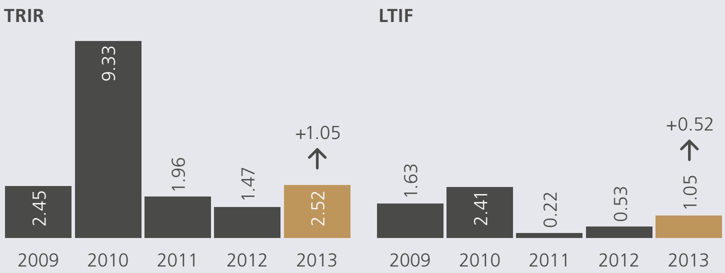
A feature of our health and safety management process is our use of risk management techniques across all of our activities. These range from job risk assessments to particular risk assessment tools such as HAZIDS (Hazard Identification Study) and HAZOPS (Hazard and Operability Study). HAZOPS involve the prior examination of a process, usually by a team of experienced people, before it is constructed in order to identify and evaluate potential problems that may present risks to personnel or equipment or prevent efficient operation. HAZIDS involve the conduct of prior assessment procedures (such as health and safety impact studies) as part of the design of projects and processes to ensure that potential risks have been identified, assessed and mitigated.

Many of our activities are performed by external contractors. We have close relationships with them to ensure that our procedures are aligned and that knowledge is shared. Our contractors are required to adopt the same standards of health and safety as Afren.

Total Recordable Incident Rate (TRIR) and Lost Time Injury Frequency (LTIF)
(Incidents per million man hours worked)

2.52 TRIR

1.05 LTIF



Communities

Key objective

We will contribute positively to our local communities.

Policy highlights

- We will comply with the relevant local and national regulations, frameworks, guidelines and best practice at all times.
- We support the principles contained within the UN Universal Declaration of Human Rights. We endeavour to ensure that this commitment extends to our supply chain and our contractors.
- We support the principles contained within the UN Declaration on the Rights of Indigenous Peoples (in particular those relating to education, health, language, identity, culture and employment).
- We aim to ensure that the widest possible level of local agreement and support is received throughout the duration of our projects.

System highlights

- Afren has dedicated community investment teams in Nigeria, East Africa and Kurdistan and a corporate level team in Houston.
- We conduct a social impact assessment process prior to the commencement of each Company project.
- We take a systematic approach to our community projects by identifying local stakeholders, assessing and measuring social risk and developing project plans.
- During the lifetime of our projects we regularly monitor our community relationships and conduct periodic audits and assessments to ensure that our aims are being achieved.
- Regular dialogue and communications with local stakeholders are key features of our approach.

Education in Nigeria

We aim to ensure that our local community investment provides sustainable benefits in partnership with local authorities and leaders. In Nigeria we do this by developing education programmes that build skill levels and develop employment for young people. Since 2009 we have, in conjunction with our business Partners, supported the creation of education opportunities for people in the host communities at Effiat and Eastern Obolo.

Scholarships

Our projects include the award of scholarships to existing, tertiary, secondary and post-graduate students to support a variety of learning and skill acquisition activities.

The grants provide an allowance per annum and last for the period of the course being undertaken. By the end of 2013 there were over 400 local participating students. An awards ceremony was held in October that was attended by community leaders, representatives of the State Ministry of Environment and Petroleum Resources, beneficiaries and their families and a representative of the Commissioner for Education in Akwa-Ibom State.

Developing science education

We have worked with the local authorities to support the construction of nine science laboratories in three secondary schools in Eastern Obolo. We also supported the transfer of nine science teachers to these schools by the State Ministry of Education and the local education board. Our contribution included supporting the payment of special allowances to the staff to encourage them to move to and stay in the area. This activity was carried out to increase the numbers of local students studying scientific subjects (physics, biology and chemistry).

Vocational skills development and local business start-up support

Our activities also support local education for people who are unable to benefit from the Scholarship Scheme or who do not have access to other educational facilities. For example, we have supported a Technical Skill Acquisition Program (TSAP) in collaboration with seven local skills acquisition centres. This allows 120 students each year to acquire a variety of vocational abilities including welding and fabrication, electrical installation, instrumentation and maintenance, and hospitality.

At the end of a year of intensive training, the students move to the University of Uyo and acquire business skills. Upon graduation they are supplied with a financial grant and equipment to support small business start-ups.

Business conduct

Key objective

We will conduct all of our business activities fairly.

Policy highlights

- We prohibit political donations and will not directly or indirectly participate in political activities.
- We are resolutely opposed to bribery and corruption and prohibit the use of facilitation payments.
- Company purchases of goods and services are made solely on the basis of price, quality, value and benefit to the Company.
- We will ensure that our relationships with our customers and suppliers are conducted in a fair and proper manner at all times.

System highlights

- All our new employees receive training on the Company's Code of Conduct requirements (and related matters such as the UK Bribery Act) as part of their induction. Refresher updates are performed from time to time and there is a section of the Company's intranet that is dedicated to this area.
- We have an independently run whistle-blowing process that is managed by Safecall, a well-known specialist in this area. Safecall's call handlers have considerable investigative experience and the facility is available at all times of the day to the Company's employees.
- We regularly monitor our bribery and corruption levels of risk as part of day-to day operations at all levels of the business.
- Our anti-bribery and corruption policies extend to our supplier contracts.
- We have an experienced and knowledgeable investor relations team that ensures that we conduct regular dialogue and communications with our current and potential shareholders.

Anti-Bribery and Corruption (ABC) register

Our operations include activities in several countries that have a score of below 40 in Transparency International's Corruption Perceptions Index. We recognise that our stakeholders perceive that there is a significant potential of business conduct issues affecting our activities unless we have put in place robust systems and controls to prevent such an event occurring.

One important element of our management systems is the ABC Register. This facility ensures that there is a permanent record of all Company gifts, hospitality, entertainment and charitable donations (except for very small expenditure items). The Register is maintained on the Company intranet. All staff members are required to record these types of transactions when they are made. Compliance with this procedure is supported by examination of Company expenses claims. Other features of the Register are the inclusion of mandatory authorisation procedures (larger transactions require Executive Director approval, for example) and a facility that highlights where events involve government officials.

The Register is reviewed every three months by an internal Anti-Bribery and Corruption Committee comprising senior staff members from our legal and finance departments. A report is prepared following the conduct of this review. This is examined as a regular part of the Company's Audit Committee meeting process.

People

Key objective

We will be a first-class employer

Policy highlights

- We will comply with the relevant local and national regulations, frameworks, guidelines and best practice at all times.
- We support the four fundamental principles contained in the International Labour Organisation Declaration. We will not discriminate on the basis of gender, colour, ethnicity, religion, sexual orientation or disability. We will ensure that employment with us is freely chosen. We prohibit the use of forced and child labour throughout our operations and supply chain.
- We will promote diversity and equality of opportunity throughout our business.
- We will ensure that our people policies are adopted and adhered to by our contractors.

System highlights

- We have an experienced and knowledgeable human resources team to manage our people and contractor relationships.
- We monitor and measure a variety of diversity measures across the business.
- Our training and development processes extend to our contractors as well as our employees.
- We maintain and are developing a Company-wide intranet system to facilitate communication around the business.
- We have an Employee Assistance Programme (EAP). This is a confidential and impartial service that has been set up to provide advice and support, whenever and wherever it is needed.

Training and development

We recognise that our success is clearly linked to the knowledge, skills, experience and motivation of our team and their ability to develop often innovative and creative solutions to our many opportunities and challenges. Consequently, we are committed to the delivery of continuous learning and development for all our employees and we encourage them to take responsibility for their career development.

The aim of the Company's training and development programme is to provide the business with a team of highly competent employees by:

- assisting new employees to achieve maximum effectiveness and competency in the shortest possible time;
- improving the performance of employees in their present role;
- ensuring that the best use is made of the natural abilities of employees by developing their knowledge and capabilities for the benefit of the organisation and their future career;
- identifying aspirations and potential; and
- providing input to manpower and succession plans.

Training needs vary according to each individual and their role. We therefore supply a range of activities to address these – for example:

- on-the-job coaching;
- short courses and further education programmes;
- external seminars and conferences; and
- in-house courses and online learning programmes.

As well as training services that are tailored to individual needs, we have supplied initiatives that are available to our staff at all of our locations. Our annual budget for training and development in 2013 was in excess of US$1 million.

Examples of our training and development initiatives are described below.

Harvard ManageMentor (HMM)

This programme is delivered in association with Harvard Business School. It is a generalist e-learning facility that gives all staff access to a state-of-the art, online learning and collaboration tool from one of the world's most respected voices in business. The on-demand learning programme contains 42 topic areas (containing both soft skills and management training modules) each lasting approximately two to three hours. Participants are tested during and at the end of each module.

Nautilus-Professional Skills Development (PSD)

This is a collection of 22 tutor-led classroom courses offering a broad range of professional skills training specifically aimed at staff within the oil & gas industry. The courses cover a wide range of subjects including communication skills, report writing, leadership, team-building and project management. The courses range from one to five days in duration and are categorised as being at foundation, leadership, or senior leadership level.

Nautilus-Geoscience Training Alliance (GTA)

Over 200 technical training programmes are available, comprising a mix of classroom and field courses. The classroom courses are held at venues in northern Europe and Houston, whilst field courses are run internationally. All are categorised by their competency level and are classified as either awareness, basic or skilled application level. In addition, field courses are graded in terms of their physical demands.

IHRDC Petroleum Online

This is a comprehensive series of technical e-learning modules that provide an in-depth overview of each sector of the international oil & gas industry. The modules are accessible online and are designed to make learning both challenging and enjoyable. Each one contains approximately two hours of learning and includes review questions and challenging assessments to test comprehension.

Corporate governance

Chairman's overview

Introduction from the Chairman

Mr Egbert Imomoh

Dear Shareholder

Conducting business in line with our values is vital to our continued growth and success as a premium-listed independent upstream E&P company. So I acknowledge and welcome the Board's obligation to ensure we have the right people, culture and structures in place to make the right decisions for our business and for our shareholders. Such a culture expresses our principles of respect, honesty and transparency, and we strive to demonstrate ethical leadership.

As Chairman, my role is to lead the Board so it may fulfil its role effectively, under a governance structure which is designed to be flexible and efficient in creating sustainable long-term growth in shareholder value. The Board plays an important role in working with management to ensure our business is well governed and financially strong, that we mitigate any risks identified, and that we maintain an appropriate balance between promoting long-term growth and achieving short-term objectives. The Board's role is to provide clear direction for the organisation, while the management's is to meet the strategic goals of the Company.

We have formalised our focus on high ethical standards in our Group Code of Business Conduct, which is in place across the business and sets out clearly our expectations of how our employees and those who work on behalf of Afren should behave. Through this code, we strive to uphold the standards we have set, and so operate with integrity with all external parties such as governments, business partners, shareholders, contractors and local communities. The code makes it clear that we consider it unacceptable for our companies and employees to be involved or implicated in any way in corrupt practices. Any individual working for us has the power to challenge or stop any activity that conflicts with our business ethics, and this commitment is documented in our human resources policies and procedures. We continue to keep our anti-corruption policies and practices under review to ensure they maintain this approach.

The Code of Business Conduct defines and documents our objectives for:

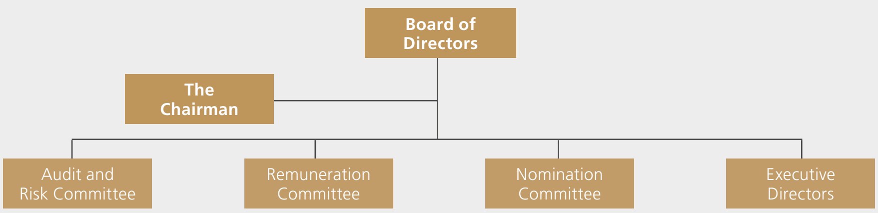
- our corporate governance
- our environment, health, safety and social management
- the role of our employees and their responsibilities
- our interaction with business Partners and local governments
- the treatment of Company assets, such as confidential materials and equity holdings.

The code highlights the commitment we have made to acting positively and responsibly towards the people, the physical environments and the host communities our business may affect. We communicate and monitor our environmental, health, safety and social issues through our Environment, Health & Safety and Social (EHSS) management system. Similarly, we have a structured approach to the management of security issues through a documented security management system. In addition, we ensure we treat all members of staff fairly, and we encourage diversity within our team. We offer our people equal opportunities, training and career progression.

Furthermore, we have provided guidelines for responsible hospitality and the importance of respecting local laws and customs. Through this policy, we process all payments and revenues openly. We have established an Audit and Risk Committee which reviews such systems and works with external auditors on our accounts and internal control matters.

Our governance structure every year sets out the roles, accountabilities and expectations for our Directors, and we review it every year. I am delighted to welcome Sheree Bryant to the Board. Ms Bryant has a strong record of leading organisations and working alongside government and communities to help implement social change, and of developing, implementing and coordinating a wide range of innovative corporate responsibility initiatives. Her experience will particularly help in evaluating and enhancing the effectiveness of our own corporate responsibility work. Ms Bryant was appointed as Independent Non-Executive Director on 31 October 2013. She founded Social Policy Group (SPG), a non-profit organisation which evaluates

Board structure



Board composition

As at the date of this Annual Report, the Company has a Board of ten Directors

Mr Egbert Imomoh Non-Executive Chairman	**Mr Peter Bingham** Non-Executive Director	**Mr Patrick Obath** Non-Executive Director
Dr Osman Shahenshah Chief Executive	**Mr John St. John** Non-Executive Director	**Ms Sheree Bryant** Non-Executive Director
Mr Shahid Ullah Chief Operating Officer	**Mr Ennio Sganzerla** Non-Executive Director	
Mr Darra Comyn Group Finance Director	**Mr Toby Hayward** Non-Executive Director	

and develops recommendations on key issues in global health and social policy, and continues to serve as a Director. Prior to SPG, Ms Bryant worked with the Commonwealth of Massachusetts and The Department of Government at Harvard University. Ms Bryant was a postgraduate Fellow of both the King's Institute for the Study of Public Policy at King's College, London and Harvard University. She has a BA from the University of Texas at Austin.

This year's evaluation of the Board, which was facilitated externally, confirmed that the Board continues to meet its obligations. Following the annual performance evaluation process, I am pleased to confirm that each of the Directors', particularly the Non-Executive Directors', performance and contribution continues to be objective, timely, thoughtful, challenging and relevant. In addition, each Director has demonstrated, and continues to demonstrate, excellent commitment to the role, ensuring sufficient time is available to prepare for meetings or attend non-scheduled meetings.

At our AGM in June 2013, we adopted new articles that established the UK Corporate Governance Code recommendation for all directors to submit themselves for re-election every year.

This section of the Afren Annual Report describes how the Company has applied the main principles and complied with the provisions of the Code throughout the year.

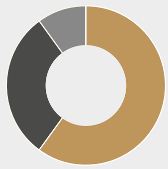
In this report we discuss the key features of the governance structures, processes and people we have set up to achieve our objectives. We have also outlined key elements of the activities of the Board and its committees during the year. We continue to embrace the provisions and principles of the Code and the Board will continue to attach the highest priority to its compliance with the Code's principles. Our statement below explains how we have applied those principles in 2013 and, where specific provisions may not appear to have been met, provides a detailed explanation.

I am proud of Afren's commitment to doing the right thing for our staff, shareholders and the wider community, and of the efforts our Directors and staff have made during 2013 to adopt the spirit of good corporate governance. If any shareholder wishes to contact me in relation to any of the content in this section of the Annual Report, please contact me through the Company Secretary at the Company's address.

Egbert Imomoh
Chairman

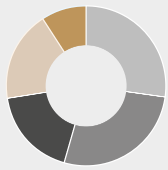
Composition

Non-Executive Directors	6
Executive Directors	3
Chairman	1



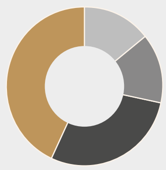
Experience

Oil and Gas Industry	6
Engineering	6
Finance and Accounting	4
Capital Markets	4
Environmental & Community	2



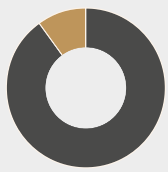
Tenure of Non-Executive Directors

0-1 years	1
2-3 years	1
4-5 years	2
6-10 years	3



Directors by gender

Male	9
Female	1



Corporate governance

Afren governance structure

The Board is collectively responsible to the Company's shareholders for the long-term success of the Group and for its overall strategic direction, its values and its governance. It provides the leadership necessary for the Group to meet its business objectives within the framework of its internal controls, while also discharging the Company's obligations to its shareholders

The Board's principal responsibilities include:

- Approving the Group's business strategy and ensuring that an effective management team and the necessary financial and human resources are in place for the Group to meet its objectives
- Agreeing the Group budget
- Approving the Company's Annual Report and reviewing its periodic financial reports
- Where appropriate, declaring an interim dividend and recommending a final dividend
- Agreeing the agenda for the Annual General Meeting
- Agreeing Board succession plans, and evaluating the Board's performance over the preceding year
- Reviewing the Group's risk management and internal control systems
- Agreeing the Group's governance structure and approving the Standards of Business Conduct and other Group policies

Afren's Board of Directors

	Board of Directors				
					
Name and Title	**Mr Egbert Imomoh** Non-Executive Chairman	**Dr Osman Shahenshah** Chief Executive	**Mr Shahid Ullah** Chief Operating Officer	**Mr Darra Comyn** Group Finance Director	**Mr Peter Bingham** Non-Executive Director
Biography	Mr Imomoh, a founder of Afren, was previously Managing Director and Executive Chairman of Afren Energy Resources Limited. He successfully led the growth of Afren's Nigerian asset base, established a number of successful indigenous partnerships and achieved the First Oil milestone at the Okoro project. The Society of Petroleum Engineers has named Mr Imomoh as its 2013 President, and he has served on its board as Regional Director for Africa.	Dr Shahenshah is a founder of Afren. His international career began with Credit Suisse First Boston and has included senior positions in the oil and gas finance groups of the International Finance Corporation (the private sector arm of the World Bank), and various investment banks in New York, London and Europe. Dr. Shahenshah has worked on oil and gas opportunities in more than 15 African countries. He holds a PhD from the University of Pennsylvania, a Master's Degree from Columbia University and a Bachelor's Degree from Brown University.	Mr Ullah brings extensive technical and commercial knowledge of the African petroleum industry to Afren. Mr Ullah holds a degree in Petroleum Engineering from the University of Texas and received executive development training at Oxford University and the London Business School. He is a member of the Engineering Advisory Board at the University of Texas.	Mr Comyn was previously the Group Finance Director for ITE Group plc and Expomedia Group plc (both international groups focused on emerging markets); and in the oil industry with Chevron Oil UK and Dragon Oil where he was Group Financial Controller and Company Secretary. Mr Comyn is a Chartered Accountant with a degree in Economics from Trinity College, University of Dublin.	Mr Bingham is a Non-Executive Director of Afren appointed in 2005. Mr Bingham began his career at Barclays Bank group. He subsequently held a succession of Directorships, first in London at branch level, then in Barclays merchant banking division and BZW (now known as Barclays Capital). There he set up the credit risk management team, before becoming Head of Banking at BZW and serving as a member of the central Barclays Group Credit Committee.
Year Appointed	2005	2004	2008	2010	2005
Meetings Attended	8/10	10/10	3/10	10/10	8/10
Experience	Mr Imomoh brings a wealth of knowledge of the oil and gas industry in Nigeria and Africa, acquired through many years of industry experience including serving as Deputy Managing Director of Shell Petroleum Development Company (Nigeria) prior to establishing Afren's Nigerian subsidiary.	Dr Shahenshah has been actively involved in the African oil and gas industry for more than 15 years, working with companies including Shell, Chevron, Total, Eni, and the Nigerian National Petroleum Corporation. Dr Shahenshah also brings to Afren his extensive experience of the international capital markets and of oil and gas finance.	Through the senior management positions held by Mr Ullah prior to joining Afren, at Western Atlas and Baker Hughes where he was responsible for managing significant petroleum interests and assets, he has considerable experience in the oil and gas industry.	Mr Comyn has extensive financial, accounting and capital markets experience in both the emerging markets and the oil and gas industry.	With over 40 years' experience, Mr Bingham brings considerable knowledge in international financial markets.
Committee Membership	Nomination Committee				Audit and Risk Committee Remuneration Committee
Independent	Not applicable	Not applicable	Not applicable	Not applicable	Yes
					Will step down in 2014 as Audit and Risk Committee Chairman

					Associate Directors	
						
Mr John St. John Non-Executive Director	**Mr Ennio Sganzerla** Non-Executive Director	**Mr Toby Hayward** Non-Executive Director	**Mr Patrick Obath** Non-Executive Director	**Ms Sheree Bryant** Non-Executive Director	**Iain Wright** Associate Director	**Galib Virani** Associate Director
Mr St. John was appointed to the Board of Afren in November 2006. He has acted as an adviser on over US$100 billion of equity and equity-linked issuance in all major markets worldwide. He was formerly Global Head of Equity Capital Markets at Dresdner Kleinwort, Commerzbank and Lehman Brothers and European Head of Equity Capital Markets at Citigroup, formerly Salomon Brothers. He was previously the Chairman of Equity Capital Markets at Nomura International plc. Mr St. John is a founding Partner of STJ Advisers.	Mr Sganzerla is a senior oil industry practitioner with a wealth of African upstream experience. He was previously Senior Vice President (E&P) at Eni, having joined the group in 1971. From 1997, he was responsible for Eni's largest business unit encompassing the North Sea, America, Australasia and Russia, with production in excess of 500,000 boepd.	A qualified chartered accountant, Mr Hayward has held a number of senior equity capital market positions in London. He was Head of Oil and Gas Equity Capital Markets at Canaccord Adams, before joining Jefferies International Limited as Managing Director and Head of Corporate Broking, where he was responsible for all international equity and equity linked transactions together with corporate broking and Nomad responsibilities.	Mr Obath, an East African national, was appointed to the Board in 2012. Mr Obath currently also serves as Chairman of PZ Cussons EA Limited and is a Non-Executive Director at Standard Chartered Bank Kenya Limited and Kenya Power and Lighting Company Limited. He is Chairman of the Kenya Private Sector Alliance and has received a number of East African Honorary recognitions, including the Order of the Grand Warrior (OGW) by H.E. the President of the Republic of Kenya, the National Peace Award, Kenya, and the Order of the Moran of the Burning Spear (MBS) by H.E. the President of the Republic of Kenya.	Ms Bryant is a social entrepreneur with extensive experience in government and the NGO sectors in the US and the UK. In addition to consulting and pro bono work for several US and UK charities, Ms Bryant is a Trustee of award winning Impetus Private Equity Foundation portfolio partner COUI Teens and Toddlers. Ms Bryant was educated at the Universities of Texas, Harvard Graduate School of Arts and Sciences, and King's College, London.	Mr Wright has over 25 years of industry experience, having held senior positions at Randall & Dewey, Baker Hughes, Qatar Petroleum, Conoco (UK) and Anadrill Schlumberger prior to joining Afren in 2008. Mr Wright is a Certified Petroleum Geologist with the AAPG, and a fellow of the Geological Society, SPE, and PESGB.	Mr Virani joined Afren in 2006 following a career in the City of London in corporate finance and mergers and acquisitions predominantly covering the energy sector. He is a Fellow of the Securities Institute, and has a Master of Finance & Investment (with Distinction) and a Master of Philosophy in Emerging Market Finance.
2007	2009	2009	2012	2013	2010	2010
7/10	9/10	9/10	9/10	2/2		
Mr St. John's significant experience provides considerable insight into the international capital and financial markets.	Over the course of his wide-ranging career at Eni, Mr Sganzerla has acquired significant experience in establishing and developing oil and gas assets in West Africa (including Nigeria, Gabon and Congo) and in leading merger and acquisitions activities in the oil and gas industry, including the acquisition of Lasmo plc and British Borneo.	Mr Hayward has extensive expertise in the equity capital markets, as well as bringing financial and accountancy experience to the Board.	With nearly 40 years of industry experience, including 20 years in various positions at Shell, Mr Obath has a wealth of experience as a senior oil and gas industry practitioner.	Ms Bryant brings extensive experience in strategy, corporate responsibility and community development to the Board.	Mr Wright brings extensive geosciences experience to Afren, having served in both development and exploration geology roles.	Mr Virani contributes a wealth of corporate finance experience to Afren, and has played a key role in the inorganic growth of the Group's asset portfolio. Mr Virani is an East African national and oversees the regional aspects of Afren's activities in East Africa.
	Audit and Risk Committee Nomination Committee Remuneration Committee	Audit and Risk Committee Nomination Committee Remuneration Committee	Audit and Risk Committee Remuneration Committee	Nomination Committee		
Yes	Yes	Yes	Yes	Yes		
				Joined 31 October 2013		

Corporate governance

Directors' report

The Directors submit their Annual Report on the affairs of the Group together with the financial statements and audit report of Afren plc for the year ended 31 December 2013. The Corporate governance statement on pages 74 to 104 forms part of this Directors' report.

Having taken all the matters considered by the Board and brought to the attention of the Board during the year into account, we are satisfied that the Annual Report, taken as a whole, is fair, balanced and understandable.

Principal activities

The Group's principal activities are oil and gas exploration, development and production in Africa and the Kurdistan region of Iraq. The subsidiary undertakings principally affecting the profits or net assets of the Group in the year are listed in notes 4.7 and 6.2 to the consolidated financial statements.

Strategic review

The Company is required by the Companies Act to include in this Annual Report a summary of its principal strategic objectives and principal risks and uncertainties faced in achieving its objectives. The information that fulfils the review's requirements is set out within the Chairman's statement and Chief Executive's review, Operations review and the Financial review, which are incorporated into this report by reference. These sections also include details of expected future developments in the Group's business and details of the Key Performance Indicators used by management.

Information about the use of financial instruments by the Company and its subsidiaries, including details on the risk management objectives, is given in note 3.3 to the financial statements.

Details of significant events affecting the Company and the Group since the balance sheet date are contained in note 6.16 to the financial statements.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Operations review. The financial position of the Group at the year end, its cash flows, liquidity position and borrowing facilities are described in the Financial review on pages 34 to 39. In addition, section 3 of the Notes to the Group financial statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives and details of its financial instruments and hedging activities. Note 5.3 describes its exposures to credit risk and liquidity risk.

Afren's production outlook for 2014 and beyond, together with its existing funding facilities, provide confidence that the Group will continue to generate sufficient working capital for the foreseeable future to enable it to fund its ongoing exploration and development activities.

On the basis of the above, the Directors have a reasonable expectation that the Company and Group have adequate resources to continue in operational existence for the foreseeable future. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

Results and dividends

The Group's profit attributable to shareholders for the year was US$516 million (restated 2012: US$198 million). The Directors have not recommended the payment of a dividend (2012: US$nil).

The Directors and their interests

The Directors who served during the year, and subsequently, together with their and their families' beneficial interests in shares in the Company, were as shown below. Details of Directors' share options are provided in the Directors' remuneration report on pages 99 to 100.

Political donations

No political donations were made in either 2013 or 2012.

Directors and their interests

	Committees			Ordinary shares of £0.01 each		
Name	Audit and Risk	Nomination	Remuneration	At 25 March 2014	At 31 December 2013*	At 31 December 2012**
Egbert Imomoh, Chairman		•†		5,404,411	5,404,411	3,972,246
Osman Shahenshah, Chief Executive				5,895,319	5,895,319	4,895,856
Shahid Ullah, Chief Operating Officer				4,645,722	4,645,722	4,360,106
Darra Comyn, Group Finance Director				573,598	573,598	–
Peter Bingham, Non-Executive Director	•†		•	–	–	–
Toby Hayward, Senior Non-Executive Director	•	•	•†	205,000	205,000	205,000
Ennio Sganzerla, Non-Executive Director	•	•	•	24,000	24,000	24,000
John St. John, Non-Executive Director				177,823	177,823	177,823
Patrick Obath, Non-Executive Director	•		•	–	–	–
Sheree Bryant, Non-Executive Director		•		–	–	

* Or resignation, if earlier. ** Or on appointment, if later. † Chairman of Committee

Greenhouse gas emissions
Details of the Group's emissions of carbon dioxide equivalent from the activities which the Group is responsible are provided on pages 68 and 69.

Capital structure
Details of the authorised and issued share capital, together with details of the movements in the Company's issued share capital during the year, are shown in note 3.5 of the financial statements. The Company has one class of ordinary shares, which carries no right to fixed income. Each share carries the right to one vote at general meetings of the Company. The ordinary shares reflect 100% of the total issued nominal value of all share capital.

There are no specific restrictions on the size of a holding nor on the transfer of shares, which are both governed by the general provisions of the Articles of Association and prevailing legislation. The Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on the transfer of securities or on voting rights.

Details of employee share schemes are set out in note 5.8.

No person has any special rights of control over the Company's share capital, and all issued shares are fully paid. Details of significant shareholdings are set out below.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the UK Corporate Governance Code, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement on pages 82 to 87.

In respect of the Group's assets in Ghana, Block 10A in Kenya, the Seychelles and Ethiopia, our Partners may have a right of first refusal to acquire the Company's interest should a competitor directly or indirectly take control of the Company. In relation to the Ebok asset, our Partner Oriental would have a right to take the role of technical adviser on a change of control. In addition, under the terms on which the 2016, 2019, and 2020 Senior Secured Notes were issued, upon a change of control, each holder of the notes has the right to require Afren to repurchase all or any part of its holding.

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company such as commercial contracts, bank loan agreements, property lease arrangements and employee share plans. None of these is considered to be significant in terms of their likely impact on the business of the Group as a whole. Furthermore, there are no agreements between the Company and its Directors or employees that provide for compensation for loss of office or employment that occurs because of a takeover bid.

Substantial shareholdings
As of 25 March 2014 (being the latest practicable date prior to publication of the Annual Report), interests notified to the Company in accordance with Chapter 5 of the Disclosure and Transparency Rules comprised:

Vidacos Nominees (Standard Life)	8.00%
BlackRock, Inc.	5.01%
SKAGEN Global	5.01%
Van Eck Associates Corporation	4.97%
AllianceBerstein LP	4.94%
HSBC Client Holdings UK Limited	4.93%
Investec Asset Management Ltd	4.49%
GLG Partners LP	3.60%
Norges Bank	3.05%
Deutsche Bank AG	3.01%
Legal & General Group Plc	3.01%

Percentages are based on the issued share capital at the date of notification.

Acquisition of the Company's own shares
At the end of the year the Directors had authority, under the shareholders' resolutions of 11 June 2013, to purchase through the market 108,906,569 of the Company's ordinary shares at prices, per share, ranging between one penny and the higher of (i) the amount equal to 105% of the average of the closing middle market quotations for an ordinary share (as derived from the London Stock Exchange Daily Official List) for the five business days immediately preceding the day on which the ordinary share is purchased and (ii) the amount stipulated by article 5(1) of the Buy-back and Stabilisation Regulations 2003 (in each case exclusive of expenses). This authority expires on 30 June 2014.

Auditors
Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

– so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

– 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 auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

The Directors note the revisions to the 2012 UK Corporate Governance Code introduced by the Financial Reporting Council (FRC) in September 2012 and intend to put the external audit contract out to tender at least every ten years. The timing of the next tender will be aligned with the cycle for rotating the audit engagement partner. Further details are provided in the report of the Audit and Risk Committee on page 89.

Annual General Meeting
At the Annual General Meeting of the Company, resolutions will be proposed to receive these accounts and the Directors' and auditors' reports. Resolutions will be proposed to re-elect all Directors at the Annual General Meeting, in accordance with the Company's Articles of Association and the UK Corporate Governance Code.

Resolutions will also be proposed to:

– reappoint Deloitte LLP as the Company's auditors

– authorise the Directors to fix Deloitte LLP's remuneration as auditors

– grant the Directors authority to allot ordinary shares

– buy back the Company's ordinary shares

– allow a general meeting to be held at not less than 14 days' notice.

For a more detailed explanation of these and other amendments, please refer to the Notes on Resolutions set out in the Notice of Annual General Meeting.

On behalf of the Board

Osman Shahenshah
Chief Executive
26 March 2014

Corporate governance statement

Chairman and Chief Executive

The Board is responsible for providing leadership, setting the Group's strategic objectives and key policies, ensuring appropriate resources are in place to enable the Group to meet its objectives, reviewing the Group's performance and overseeing the Group's internal control systems, and is responsible to shareholders for the proper management of the Group. At the end of the period of this report, the Board comprised a Non-Executive chairman, three Executive Directors and six Non-Executive Directors.

Afren benefits from an experienced Board which has extensive experience and relationships alongside a broad range of commercial, financial and other relevant expertise. Brief biographies are included on pages 78 to 79. The Nomination Committee periodically reviews the composition of the Board including the balance between Executive and Non-Executive Directors and considers succession planning for both Executive and Non-Executive Directors, and the Group's senior management. It is also responsible for the process for new Board appointments and makes recommendations to the Board on the appointment of new Directors, and is responsible for ensuring appointments are made on merit and against objective criteria.

In making appointments to the Board, the Nomination Committee considers the skills, experience and knowledge of the existing Directors and assesses which of the potential candidates would bring the most benefit to the Board. It considers the potential candidate's knowledge and experience of the territories in which we operate, the oil and gas industry, capital markets and the regulatory environment, and, in the case of Non-Executive Director appointments, that they have sufficient time to devote to the role. The Chairman ensures any new Directors are provided with a full induction on joining the Board. Non-Executive Directors are appointed for an initial term of three years, which may be extended by mutual agreement subject to satisfactory performance. The letters of appointment of each Non-Executive Director are available for inspection at the Company's registered office.

Non-Executive Directors

Our Non-Executive Directors contribute international operational know-how and were chosen for their wide range of skills and experience. They understand the sectors we operate in, and have valuable knowledge of international capital markets. In addition they bring in-depth understanding of the health, safety, environmental, political and community challenges we face.

Each Non-Executive Director is appointed for a three-year fixed term, renewable by mutual agreement. All Non-Executive Directors' appointment letters are available for inspection at the Company's registered office.

The Non-Executive Directors:

– scrutinise, measure and review the performance of management

– assist in strategy development

– review the Group's financial information

– ensure appropriate and effective systems of internal control and risk management

– review the relationship with the external auditors through the Audit and Risk Committee

– review the remuneration of, and succession planning for, the Board.

Senior Independent Director

Mr Toby Hayward is the Senior Independent Director. Mr Hayward was selected for the role because of his experience and expertise. Mr Hayward is available to shareholders who have concerns that cannot be addressed through normal channels.

Independence of Non-Executive Directors

The independence of each of the Non-Executive Directors is considered upon appointment, annually and at any other time a Director's circumstances change in a way that warrants reconsideration. Following a review of Board composition, the Company has reassessed the independence of all its Non-Executive Directors. It regards all as independent within the meaning of the term as defined in the UK Corporate Governance Code.

The Board has a policy it uses to determine the independence of its Directors. This states that the test of independence is whether the Director is independent of management and any business or other relationship that could materially interfere with their exercise of objective, unfettered and independent judgement or their ability to act in the best interests of the shareholders.

Where a Director is considered by the Board to be independent, but is affected by circumstances that may give rise to a perception that they are not, the Board will explain the reasons it has reached its conclusion. The Board considers relationships with management, major shareholders, associated companies and other parties with whom the Group transacts business against predetermined materiality thresholds, all of which are set out in the policy.

Tested against this policy, the Board considers that each of the Non-Executive Directors has retained independence of character and judgement and has not formed associations with management or others that might compromise their ability to exercise independent judgement or act in the best interests of the Company.

The Board gave particular consideration to the independence of Mr Peter Bingham and Mr John St. John. This is because, historically, Non-Executive Directors were eligible for share option awards prior to the Company's admission to the Official List of the United Kingdom Listing Authority in December 2009. Mr Bingham exercised all his options in September 2013. Mr Bingham has been a Director of the Company for approximately nine years and will step down as Chairman of the Audit & Risk Committee after the next AGM. Mr St. John is the only independent Non-Executive Director who still has unexercised options. The Share Option Scheme Rules were amended in November 2009 to prohibit the award of share options to Non-Executive Directors. Since Afren's admission to the Official List, no share options have been granted to any Non-Executive Director. We take the view that this does not affect the independence of the Non-Executive Directors. For more information see the Directors' Remuneration Report.

Some of the Directors hold, or previously held, positions in companies we have commercial relationships with. The Board has assessed all of these relationships and concluded that, in all cases, the relationships do not interfere with the Directors' ability to exercise objective, unfettered and independent judgement or their ability to act in the best interests of our business.

In the case of Mr St. John, the Board has considered the fact that he is a shareholder in St. John Advisors Ltd and a partner in STJ Advisors LLP, two companies in the financial advisory sector with which Afren has had commercial dealings. It is Mr St. John's breadth of expertise, experience, knowledge and connections gained while providing capital markets advice to companies that brings significant value to the Board. Prior to Mr St. John's appointment, the Board assessed the relationships between Afren and St. John Advisors Ltd and STJ Advisors LLP. It remains satisfied that Mr St. John is able to apply objective, unfettered and independent judgement and act in the best interests of the Company, regardless of these relationships.

In addition, any commercial dealings with these companies have been approved by the independent Non-Executive Directors, and will be re-assessed should they continue in the future. Mr St.John and the Executive Directors absent themselves fully from these deliberations.

Transactions during the year that amounted to related party transactions under the International Financial Reporting Standards (IFRS) are outlined in note 5.11 to the financial statements. The Company does not consider the level of fees paid to St. John Advisors Ltd and STJ Advisors LLP to be material to either business. All transactions with Directors, including Mr St. John, qualify under the exemption for smaller related party transactions in respect of the Related Party Rules of the UK Listing Authority.

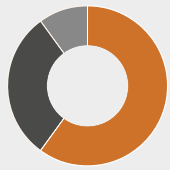
Board composition

The Board considers that there is an appropriate balance between Executive and Non-Executive Directors for governing the business effectively and promoting shareholder interests. It also considers that both Executive and Non-Executive Directors have the necessary skills, knowledge and experience to enable them to govern the business effectively. The Chairman and Non-Executive Directors met twice during the financial year without the Executive Directors being present.

A summary of the skills and experience of the Board is shown in the diagram on page 77.

Board composition

Non-Executive Directors	6
Executive Directors	3
Chairman	1



Corporate governance statement continued

Succession: Board and committee membership

Since the beginning of 2013, the following changes have taken place to the composition of the Board:

- Ms Sheree Bryant joined the Board as Non-Executive Director in October 2013
- Ms Sheree Bryant joined the Nomination Committee in October 2013.

Mr Bingham has been a Director of the Company for approximately nine years and will step down as Chairman of the Audit & Risk Committee after the next AGM, as the Board is mindful of the need to ensure appropriate succession planning is in place, and of the potential impairment to independence that can occur when a Non-Executive Director has held tenure for a significant length of time. This has been part of the Board's agenda for 2014.

Meetings of the Board

The Directors have collective responsibility for the conduct of the Group's business. It is expected that all Directors attend scheduled Board and relevant committee meetings, unless they are prevented from doing so by prior commitments, and that all Directors will attend the AGM. Where Directors are unable to attend meetings, they receive the papers scheduled for discussion at the relevant meetings, giving them the opportunity to raise any issues and give any comments to the Chairman in advance of the meeting. A table detailing the Directors' attendance at each of the Company's scheduled Board and committee meetings during 2013 is included below.

Board meeting attendance in 2013

During the year the Board held five scheduled Board meetings. In addition to the five scheduled meetings, the Board also met on a quorate basis on five occasions to address specific matters.

Key activities of the Board in 2013

Performance

A summary of the Board's key activities during 2013 is shown on page 85. As well as the consideration of performance and strategic matters, the Board received detailed briefings on specific aspects of compliance and corporate governance which affect the Company and the Group, the Board and their respective obligations.

The Board received a briefing on the Group's anti-corruption policies and procedures and the recommended enhancements following an internal review to ensure continued best practice, and the UK Bribery Act and its associated guidance, and will look to approve a revised version of the Afren Code of Business Conduct to take effect in 2014.

The Board reviewed succession planning in consultation with the Nomination Committee. It considered in detail the skills which will be desirable for non-executive appointments, and it kept under review the steps being taken to identify further non-executive appointments. The Board considered the issue of Board diversity, the recommendations made by Lord Davies in his report entitled Women on Boards, and the FRC's consultation on proposed consequential changes to the UK Corporate Governance Code.

The Board considers that, during 2013, an appropriate mix of its time was allocated between strategic and operational matters and governance-related issues, including remuneration strategy.

Board and committee meeting attendance in 2013

Name	Number of Board meetings attended	Committees: Audit and Risk	Committees: Nomination	Committees: Remuneration
Egbert Imomoh, Chairman	8/10		3/3†	
Osman Shahenshah, Chief Executive	10/10			
Shahid Ullah, Chief Operating Officer	3/10			
Darra Comyn, Group Finance Director	10/10			
Peter Bingham, Non-Executive Director	8/10	2/3†		4/4
Toby Hayward, Senior Non-Executive Director	9/10	3/3	3/3	4/4†
Ennio Sganzerla, Non-Executive Director	9/10	3/3	3/3	4/4
John St. John, Non-Executive Director	7/10			
Patrick Obath, Non-Executive Director	9/10	3/3		2/4
Sheree Bryant, Non-Executive Director*	2/2			

* Joined on 31 October 2013
† Chairman of Committee

Board diversity

The Board recognises that effective management of a London-listed African and Middle-East focused business involves full consideration of diversity matters in our appointment procedures for staff at all levels of the business. These include factors such as socio-economic background, culture and creed, nationality, age and gender (the number of persons of each sex who were employed by the Group at 31 December 2013 is shown on the chart opposite). The current Board, for example, consists of nationals from the United Kingdom, Africa and beyond with a variety of personal attributes. We believe this representation provides a strong mix of views and experience to support our decision-making processes and leadership activities.

During our search for additional Non-Executive Directors during the year, we ensured that the consultancies that we used fully considered diversity matters as part of their activities. We also made it clear that we would not accept male-only candidate shortlists and we eventually appointed Ms Sheree Bryant, the Company's first female Director, during the year.

We hope to develop our representation of diversity at senior management and Board level in the coming years. Clearly this aim will be conducted in tandem with the need to make appointments on merit and with regard to an appropriate balance of skills, experience, independence and knowledge on the Board. The Board is pleased, however, to note the increasing numbers of women amongst its senior management team. These include Anne Vallely, our General Counsel, and Jane Barker, our Head of Human Resources. Both regularly attend Board meetings in an advisory capacity.

Conflicts of interest

The Board has formal procedures for managing compliance with the conflicts of interest provisions of the Companies Act 2006. We have procedures for disclosing and reviewing any conflicts of interest, actual or potential, the Directors may have, and the Company's Articles of Association allow the Board to authorise situational conflicts.

Directors must give advance notice of any conflict issues to the Company Secretary, and these are considered at the following Board meeting. The Board conducts an annual review of all previously authorised situational conflicts, considering each one afresh. Directors are excluded from the quorum and the vote on any matters they have an interest in. The Board may review the authorisation of a conflict matter, and the terms of authorisation, at any time.

In deciding whether to authorise a conflict or potential conflict, the Directors must consider their general duties under the Companies Act 2006. The procedure operates to ensure the disclosure of conflicts, and for non-conflicted Directors to consider and, if appropriate, authorise them. The Nomination Committee supports the Board in this process, both by reviewing requests from Directors, and by making recommendations to the Board. It can also review any situations of actual or potential conflict the Board has previously authorised, and make recommendations as to whether they remain appropriate.

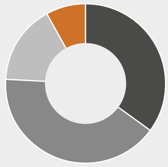
Information and professional development

All Directors receive an induction on joining the Board, tailored to their experience, background and areas of focus. Non-Executive Directors also receive a full briefing on all areas of the Company's business from the Executive Directors, the Company Secretary and other senior executives, and they may request any further information they feel is necessary. The Chairman agrees the induction plan for each new Director and ensures it is appropriate. All Directors receive regular briefings to update their skills and knowledge, for example on legal and regulatory requirements.

Following her appointment to the Board as a Non-Executive Director, Ms Sheree Bryant attended induction briefings covering the Group's strategy, its organisational structure and its business functions and activities, including its statutory reporting cycle and financing principles, operational activities, information technology strategy and legal and regulatory issues. She also attended sessions addressing corporate governance, in compliance with the terms of our Premium Listing status.

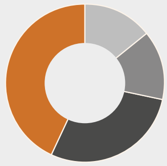
Board activities 2013

	%
Strategic & operational	35
Governance related issues	41
Board oversight	16
Other matters	8



Tenure of Non-Executive Directors

0-1 years	1
2-3 years	1
4-5 years	2
6-10 years	3



All employees by gender

Male	181
Female	113

Corporate governance statement continued

Evaluation of Board performance

The Board undertakes a rigorous review of its performance and that of its committees each financial year. In March 2014, Armstrong Bonham Carter LLP (ABC) conducted a Board review which took the form of a facilitated self-evaluation by the Board. The review included the completion of confidential, unattributed questionnaires by each Board member, the Company Secretary and Head of HR which covered corporate governance, Board effectiveness, strategy development, risk management and Board and Committee organisation, composition, operation and dynamics. Each Director assessed themselves, and all the other Directors against a number of personal effectiveness criteria. The Chairman was also assessed on his ability to create the conditions for overall Board effectiveness and for setting the tone at the top

The facilitators collated and analysed the results from each element of the evaluation and prepared separate reports, summarising key points and including unattributed comments given in individual responses. The Board and Director reports were initially discussed with the Chairman.

The Board report was then presented by Armstrong Bonham Carter LLP at a Board meeting. Directors received a copy of the report on their own effectiveness and these were discussed by the Chairman with each Director as appropriate. The Chairman received feedback on his performance from the Senior Independent Director.

Key conclusions of the 2013 evaluation

The Board had continued to make progress both year on year and since the first review conducted by ABC in May 2011 and continues to be effective. The review suggested further improvement in the development of strategy, Board composition in relation to diversity and succession plans, independent benchmarking of the EHSS function and understanding employee attitudes.

The review also reported that the Group's Committees had continued to improve their effectiveness.

Shareholder communication

The Board maintains a dialogue with investors, aimed at ensuring a mutual understanding of objectives. Its primary contact is through the Executive Directors, but the Chairman and the Chief Executive also contact major shareholders periodically and in advance of the Annual General Meeting (AGM) each year, to understand their views on the Company and to ensure their views are communicated to the Board as a whole. Similarly, the Senior Independent Director and the other Non-Executive Directors are available to meet with major shareholders.

At least twice a year, the Acquisitions and Investor Relations Director presents a report to the Board on investor relations generally, identifying the key issues raised by institutional shareholders. In addition, the Board receives a report at each of its meetings on any changes to the holdings of the Company's main institutional shareholders. Specific issues raised by individual institutions are also reported to the Board, as appropriate.

Communications with shareholders regarding business strategy and financial performance are co-ordinated by the Investor Relations department, which reports to the Acquisitions and Investor Relations Director. Communications regarding the general administration of shareholdings are co-ordinated by the Company Secretary.

The Group conducts an investor relations programme with institutional investors, analysts and the media. This includes presentations and roadshows, as well as a regular series of one-to-one and group meetings and, twice a year, an 'Investor event' involving detailed presentations on the Company's strategy and performance. We publish investor presentations on www.afren.com and results presentations are available by webcast during the year. Additionally, this Annual Report and our Half Year Results Announcement, which are sent to all registered shareholders, contain extensive information about the Group's activities.

The Board welcomes enquiries from individual shareholders, both on matters relating to their shareholdings and the business of the Group. It also encourages shareholders to attend the AGM to discuss the Group's progress, make their views known and to raise any matters of concern directly. The Company reports formally to shareholders twice a year with its half-year and full-year results.

Annual General Meeting

The Company's AGM provides all shareholders with the opportunity to develop further their understanding of the Company. Shareholders can ask questions of the full Board on the matters put to the meeting, including the Annual Report and the running of the Company generally. The Company intends to send to shareholders the Notice of AGM and any related papers at least 20 working days before the meeting. All Directors are invited to attend each AGM. At the AGM, the Chairman presents a review of the Group's business.

Company Secretary

Mr Elekwachi Ukwu is the Company Secretary. An England and Wales solicitor, Mr Ukwu has also been called to the Nigerian Bar. The Company Secretary is responsible for developing, implementing and sustaining high standards of corporate governance. His key responsibilities include:

- keeping abreast of legislation, regulation and corporate governance developments which impact the business and advising the Board and management accordingly;
- supporting the Chairman and other Board members as necessary, including the management of Board and committee meetings and their evaluation, advising on Directors' duties and facilitating information flows;
- when appropriate, providing a discreet but challenging voice to the Board;
- communicating with shareholders and other stakeholders and ensuring that the Board is kept informed of their opinions; and
- advising the Group on compliance with statutory and regulatory governance requirements.

All Directors have access to the Company Secretary, whom the Board has the power to appoint and remove. Shirin Johri stepped down as Group General Counsel and Company Secretary on 31 December 2013.

Insurance cover

The Company maintains Directors' and Officers' liability insurance cover, the level of which is reviewed annually.

Election and re-election

The Board is committed to openness in determining Board membership. Under the Company's Articles of Association the Directors are subject to re-election by shareholders every year in accordance with the recommendations of UK Corporate Governance Code.

Share Dealing Code

The Company has a Share Dealing Code which covers dealings by Directors, Persons Discharging Managerial Responsibilities (PDMR), and relevant employees. The code complies with the provisions set out in the Model Code contained in Annex 1 to Listing Rule 9 of the UK Listing Authority Rules. It restricts dealings in shares and other relevant securities by PDMRs and employees during designated prohibited periods and at any time when they are in possession of unpublished, price-sensitive information.

Market disclosure

We aim to maintain the highest standards of disclosure. These ensure that all investors and potential investors have the same timely access to relevant information, to assist them in making informed decisions. We publish copies of announcements to the market, investor presentations, the Annual Report and other relevant information on our website. The Disclosure Committee is responsible for implementing and monitoring systems and controls for management and disclosure of inside information, and for ensuring that regulatory announcements, shareholder circulars, prospectuses and other documents issued by the Company comply with relevant legal or regulatory requirements.

Board Committees

The Board has established four principal Board committees it has delegated responsibilities to. They are the Audit and Risk, Remuneration, Nomination and Disclosure Committees, each having defined terms of reference that are summarised on the following pages and available in full on the Company website. The Board is kept up to date on the activities of the committees through reports from the Committee Chairmen at each Board meeting. A summary of the operations of these committees is set out on the following pages.

All Directors have access to the services of the Company Secretary, and independent professional advice is available to the Directors at the Group's expense.

Corporate governance statement continued

Nomination Committee

Egbert Imomoh
Chairman of Nomination Committee

Effectiveness of the Nomination Committee

Who is on the Nomination Committee?
The Nomination Committee currently comprises Mr Egbert Imomoh (Chairman), Mr Ennio Sganzerla, Mr Toby Hayward and Ms Sheree Byrant.

Member	No. of meetings
Mr Egbert Imomoh (Chairman)	3/3
Mr Ennio Sganzerla	3/3
Mr Toby Hayward	3/3
Members who joined during the year:	
Ms Sheree Bryant	–

Introduction

The Nomination Committee meets at least once a year to review suitable candidates for appointment as Directors, and recommend them to the Board. It regularly reviews the structure, size and composition of the Board, including the skills, knowledge and experience required. It follows a formal, rigorous and open procedure for appointing new Board Directors, based on merit and objective criteria.

The Nomination Committee met three times during the year to recruit additional Non-Executive Directors and to consider the composition of the Board. It appointed independent recruitment consultants to assist the searches for Non-Executive Directors.

The Committee's activities during 2013

Appointment of a new Non-Executive Director	Following the above process, the Committee recommended a new Non-Executive Director to ensure the Board is supported appropriately and strengthened.
Existing Board structure	The Committee conducted a thorough review, and debated the skills and diversity of the existing Board membership, to ensure the Board has the appropriate balance of skills and experience to support the development of the business.
Suitability of future Board structure	The Committee reviewed the Board and committee composition following the appointment of a new Non-Executive Director

Dear Shareholder

This year proved to be another busy one for the Nomination Committee. Following the decision by the Board to appoint a further Non-Executive Director, the Committee initiated an extensive selection process to identify suitable candidates to join the Board.

With the assistance of specialist recruitment consultants, Odgers Berndtson, it undertook a planned recruitment exercise to agreed criteria for the role, shortlisting two candidates from an initial long list. Each Committee member met the final candidates and the Committee recommended Ms Sheree Bryant's appointment.

We remain committed to our aspiration that a significant proportion of our Board should be female by 2015. In the case of Ms Sheree Bryant's appointment as Non-Executive Director in 2013, we asked our search consultants to ensure that female candidates were included on our long and short lists for the role, and ultimately concluded that Sheree was the best candidate. We are currently considering a number of candidates for appointment to the Board. Mr Peter Bingham will step down from his role as Chairman of the Audit and Risk Committee after the AGM in June 2014, and we hope to recommend a candidate to the Board to replace him in this role. We will continue to ask our search consultants to include female candidates in searches. We are committed to appointing new Directors on merit, while seeking to strengthen the diversity of the Board. The Committee will continue to monitor diversity for the Group as a whole.

Egbert Imomoh
Chairman of the Nomination Committee
26 March 2014

Audit and Risk Committee

Peter Bingham
Chairman of Audit and Risk Committee

Effectiveness of the Audit and Risk Committee

Who is on the Audit and Risk Committee?
The members of the Audit and Risk Committee are listed below. The Board notes that Mr Toby Hayward, a chartered accountant, has recent financial experience through his previous and current roles, and that Ennio Sganzerla and Patrick Obath have a range of relevant financial and commercial experience.

Member	No. of meetings
Mr Peter Bingham (Chairman)	2/3
Mr Toby Hayward	3/3
Mr Ennio Sganzerla	3/3
Mr Patrick Obath	3/3

Introduction

The role of the Audit and Risk Committee is to oversee the accounting, financial reporting, internal control and risk management processes of the Company, as well as monitoring the quality of the audit process of Company and Group financial statements.

The Committee also ensures that the Board regularly assesses business risks, risk management and risk mitigation strategies. In doing so, the Committee relies on reports and input from executive and senior management, and the external auditors, and on the outputs of internal audit reviews. The Chairman of the Company, the Finance Director and other members of senior management attend meetings of the Committee by invitation. The Company's external auditors, Deloitte LLP (Deloitte), also attend meetings in part, as well as meeting privately with the Committee at least once a year to discuss any matters they may wish to raise without Executive Directors or members of finance management being present.

The Committee met three times during 2013. Its activities, as well as additional attendees, are summarised on the following pages. The Board is kept updated and informed of the Audit and Risk Committee's activities, and of any issues arising, through verbal reports given at every Board meeting immediately following a Committee meeting, and through the circulation of the Committee's minutes.

Dear Shareholder

I will be stepping down as Chairman of the Audit and Risk Committee, having held the role for the last two years and having been a member for the last nine years.

The Committee's role is to provide support to the Board on areas of risk which have grown substantially as the business has expanded and on the communication of these through the Group's financial reporting and audit processes, and the impact Corporate Governance has added to the work of the Committee.

We continue to work closely with senior management and our external auditors and a detailed resumé of our discussions at meetings during 2013 form part of this report.

We derive considerable comfort from the appointment of a Senior Internal Audit Manager which has improved our knowledge of, and provided comfort in, the area of controls throughout the Group.

We reviewed the Company's current controls for anti-bribery legislation and the treatment of EHSS issues and were satisfied that they are compliant with guidelines but are an ongoing area of focus for improvement in 2014.

The main audit and risk item considered in the year was that related to the valuation of intangible exploration and evaluation assets. These are accounted for using the "successful efforts" method and the Committee scrutinised the judgements made in assessing whether any impairment was necessary. We concluded, after discussion with the external auditors, that the balances are appropriately stated in accordance with the Group's accounting policy and, where required, impairments have been recorded appropriately in the year.

Finally, I would like to record my appreciation for all the support that I have received during these exciting early years of Afren's existence.

Peter Bingham
Chairman of the Audit and Risk Committee
26 March 2014

Corporate governance statement continued

The Committee's activities during 2013

Date of meeting	Other attendees	Matters discussed
18 March 2013	• Finance Director • Senior finance management • Senior Internal Audit Manager • Head of Risk Management and Assurance • Company Secretary • Deloitte Lead Audit Partner and Director	Report from Deloitte on audit and accounting judgements relating to the 2012 Annual Report. Items of particular focus included: – assumptions used in assessing the carrying values of intangible exploration and evaluation assets and oil and gas production and development assets; – the accounting policy and underlying assumptions applied in calculating the charge for depletion, depreciation and amortisation (DD&A); – assumptions relating to future tax charges and related liabilities; – valuation methods applied to options over an associate company and the related accounting impacts recorded in the year; – assumptions made in providing for future decommissioning liabilities; – the suitability of the going concern assumption used as a basis for preparing the accounts; and – the application of hedge accounting for oil price hedges. The level of audit and non-audit fees paid to the external auditor during 2012, and the outlook for 2013. Afren's risk management and risk assessment procedures, and how these mapped to the Group's internal procedures and mitigating action plans. A review of the expected internal audit strategy by the newly appointed Senior Internal Audit Manager. A review of the Group's Anti-Bribery and Corruption (ABC) procedures. No significant matters of non-compliance were reported via the Group's 'whistle-blowing' process.
20 August 2013	• Finance Director • Senior finance management • Senior Internal Audit Manager • Deloitte Lead Audit Partner and Director	Report from Deloitte on audit and accounting judgements underlying the half-year results to June 2013. These included: – Deloitte's approach in carrying out its review of the financial information, including materiality judgements; – assumptions underlying the valuation of tangible oil and gas and intangible exploration assets, liabilities for future tax and royalty payments, and for future decommissioning liabilities; – assumptions underlying the charge for DD&A in the half-year results; – early adoption of IFRS 10 and the resulting consolidation of FHN; – assumptions and judgements made relating to liquidity and going concern; and – consistency of accounting policies and estimates between half-year financial statements and the 2012 financial statements. An update on the internal audit plan for 2013-14 and on the set-up of the internal audit function.
3 December 2013	• Finance Director • Senior finance management • Senior Internal Audit Manager • Head of Risk Management and Assurance • Deloitte Lead Audit Partner and Director • Company Secretary	Report from Deloitte on its plan for the audit of the 2013 Annual Report, including: – audit scope and materiality judgements; – areas of judgement and risk requiring particular audit focus (the key items are summarised in the following section on financial management and reporting); and – fees for the year end audit for consideration. Review of the internal audit plan for 2014 and approval of that plan, the internal audit charter, and internal audit strategy. Feedback from the Senior Internal Audit Manager on internal audit activity and reports to date. Update on risk management activities and the plan for 2014. Changes to the UK corporate governance framework and reporting requirements, and a summary of the technical updates received by the members of the Committee throughout the year.

Internal control and risk management

The Board has applied principle C.2 of the UK Corporate Governance Code by establishing a continuous process for identifying, evaluating and managing the significant risks the Group faces. The Audit and Risk Committee assists the Board in discharging its review responsibilities.

The Directors conduct reviews of Afren's overall system of risk management and internal control through reports from management and the external auditors, and through the findings of internal audit reviews, in accordance with the requirements of the revised Turnbull Guidance on Internal Control, published by the FRC, and the Code. These systems have been operating throughout 2013 and to the date of this report.

The Group also maintains a Risk Register, which contains the key risks the Group faces, including their likelihood and impact, as well as the controls and procedures implemented to mitigate these risks. Regular discussions with senior management determine the content of the Register, which the Audit and Risk Committee reviews. These key risks are summarised on pages 30 to 33 of the Strategic report section of this Annual Report.

The Board is responsible for the Group's system of internal control, and for the ongoing review of its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives. It can only provide reasonable, and not absolute, assurance against material misstatement or loss.

Internal audit procedures

Throughout 2013, we have made significant progress in developing a formal internal audit department for the Group. A Senior Internal Audit Manager was appointed in February 2013 to oversee this function.

The Senior Internal Audit Manager has direct access and responsibility to the Audit and Risk Committee, and his main responsibilities include:

– carrying out internal audit and compliance monitoring work, supported by independent specialist consultants as required, addressing financial and operational risk management objectives across the Group.

– evaluating and developing the Group's overall internal control environment and its processes for risk identification and management.

These responsibilities were presented to, and approved by, the Audit and Risk Committee at its meeting on 18 March 2013. At its meeting on 3 December 2013, the Committee approved the Group's internal audit charter, internal audit strategy and internal audit plan for 2014.

Key areas of focus in 2013 were:

– implementing a formal risk-based internal audit programme, aligned to professional standards and guidelines.

– developing the annual risk-based audit plan to review and assess the effectiveness of business controls.

– reviewing a range of asset processes to assess the adequacy and effectiveness of key process controls.

– supporting the development of the Business Risk Management System.

Financial management and reporting

During the year, the Audit and Risk Committee reviewed, before publication, the half-year and annual financial statements, and other major statements affecting the Group that concerned price-sensitive information.

In monitoring the financial reporting practices, the Audit and Risk Committee reviewed the accounting policies, areas of judgement, going concern assumption, and compliance with accounting standards, the Disclosure and Transparency rules, and the UK Corporate Governance Code. These matters were discussed with management and reviewed alongside reports presented by the Group's external auditors. The key matters reviewed by the Committee through the year and as part of the year-end process were:

Early adoption of IFRS 10 and the resulting consolidation of FHN, and the acquisition of additional interests in FHN

During the year, the Audit and Risk Committee paid particular attention to the adoption of IFRS 10 "Consolidated Financial Statements" and the resulting consolidation of FHN. It reviewed a comprehensive paper prepared by management on the adoption of IFRS 10, which covered the matters considered in reaching the different control conclusion under IFRS 10 compared to IAS 27, as well as other related effects of the change in accounting policy. Further details are included in note 1.6 to the attached financial statements. Management prepared this in conjunction with advice provided by an independent accounting advisory firm, KPMG, who were engaged on the matter.

The Audit and Risk Committee discussed the adoption of IFRS 10 with the Group auditors, who were satisfied that the judgements made were appropriate, and that changes to accounting were applied accurately.

Following a review of the papers presented, and discussion with management and the Group auditors, the Committee was satisfied that all relevant matters had been considered before the early adoption of IFRS 10, and that the judgements made in reaching the control conclusion for the consolidation of FHN were balanced and appropriate. Further details of the impact of this change in accounting policy are included in notes 1.4, 1.6 and 5.15 of the financial statements.

Corporate governance statement continued

Furthermore, the Committee considered the accounting for the acquisition of additional interests in FHN during the year, which, under IFRS 10, represented a transaction with non-controlling shareholders. Having considered and questioned explanations provided by management, the Committee concluded that the approach adopted was in accordance with the relevant requirements. Further details of the increase in Afren's shareholding in FHN are provided in note 5.10 of the financial statements.

Valuation of intangible exploration and evaluation assets

During the year, the Group continued to conduct exploration and evaluation (E&E) work on its portfolio of exploration licences. We follow the successful efforts method of accounting for E&E assets, which prescribes capitalising costs incurred on E&E activities until commerciality is determined, or if deemed unsuccessful, costs are expensed.

The Committee examined the judgements management made in assessing whether there were any indicators of impairment of E&E assets. Where such indicators existed, it considered the evidence to support whether or not an impairment existed. The Committee challenged management on the application of the Group accounting policy in respect of individual assets, and, after due consideration, concluded that E&E balances and impairment charges recorded in the year were appropriately stated in accordance with the Group accounting policy.

Review of oil and gas assets for impairment

The requirements to assess non-current assets for indicators of impairment are described in note 4.4 (d) of the attached financial statements. At each reporting date, the Committee considers a report provided by management which explains the internal and external factors which could be indicative of impairment and their relevance to the Group's assets in the period. Factors considered include changes in the oil price, increases in actual or expected operating costs or capital costs required to access reserves, significant variations in the field performance compared to expectations, and any adverse geopolitical events. During the year, no indicators of impairment were noted which would require a full impairment test to be undertaken.

In respect of OML 26, where an impairment test is required each year due to associated goodwill, we received a paper prepared by management summarising their impairment review and associated inputs and assumptions, and the conclusion that no impairment was required.

Taxation and royalty liabilities

The application of tax legislation in jurisdictions in which the Group operates can be uncertain and subject to interpretation. The Committee reviews management's judgements at least twice a year.

As part of the review of the financial statements for the year ended 31 December 2013, the Committee considered a paper prepared by management, which documented all significant judgements and interpretations relating to tax and royalty accounting and, in particular, the accounting adjustments made to recognise the effect of qualifying for a five-year tax exemption for the Group's Ebok asset in Nigeria.

In arriving at its conclusion that the judgements made are appropriate, the Committee noted that management's judgements had been formed having consulted internal and external tax advisors, and the Group auditors.

Interpretation of licence terms

The Group's licence terms are complex and are subject to interpretation and negotiation. The Committee has received accounting papers prepared by management regarding amendments which were made to the Ebok and Okoro licence terms during 2013. Based on these papers, as well as discussions by the Board of Directors on the commercial rationale for the amendments, and discussions with our external auditors, the Committee concluded that the accounting treatments adopted by the Group were appropriate.

Where licences include residual profit interest in fields, we discussed the calculation of these with management and with the Group's external auditors. The Committee is satisfied that the amounts accrued in relation to these liabilities reflect a balanced assessment of the Group's potential exposure, and notes the estimate uncertainty as described in note 1.6 of the Group's financial statements.

External audit

The Audit and Risk Committee has recommended to the Board that the current auditors, Deloitte LLP, be reappointed as external auditors. In making the recommendation, it has taken into consideration the independence matters noted below and the past service of the auditors, who were first appointed in 2005 following a full tender process. The Committee has also noted the revisions to the UK Corporate Governance Code introduced by the Financial Reporting Council (FRC) in September 2012 and, in particular, the recommendation to put the external audit out to tender at least every ten years. The FRC has proposed non-binding transitional arrangements with respect to tendering, including a recommendation that tendering should ordinarily fit the five-yearly cycle of audit partner rotation. Under the proposed guidelines, the Committee would recommend an external audit tender by 2019 or earlier if it has cause to do so.

The Committee has also concluded that there are no contractual obligations to restrict the choice of external auditors. It has a policy for assessing whether to employ the external auditors to supply services other than audit services, and closely monitors the level of audit and non-audit services the external auditors provide to the Group. Non-audit services are normally limited to assignments closely related to the annual audit, or where the work requires a detailed understanding of the Group.

The external auditors are specifically excluded from providing internal audit services, litigation support, remuneration advice and legal advice services. The Committee assesses every other piece of non-audit work separately, and awards it depending on which professional services firm it considers best suited. In addition, the Chairman of the Audit and Risk Committee must approve any non-audit work with a total fee greater than 25% of the annual audit fee before the appointment is made.

The Board is satisfied that this policy is conducive to maintaining auditor independence and objectivity. During the year, external auditors performed a significant amount of non-audit work in relation to the Circular to Shareholders dealing with the acquisition of a beneficial interest of 10.4% in FHN and the issuing of Senior Secured Notes in December 2013. This is work external auditors would ordinarily perform for companies involved in such projects. The Committee is satisfied that carrying out this work has not impaired the independence of the external auditors.

A breakdown of the fees paid to the external auditors in respect of audit and non-audit work is included in note 5.2 to the financial statements.

Control framework and activities

The Board has established a management structure with defined lines of responsibility and clear delegation of authority. The various committees are key elements of the overall control structure. These include the Executive Committee, which is responsible for all strategic and operational activities day-to-day.

The Group has developed a formal structured business planning process, which operates on an annual cycle. The Board approves the consolidated annual budget, and performance against budget is monitored and reported to the Board.

The Group's risk management process is described on pages 28 to 29. The Audit and Risk Committee and senior executives of the Company regularly review significant risks, their potential impact on the Group's financial position, and actions taken to manage those risks during the year.

Directors' remuneration report

Remuneration Committee

Toby Hayward
Remuneration Committee Chairman

Effectiveness of the Remuneration Committee

Who is on the Remuneration Committee?
The Remuneration Committee currently comprises Mr Toby Hayward (Chairman), Mr Ennio Sganzerla, Mr Peter Bingham and Mr Patrick Obath. All members are Non-Executive Directors and were determined by the Board to be independent throughout the year.

Member	No. of meetings
Mr Toby Hayward (Chairman)	4/4
Mr Ennio Sganzerla	4/4
Mr Peter Bingham	4/4
Mr Patrick Obath	2/4

Dear Shareholder

I am pleased to present to you, on behalf of the Board, the Directors' remuneration report for the year ended 31 December 2013.

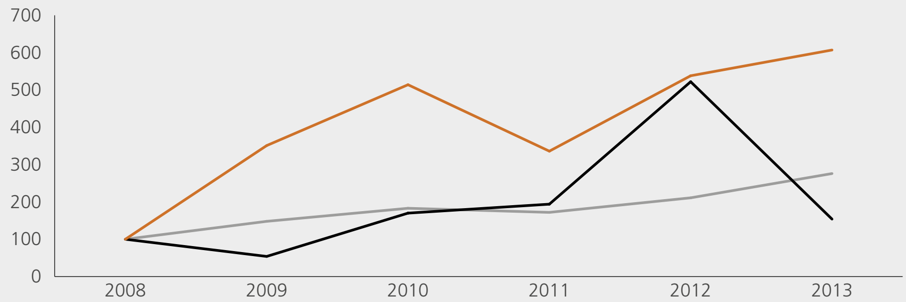
2013 was another year of extraordinary operational achievement and record results as a result of strong performance by your management team. The Group achieved record revenues of circa US$1.64 billion and operating cash flow of US$1.2 billion on the back of a 7.5% increase in our production to over 47,000 boepd net to Afren. We continue to build an outstanding exploration and appraisal track record, including the world-class Ogo discovery on OPL 310 in Nigeria and the Simrit discovery in Kurdistan. Notably, according to Wood Mackenzie, Ogo was the third largest global discovery in 2013, a remarkable accolade for a company of our size. These achievements, along with our 2P reserves replacement ratio reaching 201%, position us well ahead of our peer group. We are now well positioned for future success across the whole E&P lifecycle with a rich opportunity set of production, near term development and high-impact exploration. Supporting our cash generative production base is a robust capital structure and we successfully extended the maturity of a component of our debt obligations over the period. Our share price performance at the end of 2013 was again outstanding, with our TSR at 23%, outperforming the FTSE All Share, the FTSE 100 and FTSE 350 oil and gas indices.

We have continued to grow our organisation with the recruitment of over 50 talented and skilled employees last year across all locations, despite strong competition for human capital in the sector. A description of how our KPIs relate to our strategy is covered on page 22.

Our remuneration philosophy is clear. We reward exceptional achievement in order to retain the most able people in a highly competitive talent market. We believe this will lead to a sustained increase in the value of the Company for the benefit of all its stakeholders. In pursuit of this philosophy, we offer a basic package which is above average in the markets in which the Company competes for executive talent.

The graph below shows how, in line with this philosophy, the Government-defined "single total figure of remuneration" for the Chief Executive has developed over the past five years compared with Company performance – expressed both as total shareholder return performance compared to that of companies in the FTSE 250 index and through the Key Performance Indicators of Reserves Replacement Ratio Percentage and Net Effective Working Interest Production boepd. The drop in total remuneration shown in the graph for 2013 is due to the fact that the Directors did not receive the annual Performance Share Plan grants in 2010 and this has a knock on effect in terms of shares vesting in 2013.

Afren TSR performance and CEO total remuneration
TSR Indices based at 31/12/08 (100). Closing figures three-month averages (source Alithos)
CEO total remuneration index FY2008 = 100 (£1,286,000)



	2009	2010	2011	2012	2013
Net effective working interest production boepd (KPI)	22,100	14,333	19,284	43,059	47,112
Reserves replacement ration (KPI) moving 3-year average	1002%	472%	945%	712%	580%
Annual bonus as % of maximum opportunity	100%	100%	100%	93.8%	95%
Long-term incentive vesting as % maximum vesting	100%	100%	65%	82%	N/A

In 2013, the UK Executive Directors received salary increases of 2.7% and the US Executive Director an increase of 2.2% (2012: zero). The performance of Executive Directors in respect of corporate and project-related KPIs on which annual bonus awards are based was rated as "Exceptional" as defined within the terms of the annual bonus plan. Accordingly, and in line with the newly approved Executive Bonus Scheme, annual bonuses have been awarded in respect of 2013 performance equivalent to 190% of base salary for the Chief Executive and 152% of base salary for the other Executive Directors (95% of maximum potential in both cases). Under the terms of the new scheme, 50% of the annual bonus award is deferred for three years and will be paid in the form of Afren shares. In addition, Executive Directors received an award under the rules of the Performance Share Plan of conditional shares to the value of 200% of salary.

Our remuneration philosophy had previously given rise to some concerns among investors and we have taken these seriously and have consulted extensively with institutional investors to understand their views. Since June last year, we have taken a number of steps to address the issues raised and we feel that the changes made overall will deliver a remuneration policy which fully supports the achievement of our business objectives and strategy and the interests of our long-term shareholders. Generally speaking, the changes made to the schemes that were set out in last year's report were well-received by institutional investors, who recognised the steps being taken by the Company in relation to both the design and reporting of remuneration. I should like to express my appreciation of the time and consideration afforded to me and my colleagues by our institutions and of their willingness to engage in a constructive and continuing consultation process.

I am delighted to share with you that Afren won two prestigious awards in 2013:

- The Investor Relations Society's Most Effective Overall Annual Report in the FTSE 250 at the 2013 Best Practice Awards in November 2013, and
- The Institute of Chartered Secretaries and Administrators' Best Strategy and Risk Disclosure – FTSE 250 at the 2013 Transparency in Governance Awards in November 2013.

However, despite positive comments from institutional investors, 80% of the votes cast were not in favour of the resolution to approve last year's report. This hugely disappointing outcome was due in large part to the payment of an additional exceptional performance award to Executive Directors for enhanced project delivery in addition to their annual bonus payment.

In response to this, Afren has implemented a new annual bonus plan for senior executives, which is described in the future policy table on pages 101 and 102 and in respect of which you will have a binding vote at the Annual General Meeting in June. This new plan removes the possibility of any future additional exceptional performance awards for Executive Directors whilst recognising and rewarding them for the achievement of challenging KPIs. There is also a requirement that 50% of any bonus award must be deferred for three years in the form of Afren shares. In addition, bonus awards may be clawed back under certain circumstances.

Further, to help meet investors' concerns we have:

- Reduced the level of vesting of awards made under the Performance Share Plan (PSP) for achieving median TSR performance relative to the peer groups from 30% to 25% of the award. The maximum award remains at shares to the value of 200% of salary.
- Restricted base salary increases for Executive Directors to RPI inflation in 2014 (2.6% in the UK and 1.1% in the USA). The average increase for employees across the Group was 6.5% for 2014.
- Revised the Company's shareholding policy for Executive Directors to require the CEO to achieve a shareholding (not including unexercised share options and outstanding PSP awards) equivalent to at least five times annual salary. The corresponding requirement for other Executive Directors has been increased to twice their salary.

In addition, each of the Executive Directors has committed to retain any shares received in 2014 through their participation in the PSP for a period of not less than six months following the vesting date, excluding sales to cover tax (the PSP rules provide that the vesting period cannot be less than three years).

The following pages of this report explain Afren's remuneration arrangements for the past year, describe our forward remuneration policy for the next three years, and explain how we intend to implement it for the coming year. If you wish to contact me in relation to any aspect of the Company's Director and senior executive remuneration arrangements, please do so through the Company Secretary at the Company's address. I should be pleased to hear from you.

Toby Hayward
Chairman of the Remuneration Committee
26 March 2014

Directors’ remuneration report continued

1. Introduction

Report preparation

The Remuneration Committee has prepared this report in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendments) Regulations 2013 (the Regulations) which came into force on 1 October 2013. It is divided into the following sections:

- Our annual report on remuneration for the year to 31 December 2013;
- The Company’s forward remuneration policy; and
- A statement about the way in which the Company intends to implement its remuneration policy in 2014.

In accordance with the Regulations and the Companies Act 2006(a), our forward remuneration policy will be subject to a separate binding shareholder vote at the Annual General Meeting in June. Subject to shareholders’ approval, it is intended that this policy will remain in place for three years starting on the day after the AGM. In addition, as has been the case in previous years, we will also be asking for an advisory vote on the remainder of this report at the AGM.

Compliance with the UK Corporate Governance Code

The Remuneration Committee believes that the Company complies with the Main Principles and Provisions of Section D of the UK Corporate Governance Code. Earlier variances from the Provisions dating from before the Company’s main market listing have all now been addressed.

Remuneration Committee

The Remuneration Committee’s responsibilities have been set by the Board and are set out in its terms of reference which are available in the Corporate Governance section of the Company’s website. In summary, it is responsible for determining remuneration for the Executive Directors and additionally the Executive Team in consultation with the Chief Executive. The Committee takes into account the need to recruit and retain executives in a challenging market environment.

During the year, the Remuneration Committee received advice internally from the Human Resources Director and Company Secretary. The Committee’s principal external advisers were MM&K Limited, who provided services both to the Committee and to Company management in connection with Directors’ and executives’ remuneration policy, incentive plan design, performance measures and market practice. MM&K’s fees for assisting the Committee during the year amounted to approximately £40,000. The Committee is satisfied that any potential conflicts of interest that arose in MM&K’s advising both the Committee and management were avoided by the advisory and reporting procedures followed. MM&K is a member of the Remuneration Consultants’ Group and adheres to its code of conduct. Longnecker and Associates provided additional compensation benchmarking services.

2. Annual report on remuneration

Single total figure of remuneration for each Director

Audited

Name of Director		Fees/ basic salary £'000	Benefits in kind[1] £'000	Allowance £'000	Annual bonus[2] £'000	Total emoluments £'000	Pension contribution or subsidy £'000	LTI awards vesting in year[3,4] £'000	Single total figure of remuneration £'000
Executive									
Osman Shahenshah	2013	642	42	–	1,220	1,904	133	–	2,037
	2012	625	26	–	1,275	1,926	92	4,621	6,639
Shahid Ullah	2013	438	17	–	679	1,134	16	–	1,150
	2012	424	19	–	939	1,382	16	2,429	3,827
Darra Comyn	2013	385	18	–	582	985	60	279	1,324
	2012	375	8	–	727	1,110	43	233	1,386
Total	2013	1,465	77	–	2,481	4,023	209	279	4,511
	2012	1,424	53	–	2,941	4,418	151	7,283	11,852
Non-Executive									
Egbert Imomoh	2013	205	14	38	–	257	–	–	257
	2012	200	2	46	–	248	–	426	674
Peter Bingham	2013	62	–	–	–	62	–	–	62
	2012	60	–	–	–	60	–	–	60
Sheree Bryant	2013	9	–	–	–	9	–	–	9
	2012	–	–	–	–	–	–	–	–
John St. John	2013	55	–	–	–	55	–	–	55
	2012	55	–	–	–	55	–	–	55
Toby Hayward	2013	72	–	–	–	72	–	–	72
	2012	70	–	–	–	70	–	–	70
Ennio Sganzerla	2013	52	–	–	–	52	–	–	52
	2012	51	–	–	–	51	–	–	51
Patrick Obath	2013	52	–	–	–	52	–	–	52
	2012	47	–	–	–	47	–	–	47
Total	2013	507	14	38	–	559	–	–	559
	2012	483	2	46	–	531	–	426	957

Notes:
1 Benefits in kind include all benefits shown in policy table on page 101
2 50% of the 2013 bonus was deferred for three years into shares with no further performance conditions. 2012 includes exceptional bonus award
3 Includes 'in the money' value of share options on the date they become exercisable
4 No Performance Share Plan or options grants were made to O Shahenshah or S Ullah in 2010 or later and consequently no long-term incentives vested in 2013 for these individuals

Directors' remuneration report continued

Annual Company performance targets and achievements for 2013

Corporate KPIs	Description	Weighting	2013 target	Result	% Awarded*
Growth in reserves	Reserves Replacement Ratio	8.33%	1.20	2.01	100%
Average production for the performance year	Working interest production boepd	8.33%	43,000 boepd	47,112 boepd	100%
Improvement in operational efficiency	Normalised operating cost per barrel	8.33%	US$15.50 per barrel	US$14.0 per barrel	100%
Improvement in EHSS performance	Lost time injury frequency	8.33%	<1.11	1.05	70%
	Total recordable incident rate		<3.04	2.52	
Project KPIs					
Development projects	Successful completion of drilling, facilities and other development project activities within budget	30.0%		Project targets achieved in line with KPIs	89%
Exploration/Appraisal projects	Drilling and other exploration activities including seismic, testing etc. within budget	32.0%		Eight out of nine project targets achieved in line with KPIs	75%
M&A projects	Côte d'Ivoire; 907/917	1.5%		M&A project targets achieved	100%
CSR projects	Various social, educational and employment related projects	3%		Over 60 CSR projects achieved	100%
Total		100%			

*Note: An average of 80% or above results in Exceptional achievement.

Pension entitlements

Audited

The Executive Directors do not have any interest in any Afren Group defined benefit plan. In 2013 they participated in defined contribution plans according to the policy described on page 101.

Directors' share and share scheme interests

The Company has a policy requiring Executive Directors to retain shares acquired through the share option scheme, performance share plan and deferred bonus plans until a target shareholding is achieved. The target level is a holding of value equal to five times current annual basic salary for the Chief Executive (he currently holds in excess of five times salary) and twice salary for other Executive Directors (both currently hold in excess of twice salary). Unvested performance shares and un-exercised share options do not count towards this total. However, the Director may sell sufficient shares to cover any personal tax payable at vesting and the exercise price of share options.

Directors and their interests

Audited

Name	Committees: Audit and Risk	Nomination	Remuneration	Ordinary shares at £0.01 each: At 25 March 2014	At 31 December 2013	At 31 December 2012
Egbert Imomoh, Chairman		●†		5,404,411	5,404,411	3,972,246
Osman Shahenshah, Chief Executive				5,895,319	5,895,319	4,895,856
Shahid Ullah, Chief Operating Officer				4,645,722	4,645,722	4,360,106
Darra Comyn, Group Finance Director				573,598	573,598	–
Peter Bingham, Non-Executive Director	●†		●	–	–	–
Toby Hayward, Senior Non-Executive Director	●	●	●†	205,000	205,000	205,000
Ennio Sganzerla, Non-Executive Director	●	●	●	24,000	24,000	24,000
John St. John, Non-Executive Director				177,823	177,823	177,823
Patrick Obath, Non-Executive Director	●		●	–	–	–
Sheree Bryant, Non-Executive Director		●		–	–	–

† Chairman of Committee

Share option plans

Audited

Name of Director	As at 1 January 2013	Granted	Exercised	Lapsed	Date granted	As at 31 December 2013	Share price at grant date	Exercise price	Exercisable from	Exercisable to
O Shahenshah	1,150,000				28.06.05	1,150,000	36p	20p	28.06.05 – 01.03.07	27.06.15
	850,000				28.06.05	850,000	36p	50p	28.06.05 – 01.03.06	27.06.15
	550,000				28.06.05	550,000	36p	100p	28.06.05 – 01.03.07	27.06.15
	600,000				30.05.06	600,000	63p	63p	30.05.07 – 30.05.09	29.05.16
	416,666				28.03.07	416,666	53.5p	80p	28.03.07 – 28.03.10	27.03.17
	416,667				28.03.07	416,667	53.5p	120p	28.03.07 – 28.03.10	27.03.17
	416,667				28.03.07	416,667	53.5p	180p	28.02.07 – 28.03.10	27.03.17
	3,000,000				23.01.09	3,000,000	20.25p	23.25p	23.01.10 – 23.01.12	23.01.19
	5,800,000				30.12.09	5,800,000	84.75p	84.75p	30.12.10 – 30.12.12	30.12.19
S Ullah	1,500,000				23.01.09	1,500,000	20.25p	23.25p	23.01.10 – 23.01.12	23.01.19
	1,500,000				30.12.09	1,500,000	84.75p	84.75p	30.12.10 – 30.12.12	30.12.19
D Comyn	650,000				30.12.09	650,000	84.75p	84.75p	30.12.10 – 30.12.12	30.12.19
	1,200,000				29.03.10	1,200,000	103p	103p	29.03.11 – 29.03.13	28.03.20
E Imomoh*	200,000				28.06.05	200,000	36p	20p	01.03.06 – 01.03.07	27.06.15
	500,000				28.06.05	500,000	36p	50p	28.06.05 – 01.03.06	27.06.15
	500,000				28.06.05	500,000	36p	100p	28.06.05 – 01.03.07	27.06.15
	600,000				30.05.06	600,000	63p	63p	30.05.07 – 30.05.09	29.05.16
	250,000				28.03.07	250,000	53.5p	80p	28.03.07 – 28.03.10	27.03.17
	250,000				28.03.07	250,000	53.5p	120p	28.03.07 – 28.03.10	27.03.17
	250,000				28.03.07	250,000	53.5p	180p	28.03.07 – 28.03.10	27.03.17
	750,000				23.01.09	750,000	20.25p	23.25p	23.01.10 – 23.01.12	23.01.19
P Bingham	125,000		(125,000)		28.06.05	–	36p	50p	28.06.05 – 01.03.06	27.06.15
	130,000		(130,000)		28.06.05	–	36p	100p	28.06.05 – 01.03.07	27.06.15
	145,000		(145,000)		21.06.07	–	69p	70p	21.06.07 – 21.06.08	20.06.17
J St. John	400,000				21.06.07	400,000	69p	70p	21.06.07 – 21.06.09	20.06.17

* Executive Director to 18 December 2008

2008 Performance Share Plan

	Date of award	Date of vesting	As at 1.1.2013	Granted	Vested	Lapsed	As at 31.12.2013	Market price (£) at date of award
Osman Shahenshah	31 Mar 2011	31 Mar 2014	788,644	–	–	–	788,644	1.59
	29 Jun 2012	29 Jun 2015	1,302,083	–	–	–	1,302,083	1.04
	18 Sep 2013	18 Sep 2016	–	891,493	–	–	891,493	1.43
Darra Comyn	31 Mar 2011	31 Mar 2014	473,186	–	–	–	473,186	1.59
	29 Jun 2012	29 Jun 2015	781,250	–	–	–	781,250	1.04
	18 Sep 2013	18 Sep 2016	–	534,896	–	–	534,896	1.43
Shahid Ullah	31 Mar 2011	31 Mar 2014	530,048	–	–	–	530,048	1.59
	29 Jun 2012	29 Jun 2015	838,844	–	–	–	838,844	1.04
	18 Sep 2013	18 Sep 2016	–	595,655	–	–	595,655	1.43

The performance conditions applying to vesting of the 2013 performance share grant are similar to those shown in the Statement of Implementation for 2014 on page 104, with some minor differences in the Exploration and Production peer group. Minimum vesting is 30% of maximum.

Payments to past Directors

Audited

There were no payments to past Directors.

Payments for loss of office

Audited

No payments were made for loss of office.

Performance graph and table

The historical performance graph shown in the Remuneration Committee Chairman's Statement on page 94 compares the total shareholder return performance of Afren plc with that of the FTSE 250 total return index, which the Board considers to be the most appropriate comparator for share performance. Also shown is the performance of Afren against the two Key Performance Indicators of production and reserves replacement and an index of the single total figure of remuneration for the Chief Executive over the period of the graph.

The table below shows the values of the single total figure of remuneration on which the index in the graph has been calculated:

	2008	2009	2010	2011	2012	2013
CEO single total figure of remuneration £'000	1,286	693	2,192	2,499	6,639	2,037

Percentage change in the elements of pay from 2012 to 2013

	Base salary/fees	Benefits in kind	Annual bonus
Chief Executive	2.7%	61.5%*	-4.3%
Average change for staff	6.5%	13%	13%

* Increase due to implementation of new pension contribution level and car allowance review in late 2012.

Relative importance of spend on pay

	Value of spend in year US$m		
	2013	2012	Difference
Group employee remuneration	96	86	+10
Dividends and other	–	–	–
Group capital expenditure	716	521	+195
Net cost of acquisitions	139	151	-12

Voting at the AGM in June 2013

The number of votes cast in respect of the resolution to approve the Directors' remuneration report for 2012 were as follows:

For: 20.29%	Against: 79.68%	Withheld: 47.9m

The concerns of shareholders and actions taken to address them are discussed in the statement of the Remuneration Committee Chairman on pages 94 and 95.

3. Directors' remuneration policy

This section of the Remuneration Report describes the future policy for Directors' remuneration. This policy will be subject to a binding vote of approval at the 2014 AGM.

Future policy table

Executive Directors

Base salary	
Purpose/Link to corporate strategy	Part of a basic competitive package to recruit and retain individuals of the necessary calibre to execute the Company's business strategy.
Operation	Salary only. No separate Directors' fees. Reviewed annually with changes effective 1 January if appropriate.
Opportunity	Reviews based on market comparisons and increases to other Group staff. Details of salaries for 2014 are shown in the implementation statement on page 104. Increases in Executive Director salaries will not exceed the average staff increase in the Group.
Performance metrics	None
Pension	
Purpose/Link to corporate strategy	To provide executives with a long-term savings opportunity, the pension forms part of a basic competitive package to recruit and retain.
Operation	Defined contribution plan for all Executive Directors; CEO and FD in the UK plan; the COO subject to US statutory contribution limits. A taxable cash allowance is available where contributions exceed statutory limits and the Company operates a salary sacrifice arrangement. Half of the National Insurance savings are credited to the individual.
Opportunity	Company contribution as percentage of salary: CEO 20%; other Executive Directors up to 15%. Revised in September 2012.
Performance metrics	None
Benefits	
Purpose/Link to corporate strategy	Insured benefits are included to provide employee protection for the benefit of the employee and Company.
Operation	Entitlement contained in service agreements. Insured benefits provided as part of Group schemes. Should it be appropriate to recruit a Director from overseas, flexibility is retained to provide benefits that take account of those typically provided in their country of residence.
Opportunity	Private medical insurance Life assurance Critical illness cover Income protection policy Car allowance Club membership for business and personal use
Performance metrics	None
Annual bonus plan	
Purpose/Link to corporate strategy	To incentivise and focus attention on Company KPIs; to reward the achievement of EHSS, financial, operational and individual targets and provide a competitive performance-related annual earnings opportunity; compulsory deferral element into shares provides alignment with investors.
Operation	Targets and KPIs set at start of year. 80% of opportunity is based on corporate achievement and 20% on individual performance. 50% of the award is paid in cash soon after the year-end and 50% is deferred into Company shares for three years with no further performance conditions. Delivery of shares depends on continued employment. Clawback applied for material mis-statement or serious misconduct.
Opportunity	Maximum bonus for exceptional achievement (including deferred amounts) is 200% salary for the Chief Executive and 160% of salary for other Executive Directors. For excellent achievement, 125% and 110% of salary respectively and for good achievement (threshold) 80% of salary for all Executive Directors.

3. Directors' remuneration policy continued

Performance metrics	Company element based on challenging corporate, operational, EHSS and financial KPIs; measures, targets and weightings are set in respect of each financial year. Personal element based on performance measures set each financial year relevant to the individual's role and accountabilities; details of the corporate performance measures applicable in the current financial year are contained in the policy implementation statement on page 104. All bonus payments are at the discretion of the Committee.
2008 Performance Share Plan (PSP)	
Purpose/Link to corporate strategy	Aligns executives with long-term interests of shareholders by rewarding sustained increase in shareholder value and longer-term execution of business strategy.
Operation	Annual grant of contingent shares or nil-price options. Vesting based on performance measured over not less than three years from grant; discretion to provide equivalent of dividends on the vested shares in cash or shares. No further retention period but the current Directors have committed to hold shares for at least six months after transfer. (See page 98 for general shareholding policy.)
Opportunity	Face value of award up to the value of 200% of salary per annum, with Remuneration Committee discretion to award up to 300% in exceptional circumstances (for example, to compensate a Director for loss of awards made under a plan operated by a previous employer (see Recruitment policy on page 103).
Performance metrics	A combination of market and non-market related performance measures are set prior to each award. Market-related performance may be measured relative to comparable companies and/or a relevant index; non-market related measures reflect one or more strategic KPIs. Vesting is zero for below threshold performance, 25% at threshold and 100% at stretch with 'straight line' vesting between these levels. Where performance is measured relative to a market benchmark or index, threshold performance is median and stretch performance upper quartile. Targets for other types of measures will be set at a similar level of challenge. Under the rules of the plan, as approved by shareholders, the Remuneration Committee has discretion to amend performance conditions in exceptional circumstances to maintain the level of challenge. Any such changes will be reported in the following Remuneration Report. The Committee will take into account the underlying financial performance of the Company. Details of the performance measures and targets applicable to PSP awards made or to be made in the current financial year are contained in the policy implementation statement on page 104.
2005 Executive share option plan	
Purpose/Link to corporate strategy	Introduced during Afren's original AIM listing. Currently employed Executive Directors no longer participate. The plan is now used as part of a recruitment strategy to attract top quality talent at a senior level below the Board with the objective of providing equivalent long-term interest and competitive opportunity to joiners as compensation for amounts lost at a previous employer.
Operation	Operates within approved dilution limits; exercise price is market value at grant date, with exercise up to 20% after one year; a further 20% after two years; and remaining 60% after three years, subject to performance metrics. Options eligible for exercise up to ten years from grant.
Opportunity	Grant levels reflect the Remuneration Committee's view of what represents reasonable compensation for amounts lost at previous employer (see Recruitment policy on page 103).
Performance metrics	Options not exercisable until share price has remained more than 40% above market price at grant, on average, for three continuous months.
Non-Executive Directors	
Annual fee	
Purpose/Link to corporate strategy	Competitive fee to recruit and retain.
Operation	Fixed element currently paid in cash. Supplementary fees are paid for additional Board responsibilities.
Opportunity	Fees are determined in accordance with market practice; the Remuneration Committee recommends the Chairman's fees to the Board and the Board decides on fees for other NEDs, including the Senior Independent Director; committee fees are not identified separately; increases to the Chairman's and NED fees will not exceed the average increase to staff over a three year period. Current fees for the Chairman and the other NEDs are contained in the policy implementation statement on page 104.
Performance metrics	None

Recruitment policy

The Company's philosophy is that all Directors should be remunerated at an appropriate level based on Afren's remuneration policy and taking into account the experience and calibre of the individual. The remuneration policy set out on pages 101 and 102 will therefore apply equally to new and existing Directors.

However, a new Director recruited from outside the Company may be offered relocation or housing allowances and the Company may agree to compensate such a Director to a value not exceeding the amount of remuneration foregone for loss of earnings or the accrued value of incentive plans from his or her previous employer. A new Director appointed from within the Company, whose remuneration arrangements fall outside the Company's remuneration policy for Directors, will continue to be entitled to receive any remuneration to which he or she was previously entitled.

Policy on payment for loss of office

Executive Directors' service contracts provide for a maximum of 12 months' notice. The letters of appointment for Non-Executive Directors provide for three months' notice.

On termination of an Executive Director's service contract, the Company's policy is to pay the salary and benefits to which the executive is contractually entitled. There is no contractual entitlement to receive any bonus or the value of any unexercised share options or unvested awards under the PSP. Depending on the circumstances, the Company may decide to make a bonus payment in respect of the period up to the termination date and to permit the exercise of share options or the vesting of PSP awards in accordance with the relevant plan rules as approved by shareholders on adoption. It is not the Company's policy to make any payments in respect of bonus or to permit the exercise of options or the vesting of share awards if the Company is entitled to dismiss a Director for cause.

Obligations in service contracts

There are no obligations to individuals in service contracts or letters of appointment which will give rise to an entitlement beyond that described in the policy table and the Policy on payment for loss of office.

Discretions retained by the Remuneration Committee

Within the future remuneration policy and recruitment policy as described, the areas of discretion for the Board and/or Remuneration Committee lie principally in the operation of the 2005 Share Option Plan and 2008 Performance Share Plan, the rules of both of which have been approved by members in General Meeting. Both plans place a normal limit on the face value of individual grants to 200% of salary in any one year, but allow a higher level in exceptional circumstances. The 2005 plan sets no limit on the exceptional amount but restricts the circumstance to the recruitment of a top executive. The Committee is unlikely to award in excess of 300% of salary in such a case. The 2008 plan sets a limit of 300% but does not specify the nature of the exceptional circumstance. The Board considers that this is also only likely to arise in the case of external recruitment.

Both plans allow the Board to set performance vesting conditions at the time of grant. Such conditions will, in future, be disclosed to shareholders in the coming year's implementation statement (unless the Board considers that such disclosure has commercial sensitivity). In both plans the Remuneration Committee has discretion to vary the performance conditions to reflect changed circumstances, but such discretion has to be exercised fairly and reasonably and must ensure that the amended conditions are no more or less difficult to satisfy than when they were originally imposed. A similar discretion covers adjustments to scheme interests to avoid any advantage or disadvantage to a plan participant following changes in the capital structure of the Company.

Both plans allow the Board or Remuneration Committee to determine that a leaver is to be treated as a 'good leaver' for the purposes of option exercise although they do not come within the normal plan definition of a good leaver. In the 2008 plan, the Committee may waive the normal requirement for pro-rating a good leaver award vesting for time and may waive the normal requirement for pro-rating for both performance and time that apply in the case of a change in control. With any material changes, where possible, the Committee consults with shareholders beforehand.

Illustration of the application of remuneration policy.

The charts to the right show the level of reward that each of the Executive Directors can expect in the three scenarios of (1) low performance – where no performance related remuneration is earned, (2) performance in line with target and (3) high performance where the maximum annual bonus and LTI vesting are earned. In compliance with the Regulations, no account is taken of possible share price increases.

Consideration of conditions elsewhere in Group

Afren has a diverse working population across the Group operating out of six countries/region (UK, USA, Nigeria, Kenya, Madagascar and the Kurdistan region of Iraq). Our reward structures have been designed to meet local requirements whilst reflecting our Group-wide remuneration policies and philosophy.

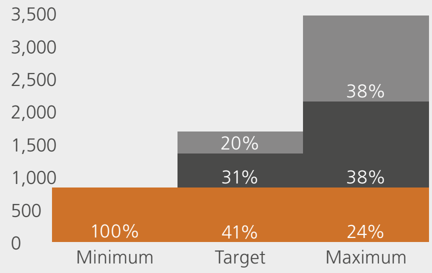
The major objective of the Group remuneration policy is to ensure that there is a clear link between each employee's individual level of performance and their reward. Afren's aim is to achieve an integrated approach to reward, linking Company strategy in the form of the achievement of corporate objectives and individual performance to salary increases and bonus awards. These, along with other factors such as market positioning and the overall reward budget, go into the annual salary and bonus review process for all employees including the Executive team.

This ensures that a co-ordinated and consistent approach is taken – encouraging and supporting a high-performance culture whilst ensuring fairness and transparency across the Group.

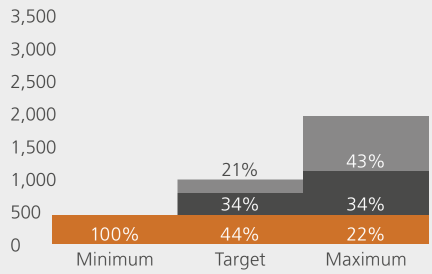
Statement of consideration of shareholders' views

The concerns of shareholders and actions taken to address them are discussed in the statement of the Remuneration Committee chairman on pages 94 and 95.

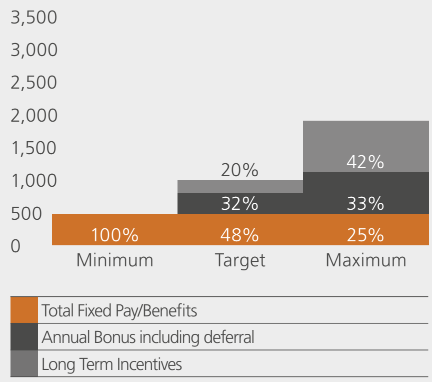
Chief Executive Officer (£'000)



Chief Operating Officer (£'000)



Chief Financial Officer (£'000)



Corporate governance

4. Statement of implementation of the remuneration policy in 2014

Salaries

Executive Directors' salaries for the financial year ending 31 December 2014 have been set as follows:

Osman Shahenshah	GBP 658,600
Shahid Ullah	USD 684,050
Darra Comyn	GBP 395,200

Benefits

The cost of insured benefits and benefits in kind for 2014 are estimated to be as follows:

Osman Shahenshah	GBP 43,000
Shahid Ullah	USD 18,000
Darra Comyn	GBP 19,000

Pensions contributions will be as stated in the policy table.

Annual bonus implementation

The total bonus available to be awarded (including the 50% that is deferred) is based 80% on the achievement of corporate targets and 20% on individual performance.

The corporate targets are split between strategic KPIs and project goals.

There are four corporate KPIs and a series of project KPIs which are taken into account in setting the bonus. The corporate KPIs are:

KPI	Measure
Growth in reserves	Reserves replacement ratio
Average production for the year	Working interest production
Improvement in operating efficiency	Normalised operating cost per barrel
Improvement in CSR and EHSS performance	Balanced scorecard of EHSS and CSR projects

The project elements reward performance against a series of development, exploration/appraisal and M&A projects. The weighting varies between projects.

Points for each project are awarded for achievement of the work programme with additional points for achievement of the programme within budget.

The corporate and project related targets will not be disclosed at this stage for reasons of commercial sensitivity. In the remuneration report for 2014, to be presented in 2015, the Board will consider whether it can present these targets and will report accordingly.

2008 Performance Share Plan implementation – 2014 grants

The Remuneration Committee expects to grant performance shares to Executive Directors in line with the normal maximum under the policy (see Policy Table on pages 101 and 102. Vesting of these shares will be dependent on three year corporate performance as follows:

30% dependent on Total Shareholder Return relative to FTSE 250

70% dependent on Total Shareholder Return relative to the following peer group of 26 exploration and production companies:

Anadarko Petroleum Corp
Apache Corporation
Cairn Energy
Canadian Natural Resources
DNO International
Dragon Oil
EnQuest
Genel Energy
Gulfsands Petroleum
Hess Corporation
Heritage Oil
JKX Oil and Gas
Lundin Petroleum
Marathon Oil Corporation
Maurel & Prom
Niko Resources
Noble Energy
PA Resources
Pioneer Natural Resources
Premier Oil
Salamander Energy
SOCO International
Talisman Energy
Tullow Oil
Vaalco Energy
Woodside Petroleum

There is an underpinning performance measure, namely the Reserves Replacement Ratio (RRR). RRR is the ratio of number of barrels of oil equivalent (proved and probable) discovered or acquired to the number produced over the three-year period. Any shares due to vest under the TSR measure will be reduced if the Group fails to meet its three-year target for RRR. The vesting level will be reduced by a percentage of maximum vesting which is the same as the percentage of the production barrels by which the RRR fall short of target. RRR is the critical indicator of sustainability and growth leading to long-term profitability. Both the minimum TSR and RRR targets have to be achieved before any PSP shares vest. This means the performance challenge is considerably higher than that implied by relative TSR performance alone and the performance for minimum vesting represents substantially more than median overall performance.

Accounts

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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the Parent Company financial statements under IFRS as adopted by the European Union. Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit and loss of the Company for that period. In preparing these financial statements, the Directors are required to:

– properly select and apply accounting policies;

– present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

– provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and

– make an assessment of the Company's ability to continue as a going concern.

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 enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement

I confirm to the best of my knowledge:

1. The financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
2. The strategic report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
3. The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

By order of the Board

Osman Shahenshah
Chief Executive

26 March 2014

Independent auditors' report

Opinion on financial statements of Afren plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group and Parent Company financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company, as applied in accordance with the provisions of the Companies Act 2006; and
- the Group and Parent Company financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Consolidated Statement of Comprehensive Income, the Group and Company Balance Sheets, the Group and Company Statement of Changes in Equity, the Group and Company Cash Flow Statements and the related notes.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Going concern

As required by the Listing Rules we have reviewed the Directors' report on page 80 that the Group is a going concern.
We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

Risk	How the scope of our audit responded to the risk
Recoverability of intangible exploration and evaluation (E&E) assets IFRS 6 "Exploration for and Evaluation of Mineral Resources" requires management to consider whether there are facts and circumstances indicating that the entity should test E&E assets for impairment. This involves the use of significant judgment both in the review of impairment indicators and in any subsequent impairment test, the consideration of estimates which are dependent on assumptions about the future.	We evaluated management's assessment of whether there were any indicators of impairment for any of the Group's E&E assets, taking into consideration the impairment indicators outlined in IFRS 6 and industry practice. Our work included discussion of the latest status and future appraisal plans on each licence with operational staff and Group management, confirming that the E&E assets are included in capital expenditure plans and budgets, and verifying whether the current phase of the Group's licence to explore is at, or close to, expiry. Our procedures included obtaining and reviewing documentary evidence, such as budgets, field development plans, contracts for future drilling and geological and geophysical (G&G) activities, correspondence with joint venture partners and other third parties, and licence documents. In addition, we obtained written representation from management with regard to their overall assessment and their intentions to continue E&E activities. Details of the Group's policy on E&E assets are disclosed in note 4.3 together with details of impairments to exploration and evaluation assets recorded by the Group in the year.

Independent auditors' report continued

Risk	How the scope of our audit responded to the risk
Recoverability of development and producing oil and gas properties within property, plant and equipment, together with associated goodwill balances. Management is required to assess whether there are any indications of impairment, and if so test for impairment by measuring the recoverable amount of the asset. Goodwill must be tested for impairment at least annually, irrespective of whether there are indicators of impairment. In forming their judgements as to whether indications of impairment are present and carrying out any necessary impairment reviews, management considers estimates involving oil and gas reserves, future oil and gas prices, future costs, and discount rates.	We have challenged management's assessment of potential impairment indicators in light of the performance of each asset and external factors such as the outlook for oil and gas prices. Management has engaged independent experts to provide an updated estimate of the majority of the Group's commercial oil and gas reserves. We have obtained and considered a draft report from management's expert and discussed their work and findings with them. We have considered whether the latest estimates are indicative of impairment. Where management has carried out an impairment review and calculated a recoverable amount (being in respect of the OML26 CGU including the related goodwill – see note 5.13), we have compared the assumptions adopted in management's recoverable amount calculations with the latest independent estimates. This included consideration of oil price assumptions and discount rates for reasonableness by reference to publicly available market data, comparison of future cost estimates with actual cost levels and budgets, checking for consistency with the assumptions underlying the related reserves estimates. Details of impairment reviews undertaken by the Group during the year and related assumptions are provided in notes 4.4 and 5.13.
Depletion, depreciation and amortisation The calculation of depletion, depreciation and amortisation ("DD&A") involves estimation of the remaining commercial oil and gas reserves and future development costs required to extract those reserves. This charge is highly material and involves complex estimates. These estimates involve the use of judgement as to the point during the reporting period from which revised estimates or changes in development plans should be reflected in the Group's DD&A calculations. DD&A calculations also need to be revised to reflect changes in contractual terms which affect cost and production sharing.	We agreed the reserves and future development cost estimates used in the DD&A calculations to the most recent reserves report available throughout the period. We also checked the latest draft reserves report for any indication that reserves estimates used throughout the year may have been based on erroneous information. Where DD&A calculations were revised during the year to take into account further development approvals granted in the year and amendments to contractual terms governing production and cost sharing arrangements with Afren's partners, we assessed whether these changes had been reflected in the DD&A calculations appropriately and applied from an appropriate point. We checked the calculations for mathematical accuracy and agreed production quantities to stock take results. Details of the Group's policy on DD&A calculation are disclosed in note 4.4.
Accounting for deferred and current taxation Measurement of the Group's income tax obligations can be judgemental and/or complex, reflecting inherent uncertainty in local tax regulation and tax rates and resultant uncertainties over the tax treatment of certain aspects of the Group's business. In the current year, material remeasurements of deferred and current income tax were made following the Group securing entitlement to a five-year 'tax exemption' in respect of Ebok and an agreement clarifying certain tax matters with one of Afren's partners.	We checked the Group's taxation computations in respect of current and deferred income tax and assessed for consistency with local tax legislation and accounting standards with the assistance of local and Group tax specialists. We evaluated judgements taken relating to management's provisioning for tax by reference to local tax requirements and review of correspondence with tax authorities. We checked that the requirement to account for tax assets and liabilities at the relevant enacted or substantively enacted rates had been properly applied. We checked documentary support for the Group's entitlement to the Ebok tax exemption. We assessed the reasonableness of management's judgement to account for US$298 million out of the US$300 million paid in the year as the cost of acquisition of deferred tax benefits relating to the Ebok project. Details of the Group's policy on deferred and current income tax are disclosed in note 2.3 together with details of income tax recorded by the Group in the year.

Risk	How the scope of our audit responded to the risk
Application of production, cost and profit sharing contractual terms to the Group's production operations. The Group participates in each of its producing projects through multiple agreements which have been executed and amended over a number of years. The application of these agreements to some aspects of the Group's business can be open to interpretation and negotiation, and the application of IFRS to aspects of these arrangements involves significant judgement. During 2013, expenses of US$300 million and US$108 million were incurred in order to secure amendments to agreements governing the Group's Ebok and Okoro assets, including to clarify certain ambiguities and uncertainties in the existing arrangements. Also in 2013, cost recovery on Ebok has been achieved with the result that certain production, profit and costs sharing terms became effective for the first time. This is considered a key risk because of the degree of judgement involved in interpreting contractual terms and associated amounts due, and because the consequential estimation uncertainties are material.	We reviewed the changes made in the amended agreements and considered management's assessment of their effect and the accounting treatment for the consideration paid and payable in light of the benefits secured. We also assessed whether the revisions affected management's previous conclusions as to the overall accounting for the Group's participation in these projects under IFRS, having regard to normal practice in the industry whereby IFRS is not prescriptive, with particular regard to the adoption of IFRS11 in the year. Following achievement of cost recovery on Ebok in December 2013, we considered the newly effective terms and assessed whether these have been appropriately reflected in the 2013 financial statements. We considered the level of estimation uncertainty involved in measuring the Group's production, cost and profit sharing liabilities at the year end, and management's assessment that this uncertainty could lead to material revisions to currently recorded amounts in future periods. We considered whether the disclosures made in note 1.6 in relation to this material estimation uncertainty are appropriate.

The Audit and Risk Committee's consideration of these risks is set out on pages 91 to 92.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

When setting materiality, among other factors we considered the Group's pre-tax profit and net assets in the current year as well as in recent years; the occurrence of any non-recurring or fluctuating gains and losses (such as exploration and evaluation assets impairments, costs of extinguishment of bonds, and fair valuation of hedges) and the level of consolidated shareholders equity. We determined materiality for the Group to be US$31,000,000, which is below 7.5% of adjusted pre-tax profit, and below 2% of equity.

We agreed with the Audit and Risk Committee that we would report to the Committee all audit differences in excess of US$600,000, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit and Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit scope included full audit of all key business units of the Group, including Nigeria, Kurdistan region of Iraq and East Africa operations together with the head office function in London. These locations account for all of the Group's net assets, revenue and profit before tax. Our audit work used levels of materiality applicable to each individual business unit which were lower than Group materiality. Component auditors were involved in Nigeria as the majority of developed and producing oil and gas assets are located there and in-depth knowledge of local legislation and tax regulations is required. In the current year, in addition to regular interaction and review through correspondence, telephone and other electronic media, the Senior Statutory Auditor visited the Nigerian component during the audit concluding phase.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditors' report continued

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from subsidiaries not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. Under the Listing Rules we are required to review certain elements of the Directors' Remuneration Report. We have nothing to report arising from these matters or our review.

Corporate Governance Statement

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit and Risk Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement, 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 Practices Board's Ethical Standards for Auditors.

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.

Scope of the audit of the 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 Group's and the Parent 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 and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Bevan Whitehead ACA
(Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

26 March 2014

Group statement of comprehensive income

For the year ended 31 December 2013

	Notes	2013 US$m	Restated[(1)] 2012 US$m
Revenue	2.1	1,644.3	1,571.4
Cost of sales		(1,001.4)	(780.9)
Gross profit		642.9	790.5
Administrative expenses		(44.8)	(55.1)
Other operating expenses			
– derivative financial instruments	3.3	(46.6)	(60.2)
– impairment of exploration and evaluation assets	4.3	(60.5)	(15.0)
Operating profit		491.0	660.2
Finance income	3.6	3.9	1.6
Finance costs	3.6	(157.3)	(90.8)
Other gains and (losses)			
– foreign currency gains		3.6	0.1
– fair value gain/(loss) on financial liabilities and financial assets	3.3	3.5	(2.5)
Share of joint venture (loss)/profit	4.7	(26.6)	0.3
Profit before tax from continuing operations		318.1	568.9
Income tax credit/(expense)	2.3	156.7	(380.0)
Profit from continuing operations after tax		**474.8**	**188.9**
Discontinued operations			
Profit/(loss) for the year from discontinued operations attributable to equity holders of Afren plc	5.14	38.1	(2.1)
Profit for the year		**512.9**	**186.8**
Attributable to:			
Equity holders of Afren plc		516.4	198.4
Non-controlling interests		(3.5)	(11.6)
		512.9	**186.8**
Other comprehensive income			
Gain/(loss) on revaluation of available-for-sale investment		0.4	(0.9)
Other comprehensive income/(expense) for the year		0.4	(0.9)
Total comprehensive income for the year		**513.3**	**185.9**
Attributable to:			
Equity holders of Afren plc		516.8	197.5
Non-controlling interests		(3.5)	(11.6)
		513.3	185.9
Earnings per share from continuing activities			
Basic	2.5	43.8c	18.6c
Diluted	2.5	42.1c	17.7c
Earnings per share from all activities			
Basic	2.5	47.3c	18.4c
Diluted	2.5	45.5c	17.6c

(1) restated due to the adoption of IFRS 10 and IFRS 11, as described in note 5.1 and note 5.15

Group balance sheet

As at 31 December 2013

	Notes	2013 US$m	Restated[1] 2012 US$m	Restated[1] 2011 US$m
Assets				
Non-current assets				
Intangible oil and gas assets	4.3	1,090.2	851.3	691.0
Property, plant and equipment	4.4	2,052.2	1,853.0	1,827.0
Goodwill	5.13	115.2	115.2	115.2
Deferred tax assets	2.3	97.5	–	–
Prepayments and advances to Partners	5.4	–	88.4	0.6
Available for sale investments	5.6	1.3	0.9	–
Investment in joint ventures	4.7	1.7	7.8	7.3
		3,358.1	**2,916.6**	**2,641.1**
Current assets				
Inventories	4.6	80.9	94.4	67.1
Trade and other receivables	5.4	209.6	326.1	173.0
Prepayments and advances to Partners	5.4	99.3	7.4	–
Derivative financial instruments	3.3	0.1	–	0.7
Cash and cash equivalents	3.1	389.9	598.7	353.8
		779.8	1,026.6	594.6
Total assets		**4,137.9**	**3,943.2**	**3,235.7**
Liabilities				
Current liabilities				
Trade and other payables	5.5	(717.2)	(485.4)	(327.0)
Borrowings	3.2	(77.3)	(216.3)	(164.6)
Current tax liabilities		(72.3)	(156.4)	(39.5)
Deferred consideration on acquisitions	3.1	(22.0)	–	(216.7)
Obligations under finance lease	3.4	(22.1)	(19.3)	(18.1)
Derivative financial instruments	3.3	(28.2)	(31.3)	(10.3)
		(939.1)	(908.7)	(776.2)
Net current (liabilities)/assets		**(159.3)**	**117.9**	**(181.6)**
Non-current liabilities				
Deferred tax liabilities	2.3	(146.3)	(477.6)	(226.2)
Provision for decommissioning	4.4	(30.1)	(39.4)	(34.1)
Borrowings	3.2	(1,051.7)	(943.6)	(821.1)
Obligations under finance leases	3.4	(77.7)	(98.1)	(117.4)
Deferred consideration on acquisitions	3.1	(18.1)	–	–
Other payables	5.6	(52.3)	(43.5)	(43.5)
Derivative financial instruments	3.3	(17.1)	(9.8)	(11.4)
		(1,393.3)	(1,612.0)	(1,253.7)
Total liabilities		(2,332.4)	(2,520.7)	(2,029.9)
Net assets		**1,805.5**	**1,422.5**	**1,205.8**
Equity				
Share capital	3.5	19.1	18.9	18.7
Share premium	3.5	926.8	920.3	918.1
Merger reserve	3.5	179.4	179.4	179.4
Other reserves	5.9	27.5	6.9	(10.3)
Retained earnings		642.0	265.4	62.2
Total equity attributable to parent company		**1,794.8**	**1,390.9**	**1,168.1**
Non-controlling interest	5.10	10.7	31.6	37.7
Total equity		**1,805.5**	**1,422.5**	**1,205.8**

(1) restated due to the adoption of IFRS 10 and IFRS 11, as described in note 5.1 and note 5.15

The financial statements of Afren plc, registered number 05304498, were approved by the Board of Directors and authorised for issue on 26 March 2014. They were signed on its behalf by:

Darra Comyn
Group Finance Director

26 March 2014

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Group cash flow statement

For the year ended 31 December 2013

	Notes	2013 US$m	Restated[1] 2012 US$m
Operating profit for the year from continuing operations		491.0	660.2
Operating profit for the year from discontinuing operations		14.7	3.1
Operating profit for the year		505.7	663.3
Depreciation, depletion and amortisation		408.8	380.1
Derivative financial instruments		4.2	20.0
Impairment charge on exploration and evaluation assets		60.5	15.0
Share-based payments charge		25.6	29.4
Operating cash flows before movements in working capital		1,004.8	1,107.8
Decrease/(increase) in trade and other operating receivables		91.6	(251.9)
Increase in trade and other operating payables		163.8	124.2
Decrease in inventory of crude oil		14.4	6.0
Current tax paid		(58.4)	(11.7)
Net cash generated by operating activities		**1,216.2**	**974.4**
Purchases of property, plant and equipment		(466.0)	(394.5)
Exploration and evaluation expenditure		(307.1)	(138.0)
Acquisition of additional licence rights and tax benefits	2.3	(300.0)	–
Acquisition of participating interest in licences		–	(190.2)
Cash received on disposal of discontinued operations		17.5	1.3
Increase in inventories – drilling spare parts and materials		(5.5)	(18.7)
Investment inflow		3.9	0.5
Net cash provided by investing activities		**(1,057.2)**	**(739.6)**
Issue of ordinary share capital – share-based plan exercises		6.7	2.2
Issue of ordinary share capital – non-controlling interests		–	1.8
Investment in subsidiary – additional shares purchased from third parties		(109.3)	–
Net proceeds from borrowings		450.6	397.4
Repayment of borrowings and finance leases		(541.3)	(271.0)
Deferred consideration – finance cost paid		–	(9.7)
Interest and financing fees paid		(174.7)	(111.0)
Net cash (used in)/provided by financing activities		**(368.0)**	**9.7**
Net (decrease)/increase in cash and cash equivalents		(209.0)	244.5
Cash and cash equivalents at beginning of year		598.7	353.8
Effect of foreign exchange rate changes		0.2	0.4
Cash and cash equivalents at end of year		**389.9**	**598.7**

(1) restated due to the adoption of IFRS 10 and IFRS 11, as described in note 5.1 and note 5.15

Group statement of changes in equity

For the year ended 31 December 2013

	Share capital US$m	Share premium account US$m	Other reserves US$m	Merger reserve US$m	Retained earnings US$m	Attributable to equity holders of parent US$m	Non-controlling Interest US$m	Total equity US$m
At 1 January 2012	18.7	918.1	26.4	179.4	64.7	1,207.3	–	1,207.3
Effect of change in accounting policy (note 1)	–	–	(36.7)	–	(2.5)	(39.2)	37.7	(1.5)
At 1 January 2012 as restated	18.7	918.1	(10.3)	179.4	62.2	1,168.1	37.7	1,205.8
Issue of share capital	0.2	2.2	–	–	–	2.4	–	2.4
Share-based payments	–	–	20.6	–	–	20.6	6.6	27.2
Transfer to retained earnings	–	–	(4.6)	–	4.6	–	–	–
Exercise of warrants designated as financial liabilities	–	–	–	–	0.2	0.2	–	0.2
Change in equity of subsidiary not wholly owned	–	–	2.1	–	–	2.1	(1.1)	1.0
Net profit for the year	–	–	–	–	198.4	198.4	(11.6)	186.8
Other comprehensive expense for the year	–	–	(0.9)	–	–	(0.9)	–	(0.9)
Balance at 31 December 2012 as restated	**18.9**	**920.3**	**6.9**	**179.4**	**265.4**	**1,390.9**	**31.6**	**1,422.5**
Issue of share capital	0.2	6.5	–	–	–	6.7	0.3	7.0
Share-based payments	–	–	20.7	–	–	20.7	4.7	25.4
Transfer to retained earnings	–	–	(1.5)	–	1.5	–	–	–
Exercised and expired put option	–	–	43.5	–	–	43.5	–	43.5
Change in equity ownership of subsidiary	–	–	10.6	–	(139.0)	(128.4)	(20.8)	(149.2)
Redemption of convertible loan notes	–	–	(3.3)	–	(2.3)	(5.6)	(1.6)	(7.2)
Put option over own equity	–	–	(49.8)	–	–	(49.8)	–	(49.8)
Net profit for the year	–	–	–	–	516.4	516.4	(3.5)	512.9
Other comprehensive income for the year	–	–	0.4	–	–	0.4	–	0.4
Balance at 31 December 2013	**19.1**	**926.8**	**27.5**	**179.4**	**642.0**	**1,794.8**	**10.7**	**1,805.5**

Accounts

Notes to the Group financial statements

For the year ended 31 December 2013

In preparing the 2013 financial statements, we have grouped notes into sections under six key categories which are considered to be most relevant for shareholders and other users:

1. Basis of preparation
2. Result for the year
3. Financing the Group's activities
4. Oil and gas activities
5. Other disclosures
6. Company financial statements

The key accounting policies have been incorporated throughout the notes to the financial statements adjacent to the disclosure to which they relate. All accounting policies are included within an outlined box.

Where possible, wording has been simplified to provide clearer commentary on the financial performance of the Group.

1.0 Basis of preparation

1.1 General information

Afren plc (the Company, and together with its subsidiaries, the Group) is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is Kinnaird House, 1 Pall Mall East, London SW1Y 5AU, England. The nature of the Group's operations and its principal activities are set out in note 2.2 and in the Chairman's statement and Chief Executive's review and Operations review on pages 10, 16 and 40. These financial statements are presented in US dollars because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 1.5.

1.2 Basis of accounting

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments and oil inventory which is subject to certain commodity swap arrangements that have been measured at fair value.

1.3 Going concern

The financial statements have been prepared in accordance with the going concern basis of accounting. The use of this basis of accounting takes into consideration the Group's current and forecast financing position, additional details of which are provided in the Going Concern section of the Directors' Report.

1.4 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. During the year, the Group adopted a suite of new accounting standards, including IFRS 10, IFRS 11, and IFRS 12. The adoption of these standards resulted in a change in accounting policy for determining when control exists and consolidation should take place, which in turn resulted in a change in the control conclusion for the Group's interest in First Hydrocarbon Nigeria Company Limited (FHN) which led to the consolidation of FHN in the Group financial statements. The Group's financial statements for 2012 have been restated to reflect this change in accounting policy, further details are provided in note 5.15. The new accounting policy is as follows:

Control is achieved where the Company has power over an investee, exposure or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns. The determination of whether control exists includes de facto circumstances that give the Company power over the investee irrespective of the Group's shareholding.

Where the Group has an interest in a joint operation, those interests are accounted for using proportionate consolidation, under which the Group records its share of revenue, expenditure, assets and liabilities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of the acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of the subsidiaries to bring the accounting policies into line with those used by the Group. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

1.5 Foreign currencies

The individual financial statements of each Group company are maintained in the currency of the primary economic environment in which it operates (its functional currency). For the purpose of consolidated financial statements, the results and financial position of each Group company are expressed in US dollars which is the functional currency of the Company and the presentational currency for the consolidated financial statements of the Group.

For the purposes of presenting consolidated financial statements, the assets and liabilities of each Group company are translated as required into US dollars at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences (if any) arising are recognised in other comprehensive income and accumulated in equity. Such translation differences are recognised as income or as expense in the period in which the operation is disposed of. At present the Group has no subsidiaries with functional currencies other than US dollars.

1.6 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described above and in Sections 2 to 5, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements and key assumptions made by the Directors, and other key sources of estimation uncertainty at the balance sheet date, that may have a significant effect on the amounts recognised in the financial statements.

Carrying value of oil and gas assets and goodwill

Management assesses the Group's oil and gas assets for indicators of impairment at least annually, with reference to indicators in IAS 36 and tests goodwill for impairment at least annually irrespective of whether or not there are any indicators of impairment. Note 4.4 discloses the carrying value of tangible oil and gas assets and details of the key assumptions used, which include a production profile based on management's best estimate of proven and probable reserves of the assets, an internal oil price profile benchmarked to mean analysts' consensus and a 10% pre-tax discount rate which, taking into account other assumptions used in the calculation, management considers to be reflective of the risks.

Intangible exploration and evaluation assets

Management assesses impairment in respect of intangible exploration and evaluation assets with reference to indicators in IFRS 6 and the specific facts and circumstances of each asset. Note 4.3 discloses the carrying value of such assets. In making the assessment, management is required to make judgements on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

Amounts due to participants in fields

Included within Trade and other payables described in note 5.5 to the financial statements is a balance at 31 December 2013 of US$366.0 million of 'Other creditors and operating Partners' due under the contractual agreements through which the Group participates in its fields (31 December 2012: US$193.1 million).

In calculating certain amounts included within this balance, aspects of these agreements can be unclear and potentially open to interpretation and negotiation, for example, the levels of costs which will be agreed as recoverable capital expenditure, levels of allowable overhead or financing charges allocable to individual assets. Management has recorded such amounts at its best estimate, having considered a range of reasonably possible outcomes. However, this estimation uncertainty could potentially lead to a material gain or loss in future periods, as and when the interpretation of the underlying agreements is confirmed with the relevant counterparties.

Share-based payments

Management is required to make assumptions in respect of the fair value of share-based payments in issue, in respect of the inputs used to calculate the fair values of these contracts. Details of these can be found in note 5.8.

Decommissioning

Provision for environmental clean-up and associated costs depend on the legal requirements at the date of decommissioning, the costs and timing of work and the discount rate to be applied. Decommissioning provisions are updated each year to reflect management's best estimates of future cost estimates and timings.

Taxation and royalties

The application of tax legislation in jurisdictions in which the Group operates can be uncertain and subject to interpretation. Afren calculates the tax charge for the period using the latest information available, taking external advice where necessary, in order to arrive at our best estimate of the final tax position.

During the year, key judgements were made by management related to the assumptions used in accounting for the effects of a tax exemption for the Ebok asset in Nigeria. Judgements are required when estimating the future unwinding of temporary differences and the relevant tax rates at which temporary differences will unwind for the purposes of valuing deferred tax assets and liabilities. These estimates will be updated at each reporting period.

Revisions to our tax liabilities (either upward or downward) may occur as the Group's tax filings and royalties are agreed with the relevant authorities in future periods. Our tax charge and estimate of our tax liabilities is disclosed in note 2.3.

Adoption of IFRS 10

As explained in notes 1.4 and 5.1, the Group adopted IFRS 10 during 2013. The most significant test in determining whether a control relationship exists under the Group's previous accounting policy (under IAS 27), was whether the Group had a shareholding of over 50%. One key change in IFRS 10 is a new requirement for an investor to consider whether it has de facto power over an investee; this is relevant for the decision regarding the treatment of FHN. Although Afren had a minority shareholding of FHN, the other shareholders were relatively widely dispersed and there was no evidence of them organising their interests in such a way that they could exercise more votes than Afren as minority shareholder. Therefore under IFRS 10 this was one of the indicators, when forming a consolidation conclusion, that Afren controlled FHN when the shareholding was below 50%. Under IAS 27 a holding of over 50% was a more significant test.

Notes to the Group financial statements continued

For the year ended 31 December 2013

2.0 Result for the year

This section focuses on the results and performance of the Group. On the following pages are disclosures explaining the Group's results for the year, segmental information, taxation, normalised profit before tax and earnings per share.

2.1 Revenues

Revenue represents the sales value, net of VAT and royalties paid in kind or where the financial obligation does not fall directly to Afren, of the Group's share of oil liftings in the year. Oil revenue is recognised when goods are delivered and title has passed. Following the Group's reclassification of its interest in the CI-11 block and Lion Gas Plant as a discontinued operation, and its subsequent disposal (note 5.14), the Group revenue no longer includes gas revenue.

Oil revenue for the year are set out in the table below:

	2013 US$m	Restated 2012 US$m
Oil revenue	1,644.3	1,571.4
Total	**1,644.3**	**1,571.4**

2.2 Segmental reporting

(a) Geographical segments

The Group operates in three geographical markets which form the basis of the information evaluated by the Group's chief operating decision-maker: Nigeria and other West Africa, East Africa and the Kurdistan region of Iraq. This is the basis on which the Group records its primary segment information. Unallocated operating expenses, assets and liabilities relate to the general management, financing and administration of the Group.

Comparative information for 2012 has been restated to reflect the consolidation of FHN on adoption of IFRS 10. FHN is included in the Nigeria and other West Africa segment. Assets in Côte d'Ivoire, which were sold during 2013 (note 5.14), are included in the Nigeria and other West Africa segment for management purposes but have been deducted in a separate column in the analysis below to enable a reconciliation to the income statement. The results of these assets are disclosed as discontinued operations in the income statement.

2013	Nigeria and other West Africa US$m	East Africa US$m	Kurdistan region of Iraq US$m	Unallocated US$m	Discontinued operations US$m	Consolidated US$m
Sales revenue by origin	1,666.1	–	–	–	(21.8)	1,644.3
Operating gain/(loss) before derivative financial instruments	624.2	(23.6)	(3.0)	(44.0)	(16.0)	537.6
Derivative financial instruments losses	(30.9)	–	–	(15.7)	–	(46.6)
Segment result	593.3	(23.6)	(3.0)	(59.7)	(16.0)	491.0
Finance costs						(157.3)
Other gains and losses – fair value of financial assets and liabilities						3.5
Other gains and losses – share of joint venture loss	(26.6)					(26.6)
Other gains and losses – forex and investment revenue						7.5
Profit from continuing operations before tax						**318.1**
Income tax credit						156.7
Profit from continuing operations after tax						**474.8**
Profit from discontinued operations						38.1
Profit for the year						**512.9**
Segment assets – non-current	2,003.9	329.4	1,003.9	20.9	–	3,358.1
Segment assets – current**	601.3	7.3	23.4	147.8	–	779.8
Segment liabilities	(1,252.3)	(45.9)	(57.2)	(977.0)	–	(2,332.4)
Capital additions – oil and gas assets	386.1	–	224.1	–	–	610.2
Capital additions – exploration and evaluation	190.4	52.3	43.7	13.0	–	299.4
Capital additions – other	3.2	1.1	0.4	4.9	–	9.6
Depletion, depreciation and amortisation	(406.0)	(0.2)	(0.7)	(1.8)	–	(408.7)
Share of joint venture loss	(26.6)	–	–	–	–	(26.6)
Exploration costs write-off	(36.6)	(23.9)	–	–	–	(60.5)

2012 Restated	Nigeria and other West Africa US$m	East Africa US$m	Kurdistan region of Iraq US$m	Unallocated US$m	Discontinued operations US$m	Consolidated US$m
Sales revenue by origin	1,611.2	–	–	–	(39.8)	1,571.4
Operating gain/(loss) before derivative financial instruments	709.5	(1.2)	(0.1)	15.3	(3.1)	720.4
Derivative financial instruments losses	(60.2)	–	–	–	–	(60.2)
Segment result	649.3	(1.2)	(0.1)	15.3	(3.1)	660.2
Finance costs						(90.8)
Other gains and losses – fair value of financial assets and liabilities						(2.5)
Other gains and losses – share of joint venture profit	0.3					0.3
Other gains and losses – forex and investment revenue						1.7
Profit from continuing operations before tax						**568.9**
Income tax expense						(380.0)
Profit from continuing operations after tax						**188.9**
Loss from discontinued operations						(2.1)
Profit for the year						**186.8**
Segment assets – non-current*	1,788.2	300.1	736.1	92.2	–	2,916.6
Segment assets – current**	692.0	2.6	13.5	318.5	–	1,026.6
Segment liabilities	(1,541.0)	(63.9)	(12.8)	(902.9)	–	(2,520.7)
Capital additions – oil and gas assets	204.3	–	121.1	–	–	325.4
Capital additions – exploration and evaluation***	152.2	67.4	25.0	0.7	–	245.3
Capital additions – other	1.4	–	1.4	2.8	–	5.6
Depletion, depreciation and amortisation	(378.0)	–	(0.5)	(1.6)	–	(380.1)
Share of joint venture profit	0.3	–	–	–	–	0.3
Exploration costs write-off	(14.9)	(0.1)	–	–	–	(15.0)

* The majority of the unallocated non-current segment assets relate to an amount receivable from a Partner in 2012.

** The majority of the unallocated current segment assets relate to an amount receivable from a Partner in 2013 and cash in 2012.

*** During 2012, exploration and evaluation additions of US$68.0 million in respect of the Okoro East licence were transferred to property, plant and equipment (PP&E): oil and gas assets in the Nigeria and other West Africa segment.

Non-current assets in the following segments include:

Non-current assets by origin	2013 US$m	Restated 2012 US$m
Nigeria	1,863.6	1,600.1
Côte d'Ivoire	107.8	119.4
Ghana	32.5	29.5
Congo (Brazzaville)	–	39.2
Total West Africa	**2,003.9**	**1,788.2**
Kenya	119.0	126.4
Ethiopia	72.5	60.3
Madagascar	46.8	43.5
Seychelles	59.4	46.9
Tanzania	31.7	22.9
Total East Africa	**329.4**	**300.1**
Kurdistan region of Iraq	1,003.9	736.1
Total Kurdistan region of Iraq	**1,003.9**	**736.1**
Unallocated	20.9	92.2
Total unallocated	**20.9**	**92.2**
Total non-current assets	**3,358.1**	**2,916.6**

Revenues were generated in Nigeria of US$1,644.3 million (2012: US$1,571.4 million). Included in revenues for Nigeria and other West Africa for the year ended 31 December 2013 are US$504.0 million of sales (2012: US$1,378.0 million) which were billed to the Group's largest two customers.

Notes to the Group financial statements continued

For the year ended 31 December 2013

(b) Business segments

The operations of the Group comprise one class of business, being oil and gas exploration, development and production.

2.3 Taxation

The Group is subject to various forms of taxation in the countries in which it operates. These include income tax on profits, royalties on production, sales taxes on revenues generated, and payroll taxes on benefits to employees.

(a) Income tax credit/expense

The income tax expense represents the sum of tax currently payable and deferred tax, and includes a credit in respect of the reversal of prior year taxes no longer expected to be payable, and recognition of deferred tax assets described further below. The tax currently payable is based on taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

	2013 US$m	Restated 2012 US$m
Current tax		
UK Corporation tax	–	–
Overseas corporation tax	239.2	122.3
Effect of five-year tax exemption	(254.3)	–
Other adjustment in respect of prior years	(10.5)	6.4
	(25.6)	128.7
Deferred tax		
Deferred tax	61.6	251.3
Effect of five-year tax exemption	(192.7)	–
	(131.1)	251.3
Total income tax (credit)/expense	**(156.7)**	**380.0**

The income tax expense is different from the expected income tax expense for the following reasons:

	2013 US$m	Restated 2012 US$m
Profit for the year	318.1	568.9
Tax at the UK corporate tax rate of 23.25% (2012: 24.5%)	74.0	139.4
Tax effect of items which are not deductible for tax	32.7	23.7
Items not subject to tax	(4.3)	(22.6)
Effect of tax rates in foreign jurisdictions	(122.0)	219.6
Adjustments in respect of prior years	(9.4)	6.4
Recognised tax losses	–	(0.7)
Loss not recognised	31.8	14.2
Effect of five-year tax exemption	(159.5)	–
Total income tax (credit)/expense	**(156.7)**	**380.0**

During 2013, the Group received clarification of the tax position in respect of its Ebok asset in Nigeria. Afren Resources Limited, the subsidiary which holds Afren's interest in the Ebok asset, will benefit from the award of a five-year tax exemption which is effective from the commencement of commercial production until May 2016. As a result, no income tax will be payable in respect of the 2011-2016 period and therefore the provision for all current tax provided for up to the point of confirming the five-year tax exemption has been reversed in the current period resulting in a current tax credit of US$254.3 million and a deferred tax credit of US$192.7 million. The Group has recognised a deferred tax asset of US$97.5 million, representing the expected future tax benefit of depreciation charged in excess of capital allowances claimed to date.

During 2013, the Group agreed to make payments of US$300.0 million in relation to amending the structure of its partnerships, one of the principal benefits of which is securing future tax benefits relating to the rights to capital allowances available for future utilisation.

(b) Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the rates of tax expected to apply in the period when the liability is settled or the asset realised.

(i) Recognised deferred tax assets and liabilities

The Group's deferred tax assets and liabilities are attributable to the following:

Assets	2013 US$m	2012 US$m
Property, plant and equipment	88.3	–
Decommissioning provision	9.2	–
Deferred tax assets	**97.5**	**–**

Liabilities	2013 US$m	Restated 2012 US$m
Property, plant and equipment	(115.8)	(470.6)
Intangible oil and gas assets	(39.8)	(39.8)
Decommissioning provision	2.3	14.7
Tax losses	24.0	6.7
Other temporary differences	(17.0)	11.4
Deferred tax liabilities	**(146.3)**	**(477.6)**
Net deferred tax liabilities	**(48.8)**	**(477.6)**

Analysis of movement during the year – 2013	At 1 January 2013 US$m	Credit/(charge) for the year US$m	Effect of tax exemption US$m	Tax allowances secured US$m	At 31 December 2013 US$m
Assets					
Property, plant and equipment	–	–	–	88.3	88.3
Decommissioning provision	–	–	–	9.2	9.2
Deferred tax asset	–	–	**–**	**97.5**	**97.5**
Liabilities					
Property, plant and equipment	(470.6)	(46.6)	201.0	200.2	(115.8)
Intangible oil and gas assets	(39.8)	–	–	–	(39.8)
Decommissioning provision	14.7	(1.7)	(10.7)	–	2.3
Tax losses	6.7	17.3	–	–	24.0
Other temporary differences	11.4	(30.8)	2.4	–	(17.0)
Deferred tax liability	**(477.6)**	**(61.6)**	**192.7**	**200.2**	**(146.3)**
Net Deferred tax liability	**(477.6)**	**(61.6)**	**192.7**	**297.7**	**(48.8)**

Restated Analysis of movement during the year – 2012	At 1 January 2012 US$m	Charge/(credit) for the year US$m	At 31 December 2012 US$m
Liabilities			
Property, plant and equipment	(209.1)	(261.5)	(470.6)
Intangible oil and gas assets	(39.8)	–	(39.8)
Decommissioning provision	12.6	2.1	14.7
Tax losses	8.4	(1.7)	6.7
Other temporary differences	1.6	9.8	11.4
	(226.3)	**(251.3)**	**(477.6)**

(ii) Unrecognised deferred tax assets

At the balance sheet date the Group also had tax losses (primarily arising in the UK) of US$297.5 million (2012: US$141.3 million) in respect of which a deferred tax asset has not been recognised as there is insufficient evidence of future taxable profits against which these tax losses could be recovered. Such losses can be carried forward indefinitely.

Notes to the Group financial statements continued

For the year ended 31 December 2013

The Group had temporary differences of US$23.3 million (2012: US$12.5 million) in respect of share-based payments, property, plant and equipment and pensions in respect of which deferred tax assets have not been recognised as there is insufficient evidence of future taxable profits against which these tax losses could be recovered.

Deferred tax has not been recognised on undistributed earnings of subsidiaries as the largest proportion of dividends would be from subsidiaries where no additional tax would be applied on dividend income.

2.4 Reconciliation of profit before tax to normalised profit before tax

Normalised profit before tax is a non-IFRS measure of financial performance of the Group, which in management's view provides a better understanding of the Group's underlying financial performance. This may not be comparable to similarly titled measures reported by other companies.

The table below reconciles the IFRS profit before tax from continuing operations to the normalised profit before tax:

	Notes	2013 US$m	Restated 2012 US$m
Profit before tax from continuing operations		318.1	568.9
Unrealised losses on derivative financial instruments	3.3	4.2	20.0
Finance costs on settlement of borrowings		54.6	1.8
Share-based payment charge		25.6	29.4
Foreign exchange gains		(3.6)	(0.1)
Fair value (gain)/loss on financial liabilities and assets	3.3	(3.5)	2.5
Share of joint venture impairment losses/(profits)	4.7	26.6	(0.3)
Impairment of exploration and evaluation assets	4.3	60.5	15.0
Normalised profit before tax		**482.5**	**637.2**

2.5 Earnings per ordinary share

Earnings per share (EPS) is the amount of post-tax profit attributable to each share. Where a profit or loss in the period from a discontinued operation has occurred, this profit or loss is factored into the EPS calculation in order to present a Group result from continuing operations.

Basic EPS from continuing operations is calculated on the Group's profit for the year from continuing operations attributable to equity shareholders of US$478.3 million (2012: US$200.5 million) divided by 1,090.8 million (2012: 1,080.8 million) being the weighted average number of shares in issue during the year.

Diluted EPS takes into account the dilutive effect of all share options and warrants being exercised.

	2013	Restated 2012
From continuing and discontinued operations		
Basic	47.3c	18.4c
Diluted	45.5c	17.6c
From continuing operations		
Basic	43.8c	18.6c
Diluted	42.1c	17.7c

Profit for the year used in the calculation of the basic and diluted earnings per share from continuing and discontinued operations (US$m)

Profit for the year used in the calculation of the basic and diluted earnings per share from continuing and discontinued operations (US$m)	516.4	198.4
Result for the year from discontinued operations (US$m)	38.1	(2.1)
Profit used in the calculation of the basic and diluted earnings per share from continuing operations (US$m)	478.3	200.5

The weighted average number of ordinary shares for the purposes of diluted earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic earnings per share as follows:

Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,090,802,823	1,080,796,430
Effect of dilutive potential ordinary shares:		
Share-based payments schemes	45,264,971	49,370,049
Warrants	59,855	165,215
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**1,136,127,649**	**1,130,331,694**

3.0 Financing the Group's activities

This section outlines how the Group manages its capital and related financing costs.

The Directors determine the appropriate capital structure of Afren; specifically, how much is raised from shareholders (equity) and how much is borrowed from financial institutions (debt) in order to finance the Group's business strategy, both now and in the future and to maximise shareholder value.

The Directors consider that debt and equity are both capital, and managing net debt (as disclosed below) is the key strategy for managing capital. The Directors consider the Group's capital structure and funding requirements a minimum of twice a year ahead of announcing results in the context of the Group's ability to continue as a going concern and deliver its business strategy. The Group's funding requirements are met through a combination of debt, equity and operational cash flow.

3.1 Net debt and cash flow commitments

Key cash flow activity in the year

The Group invested US$765.0 million in exploration and evaluation activities, and in developing its oil and gas assets, funded from operating cashflow.

US$109.0 million was invested in acquiring additional equity in FHN, bringing the Group's interest to 78% by 31 December 2013 (further details are provided in note 5.10).

In December 2013, the Group raised US$360.0 million from the issue of senior secured notes, with a seven-year term. The proceeds were used to repurchase US$246.6 million of the 2016 senior secured notes and US$50.0 million of the 2019 senior secured notes.

During the year the Group also repaid the US$50.0 million corporate facility and US$101.3 million FHN acquisition and development facility.

Net debt

Net debt is the key measure by which the Group monitors its funding. Net debt is defined as borrowings, less finance lease liabilities and cash and cash equivalents.

		1 Jan 2013 US$m	Net cash flows	Non-cash movements	31 Dec 2013 US$m	Coupon	Repayment due
Ebok facility	(a)	184.6	24.4	(4.7)	204.2	LIBOR+4.25%	From 2015
Socar facility	(b)	49.6	(50.0)	0.4	–	LIBOR+4.5%	July 2013
Senior Secured Loan Notes 2016 (2016 Notes)	(c)	486.3	(246.6)	9.1	248.9	11.5%	2016
Senior Secured Loan Notes 2019 (2019 Notes)	(d)	292.8	(50.0)	2.2	245.0	10.25%	2019
Senior Secured Loan Notes 2020 (2020 Notes)	(e)	–	360.0	(6.3)	353.7	6.625%	2020
OML 26 Facility		–	80.0	(2.7)	77.3		2014
Convertible loan notes	(f)	52.0	(62.5)	10.5	–		
A&D Loan facility		94.7	(101.3)	6.5	–		
Total borrowings (excluding finance lease liabilities)		**1,160.0**	**(46.0)**	**15.1**	**1,129.1**		
Less: cash and cash equivalents	(g)	(598.7)	208.8	–	(389.9)		
Net debt		**561.3**	**162.8**	**15.1**	**739.2**		
Finance lease liabilities		**117.4**			**99.8**		

(a) Ebok facility

In March 2013, Afren signed a new US$300.0 million Ebok facility which is secured against Ebok field reserves. The facility has a three-year term and bears interest at LIBOR plus 4.25%. The new facility replaces the previous facility. The new extended facility will be used to fund ongoing capital expenditure and general corporate requirements, including Group loans.

(b) Socar facility

In August 2011, the Group entered into a US$50.0 million facility agreement (the Socar facility) with Socar Trading S.A. The Socar facility had a term of the earlier of (i) 23 months from the date of the agreement (July 2013) or (ii) 90 days from the date that Afren's Ebok Crude Oil Purchase Contract with Socar terminates (the later of 4 September 2012 or the cumulative lifting of 18.5 mmbbl of crude oil from the Ebok field). The facility was repaid in full on 5 July 2013.

(c) 2016 Notes

In January and February 2011, the Group completed its first bond issue and raised US$500.0 million before issue costs. The Notes, which are listed on the Luxembourg Stock Exchange, are guaranteed on a senior basis by certain subsidiaries of Afren plc and on a senior subordinated basis by Afren Resources Limited. In December 2013, the Group repurchased US$247.0 million of the 2016 notes, funded by the issue of 2020 Senior Secured loan notes.

(d) 2019 Notes

In March 2012, the Group completed its second bond issue raising US$300.0 million before issue costs. The Notes, which are listed on the Luxembourg Stock Exchange, are guaranteed on a senior basis by certain subsidiaries of Afren plc and on a senior subordinated basis by Afren Resources Limited. In December 2013, the Group repurchased US$50.0 million of the 2019 notes, funded by the issue of 2020 Senior Secured loan notes.

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(e) 2020 Notes

In December 2013, the Group completed its third bond issue raising US$360.0 million before issue costs. The Notes, which are listed on the Luxembourg Stock Exchange, are guaranteed on a senior basis by certain subsidiaries of Afren plc and on a senior subordinated basis by Afren Resources Limited.

(f) Convertible loan notes

On 5 July 2013, the Group redeemed convertible loan notes issued by First Hydrocarbon Nigeria Company Limited (FHN) in 2011. US$50.0 million of senior unsecured unsubordinated convertible notes were issued by FHN in September 2011 to fund ongoing development activities. The loan notes could have been converted to shares in FHN at any time from the date of issue until maturity (2017) in minimum tranches of US$5.0 million, at a conversion price of US$1.85 per share, which equated to approximately 27 million FHN shares. If not previously repaid or redeemed, the notes would have been redeemed by FHN at maturity at a premium of 200% of the par value of the notes. The notes were redeemed for US$62.5 million resulting in an accounting gain of US$0.3 million, which is included in finance income.

(g) Cash and cash equivalents

The cash flow statement on page 114 gives a breakdown of cash movements in the year.

Cash and cash equivalents comprise cash held by the Group in the form of short-term bank deposits with an original maturity of three months or less and earn interest at respective short-term deposit rates. The carrying amount of these assets approximates their fair value.

Cash and cash equivalents at 31 December 2013 includes US$19.7 million (2012: US$28.5 million) that is restricted.

Contracted cash flow commitments

The Group uses both short- and long-term projected cash flows to monitor funding requirements for the Group's activities. Cash flow projections take into consideration the Group's debt financing plans and covenant compliance.

The table below analyses the Group's non-derivative financial liabilities (borrowings, finance lease liabilities, trade and other payables and deferred consideration) by when they fall due for payment. The values in the table are based on undiscounted cash flows on the earliest date on which the Group can be required to pay. The values are greater than the values in the net debt table (note 3.1) as they include contractual forecast interest payments.

The non-interest bearing category in the table below comprises trade and other payables and deferred consideration on acquisitions.

2013	Weighted average effective interest	Less than 1 month US$m	1-3 months US$m	3 months to 1 year US$m	1-5 years US$m	After 5 years US$m	Total US$m
Non-interest bearing							
Trade and other payables	nil	88.8	426.9	65.1	–	–	580.8
Deferred consideration	nil	–	–	22.0	22.0	–	44.0
Interest bearing							
Finance lease liability	6%	4.3	6.4	17.2	85.9	–	113.8
Variable and fixed interest rate borrowings	8.1%	–	120.4	61.3	720.4	673.5	1,575.6
Total		**93.1**	**575.7**	**165.6**	**806.3**	**673.5**	**2,314.2**

Restated 2012	Weighted average effective interest	Less than 1 month US$m	1-3 months US$m	3 months to 1 year US$m	1-5 years US$m	After 5 years US$m	Total US$m
Non-interest bearing							
Trade and other payables	–	117.8	190.0	84.1	–	–	391.9
Interest bearing							
Finance lease liability	6%	2.2	6.6	17.7	113.2	–	139.7
Variable and fixed interest rate borrowings	10%	29.4	16.1	242.3	818.0	346.6	1,452.4
Total		**149.4**	**212.7**	**344.1**	**931.2**	**346.6**	**1,984.0**

The amounts reported in the balance sheet relating to borrowings (excluding interest) mature as follows:

	2013 US$m	Restated 2012 US$m
Due within one year	77.3	216.4
Due within two to five years	445.5	650.8
More than five years	606.2	292.8
	1,129.1	**1,160.0**

3.2 Borrowings and loan notes

The Group borrows money in the form of bonds and other financial instruments. These typically have a fixed interest rate and are for a fixed term. The interest and other costs payable on these borrowings are shown in note 3.6.

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received net of direct issue costs.

Borrowings (including senior loan notes) are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings. Interest is calculated by applying the coupon rate to the redemption value.

Convertible loan notes are regarded as compound instruments consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible loan notes and the fair value assigned to the liability component represents the embedded option to convert the liability into equity of the issuing entity and is included in equity. Issue costs are apportioned between the liability and equity components of the convertible loan notes based on their relative carrying amounts at the date of issue. The portion relating to the equity is charged directly against equity. The interest expense on the liability component is calculated based on the effective interest rate and is recognised in the income statement.

	2013		Restated 2012	
	Current US$m	Non-Current US$m	Current US$m	Non-Current US$m
Loan notes	–	863.4	–	800.0
Bank borrowings	80.0	210.1	216.7	172.7
	80.0	**1,073.5**	**216.7**	**972.7**
Unamortised cost of issue as at 31 December	(2.7)	(21.8)	(0.4)	(29.2)
Amount included in net debt	**77.3**	**1,051.7**	**216.3**	**943.5**

Loan notes	2013 US$m	2012 US$m
Balance as at 1 January	779.1	481.7
Proceeds on issue	360.0	300.0
Extinguishment of loan notes	(296.6)	–
Movement in unamortised costs of issue	5.0	(2.6)
Balance as at 31 December	**847.5**	**779.1**

3.3 Derivative financial instruments

A derivative is a financial instrument used to manage risk. Its value changes over time in response to changes to the underlying variables such as crude oil price.

Derivative financial instruments are stated at fair value. If the Group does not apply hedge accounting to the derivatives, gains and losses arising out of changes in fair value of these instruments together with settlements in the period are accounted for in other operating income/ (expense) in the income statement in the period in which they are incurred.

If the Group hedge accounts for the derivatives, each period the portion of the gains and losses on the cash flow hedging instruments that is determined to be an effective hedge is taken to equity (other comprehensive income) and the ineffective portion, as well as any change in time value, is recognised in the income statement.

Third-party valuations are used to value the Group's derivatives.

The Group has the following derivatives:

		Purpose	Hedge accounting
Commodity deferred put options (cash flow hedges)	(a)	Hedge against the price of crude oil falling	Yes
Interest rate swap	(b)	To link interest payments to the performance of certain indices that look to take advantage of a theoretical bias in the forward curve	No
Foreign exchange hedge	(c)	Hedge against changes in the USD/GBP exchange rate	No

(a) Commodity deferred put options

The Group will receive a minimum amount if the market price of crude oil falls. These instruments have been classified as cash flow hedges, with a portion of the gains and losses on the instruments that are determined to be an effective hedge taken to equity and the ineffective portion, as well as any change in time value, recognised in the income statement for each period. During the year, a loss of US$30.8 million (2012: US$49.1 million loss) was charged to the income statement in relation to these instruments.

Notes to the Group financial statements continued

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(b) Interest rate swap

The Group entered into interest rate swap contracts whereby it receives a fixed rate and pays a floating rate with a downside cap up to a maximum of 2% above the fixed rate coupon. During the year the Group recognised a loss in its income statement of US$15.7 million (2012: US$nil) in respect of these contracts.

(c) Foreign exchange rate contracts

To manage its exposure to changes in the U.S. Dollar / Sterling exchange rate, from time to time the Group will enter into forward contracts. During the year the Group recognised a loss in its income statement of US$0.1 million (2012: US$nil) in respect of these contracts.

(d) Options contracts for FHN shares

Following the adoption of IFRS 10, the IFRS classification of these instruments changed. In the restated 2012 period presented, the put/call options are classed as options over own equity. Further details are provided in note 5.10.

	2013		Restated 2012	
	Current US$m	Non-Current US$m	Current US$m	Non-Current US$m
Financial assets	0.1	–	–	–
Financial liabilities	(28.2)	(17.1)	(31.3)	(9.8)

	2013 US$m	Restated 2012 US$m
Charge to the income statement:		
Realised derivative financial instrument loss	(42.4)	(40.2)
Unrealised derivative financial instrument loss	(4.2)	(20.0)
	(46.6)	(60.2)
Fair value gain/(loss) of financial assets and financial liabilities	3.5	(2.5)

3.4 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to Afren, as the lessee. All other leases are classified as operating leases.

For a finance lease, an asset and corresponding liability is recognised on the balance sheet. No asset or liability is recognised for an operating lease.

Finance lease assets are recognised at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the leasor is included in the balance sheet as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in the income statement, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease except where another more systematic basis, such as a unit of production method, is more representative of the time pattern in which economic benefits from the lease asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Obligations under finance lease

The Group has a seven-year lease of a Mobile Offshore Production Unit (MOPU) and a Floating Storage Offloading Vessel (FSO) from Mercator Offshore (Nigeria) Limited in respect of the production operations of the Ebok field, offshore Nigeria. The carrying amount of the Group's lease obligations approximates its fair value. For the year ended 31 December 2013, the effective interest rate was 6% (2012: 6%).

The amounts reported in the balance sheet relating to finance leases mature as follows:

Obligations under finance leases	2013 US$m	2012 US$m
Including interest		
Amounts payable under finance leases:		
Within one year	27.9	26.5
In the second to fifth years inclusive	85.9	113.2
Less: future finance charges	**(14.0)**	**(22.3)**
Present value of lease obligations	**99.8**	**117.4**
Excluding interest		
Amounts payable under finance leases:		
Within one year	22.1	19.3
In the second to fifth years inclusive	77.7	98.1
Present value of lease obligations	**99.8**	**117.4**

No amounts were due after five years as at 31 December 2013 and 31 December 2012.

Operating lease commitments

	2013 US$m	Restated 2012 US$m
Lease payments under operating leases recognised in the income statement for the year	79.4	76.4

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2013				Restated 2012			
	< 1 year US$m	2-5 years US$m	>5 years US$m	Total US$m	< 1 year US$m	2-5 years US$m	>5 years US$m	Total US$m
FPSO for Okoro field production*	15.8	22.8	–	38.6	14.9	16.5	–	31.4
Okoro terminal, security boats, field transport rentals	5.6	–	–	5.6	6.3	0.4	–	6.7
Ebok rig and field rentals	135.3	100.5	–	235.8	130.2	–	–	130.2
Office property	5.5	15.1	5.9	26.5	5.8	19.1	7.3	32.2
	162.2	**138.4**	**5.9**	**306.5**	**157.2**	**36.0**	**7.3**	**200.5**

* The Okoro FPSO lease expired in April 2013 and has been extended until July 2016.

3.5 Share capital, share premium and merger reserve

This note explains material movements recorded in shareholders' equity that are not explained elsewhere in the financial statements. The movements in equity and the balance sheet at 31 December 2013 are presented in the Group statement of changes in equity.

	2013 US$m	2012 US$m
Authorised		
1,200 million ordinary shares of 1p each (equivalent to approx US$1.59 cents) (2012: 1,200 million)	**19.1**	**19.1**

	Equity share capital allotted and fully paid Number	Share capital US$m	Share premium US$m	Merger reserve[(i)] US$m
Allotted equity share capital and share premium				
As at 1 January 2013	1,087,107,697	18.9	920.3	179.4
Issued during the year for cash	10,804,209	0.2	6.5	–
As at 31 December 2013	**1,097,911,906**	**19.1**	**926.8**	**179.4**

(i) In 2011, the provisions of the Companies Act 2006 relating to Merger relief (s612 and s613) were applied to the equity raising through a cash box structure, resulting in the creation of a merger reserve, after deducting the cost of share issue of US$3.4 million. The so called "cash box" method of effecting an issue of shares for cash is commonplace and enabled the Company to issue shares without giving rise to any share premium.

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3.6 Finance costs and income

Financial costs of debt are allocated to periods over the term of the related debt at a constant rate on the carrying amount. Arrangement fees and issue costs are deducted from the debt proceeds on initial recognition of the liability and are amortised and charged to the income statement as finance costs over the term of the debt.

Borrowing costs, including interest on loans, which are directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Capitalised borrowing costs are amortised in line with the underlying asset. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

	Notes	2013 US$m	Restated 2012 US$m
Finance costs:			
Bank interest payable	(b)	18.8	23.9
Borrowing costs amortisation and facility fees	(a)	28.2	22.7
Interest on finance lease	(b)	6.5	8.5
Interest on loan notes	(b)	89.1	83.9
Cost of extinguishment of loan notes	(c)	49.1	–
Corporate facility interest payable	(b)	1.3	2.5
Unwinding of discount on decommissioning and deferred consideration		6.7	8.1
		199.7	**149.6**
Less: capitalised interest	(b)	(42.4)	(58.8)
		157.3	**90.8**
Finance income:			
Gain on redemption of convertible loan notes	3.1	0.3	–
Bank interest received		3.0	1.6
Interest income on loan receivables		0.6	–
		3.9	**1.6**

(a) Borrowing costs

During the year, borrowing costs were capitalised to the Barda Rash field in the Kurdistan region of Iraq using a weighted average rate of approximately 12.0% (2012: 12.0%).

Total expenses incurred on the bond issue amounted to US$6.4 million in the current year (2012: US$8.2 million) which are being amortised over the life of the Notes using the effective interest method.

(b) Interest costs

Interest amounting to US$115.7 million (2012: US$118.8 million) (before capitalisation of some of the interest relating to oil and gas assets under development) has been charged to the income statement for the year to 31 December 2013.

(c) Cost of extinguishment of loan notes

The cost of extinguishment of loan notes includes the premium paid to redeem US$246.6 million and US$50.0 million of the 2016 and 2019 senior secured loan notes, respectively.

4.0 Oil and gas activities

This section shows the assets used to generate the Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are addressed in Section 3. Deferred tax assets and liabilities are shown in note 2.3.

On the following pages there are disclosures showing intangible and tangible oil and gas assets, capital commitments, inventories, interests in other entities and contingent liabilities. Other working capital balances are shown in Section 5.

4.1 Licences summary

The Group has interests in oil and gas licences at the three different stages of the operational work programme cycle – exploration, appraisal and development, and production. Further details on each licence and the stage of the work programme can be found on pages 40 to 61 and on page 152.

The classifications reflect the stage of each work programme from an operational perspective as explained further in the Operations review. The classification within the financial statements may be different due to the criteria for determining when the work programme has moved from exploration (intangible oil and gas assets) to development and then to production (both categories tangible oil and gas assets) being different under accounting standards.

4.2 Oil and gas reserves

Commercial reserves are proven and probable oil and gas reserves (also commonly referred to as 2P reserves), which are defined as the estimated quantities of crude oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible. There should be a 50% statistical probability that the actual quantity of recoverable reserves will be more than the amount estimated as proven and probable reserves and a 50% statistical probability that it will be less.

The Group's commercial reserves as at 31 December 2012 and 31 December 2013 are detailed in the table on page 154 of this Annual Report and Accounts. These commercial reserves are stated on a working interest basis, and have been prepared in accordance with the definitions and guidelines set forth in the 2007 PRMS approved by the Society of Petroleum Engineers (SPE). The commercial reserves are unaudited.

The commercial reserves are used in a number of ways in the financial statements; in particular:

1) to assess whether a prospect is commercially viable, and therefore support that the recoverable amount of oil and gas assets (both intangible and property, plant and equipment) continue to exceed the carrying amount of the assets; and
2) in the calculation of depletion of the property, plant and equipment: oil and gas assets.

4.3 Intangible exploration and evaluation assets

The Group follows the successful efforts method of accounting for intangible exploration and evaluation costs. All licence acquisition, exploration and evaluation costs are initially capitalised as intangible fixed assets in cost centres by field or exploration area, as appropriate, pending determination of commerciality of the relevant property. Directly attributable administration costs are capitalised insofar as they relate to specific exploration activities. Pre-licence costs and general exploration costs not specific to any particular licence or prospect are expensed as incurred.

Intangible exploration and evaluation assets:

	Notes	US$m
At 1 January 2012 restated		690.3
Additions	(a)	244.0
Transfer to property, plant and equipment: oil and gas assets	(b)	(68.0)
Amounts written off	(c)	(15.0)
At 1 January 2013 restated		**851.3**
Additions	(a)	299.4
Transfer to property, plant and equipment: oil and gas assets	(b)	–
Amounts written off	(c)	(60.5)
At 31 December 2013		**1,090.2**

(a) Additions

Additions during 2013 included the acquisition of an interest in OML 115 offshore Nigeria, drilling Simrit-3 and Maqlub-1 wells on the Ain Sifni licence in the Kurdistan region of Iraq, drilling Ogo-1 well on OPL 310 offshore Nigeria, and further drilling and testing of Okwok in advance of the submission of the field development plan.

Additions during 2012 included US$68.0 million in respect of the Okoro East Field Extension in Nigeria, all of which was transferred from intangible exploration and evaluation assets to tangible oil and gas assets.

Notes to the Group financial statements continued

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(b) Transfer to property, plant and equipment: oil and gas assets

Non-current assets are tested for impairment when facts and circumstances indicate that the carrying amount may exceed the recoverable amount. Such triggering events are defined in IFRS 6 in respect of exploration and evaluation assets and include the point at which determination is made as to whether commercial reserves exist.

If prospects are deemed to be commercially viable on completion of the evaluation, the attributable costs are transferred to property, plant and equipment in single field cost centres.

Prospects deemed to be commercially viable, and transferred to property, plant and equipment during 2012, primarily related to the Okoro Field Extension as disclosed in (a) above. As part of this assessment in 2012, management performed an impairment test upon its Okoro asset, on transfer from intangible exploration and evaluation assets. This test compared the carrying value of the assets at the balance sheet date with the expected discounted cash flows from each project. For the discounted cash flows to be calculated, management used a production profile based on its best estimate of proven and probable reserves of the assets and a range of assumptions, including an internal oil price profile benchmarked to mean analysts' consensus and a 10% pre-tax discount rate which, taking into account other assumptions used in the calculation, management considers to be reflective of the risks.

(c) Exploration costs written off

If prospects are deemed to be impaired ('unsuccessful') on making the above determination as to whether commercial reserves exist, the associated costs are charged to the income statement.

	2013 US$m	Restated 2012 US$m
Exploration costs written off	60.5	15.0

Amounts written off in 2013 relate to the cumulative costs of Block 10A in Kenya, following the decision to relinquish the block, and the Group's cumulative costs on the La Noumbi licence in Congo Brazzaville. Kola 1 and Kola 2 were drilled in the year and, following conclusion that the wells were unsuccessful, they were plugged and abandoned.

4.4 Property, plant and equipment

Oil and gas assets

Development assets are costs incurred to obtain access to proved reserves and to provide facilities for extracting, treating, gathering and storing oil and gas. Examples include costs incurred to gain access to and prepare well locations for drilling; drill development wells, including cost of platforms and well equipment; acquire, construct, and install production facilities such as ease flow lines, separators, treaters, and heaters; and other items as appropriate. Intangible exploration and evaluation assets are transferred into development assets once the property has proved reserves and a development plan approved by all relevant parties including, where applicable, the government.

Production assets are those properties which have begun producing. These assets are typically development properties which are transferred into the production portfolio or through acquisition of a subsidiary. Once commercial production starts on a development asset, the property is reclassified as a production asset and depletion of the property commences.

Other property, plant and equipment assets

Other property, plant and equipment comprises the Group's investment in leasehold improvements, fixtures and equipment and computer hardware and software, and is stated at cost less depreciation and any provision for impairment.

	Notes	Development US$m	Production US$m	Gas plant US$m	Total oil & gas assets US$m	Other property, plant & equipment US$m	Total US$m
Cost							
At 1 January 2012 restated		426.3	1,799.5	28.2	2,254.0	20.8	2,274.8
Additions	(a)	121.1	208.8	–	329.9	5.6	335.5
Transfer from intangible exploration and evaluation assets	(4.3a)	68.0	–	–	68.0	–	68.0
Effect of changes to decommissioning estimates	(b)	–	3.5	–	3.5	–	3.5
Transfer from development to production	(c)	(45.1)	45.1	–	–	–	–
Disposal		–	–	–	–	(0.3)	(0.3)
At 1 January 2013 restated		**570.3**	**2,056.9**	**28.2**	**2,655.4**	**26.1**	**2,681.5**
Additions	(a)	227.8	382.4	–	610.2	9.6	619.8
Effect of changes to decommissioning estimates	(b)	–	(2.4)	–	(2.4)	–	(2.4)
Disposal		–	(55.7)	(28.2)	(83.9)	–	(83.9)
At 31 December 2013		**798.1**	**2,381.2**	**–**	**3,179.3**	**35.7**	**3,215.0**
Depreciation, depletion and amortisation							
At 1 January 2012 restated	(d)	6.0	414.0	14.4	434.4	12.9	447.3
Charge for the year		–	373.0	4.4	377.4	3.8	381.2
At 1 January 2013 restated		**6.0**	**787.0**	**18.8**	**811.8**	**16.7**	**828.5**
Charge for the year		–	401.2	3.0	404.2	4.5	408.7
Disposal		–	(52.6)	(21.8)	(74.4)	–	(74.4)
At 31 December 2013		**6.0**	**1,135.6**	**–**	**1,141.6**	**21.2**	**1,162.8**
Carrying amount							
At 31 December 2012 restated		564.3	1,269.9	9.4	1,843.6	9.4	1,853.0
At 31 December 2013		**792.1**	**1,245.6**	**–**	**2,037.7**	**14.5**	**2,052.2**

The gross capitalised interest included in the oil and gas assets amounted to US$190.9 million as at 31 December 2013 (2012: US$148.5 million).

(a) Additions

Additions during the year included capital expenditure in respect of the Ebok field of US$274.1 million, Okoro development of US$104.1 million, OML 26 field of US$7.9 million and Barda Rash field of US$224.1 million.

Additions during 2012 included capital expenditure in respect of the Ebok field of US$204.4 million and Barda Rash field of US$121.1 million. In addition, US$68.0 million relating to the Okoro Field Extension was transferred from intangible exploration and evaluation assets to development during the year.

(b) Provision for decommissioning

A provision for decommissioning the oil and gas assets is recognised in full when the related facilities are installed. The extent to which a provision is required depends on the legal requirements for decommissioning, the costs and timing of work and the discount rate to be applied.

The provision represents the present value of the decommissioning costs relating to Ebok, Okoro and OML 26 fields that are expected to be incurred up to 2033. Following the disposal of the Group's interest in CI-11, the related provision was released. The table below details the movements in the provision.

	2013 US$m	Restated 2012 US$m
At 1 January	39.4	34.1
Addition during the year	1.6	7.1
Unwinding of discount	2.2	1.6
Disposal of subsidiary	(10.7)	–
Effects of changes to decommissioning estimates	(2.4)	(3.5)
At 31 December	**30.1**	**39.4**

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A corresponding amount equivalent to the provision is recognised as part of the cost of the related property, plant and equipment (within additions). The amount recognised is the estimated cost of decommissioning, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements, reflecting management's best estimates.

Additions during the year relate to provisions for abandonment of additional wells drilled at the Ebok field. Management believe the estimates continue to form a reasonable basis for the expected future costs of decommissioning, which are expected to be incurred up to 2033.

Changes in the estimated timing of decommissioning or decommissioning cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to property, plant and equipment.

The unwinding of the discount on the decommissioning is included as a finance cost.

(c) Transfer from development to production

Transfers from development to production in 2012 include a portion of the Okoro Field Extension of US$45.1 million.

(d) Depreciation, depletion and amortisation

Oil and gas assets

Oil and gas assets are amortised from the commencement of production on a unit of production basis, which is the ratio of oil and gas production in the period to the estimated quantities of commercial reserves, generally on a field by field basis. Costs used in the unit of production calculation comprise the net book value of capitalised costs plus the estimated future field development costs. Changes in the estimates of commercial reserves or future field development costs are dealt with prospectively.

The gas plant was being depreciated straight line over six and a quarter years but was sold in the year.

Included in the depletion, depreciation and amortisation charge during the year is US$28.8 million (2012: US$32.4 million) attributable to the assets under finance lease in respect of the Ebok field.

Other property, plant and equipment

Depreciation is provided at rates calculated to write off the cost of the property, plant and equipment, less anticipated disposal proceeds, on a straight-line basis over their estimated useful economic life as follows:

Leasehold improvements	life of lease
Fixtures and equipment	over three years (all artwork/paintings depreciated over 15 years)
Computer hardware and software	over three years

Impairment

Non-current assets are assessed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

Where there has been an indication of a possible impairment, management assesses the recoverability of the carrying value of the asset by comparison with the estimated discounted future net cash flows based on management's expectation of future production, oil prices and costs.

Any impairment identified is charged to the income statement as additional depletion and amortisation. Where conditions giving rise to impairment subsequently reverse, the effect of the impairment is also reversed as a credit to the income statement, net of any depreciation that would have been charged since the impairment.

As part of this assessment, management carried out a review of all property, plant and equipment and oil and gas assets. No impairment indicators were noted (2012: no impairment indicators noted).

4.5 Capital commitments

As at 31 December, the Group has committed to the following capital expenditure, but as the related assets have not been received as at that date, no liability is recognised in the financial statements.

	2013 US$m	Restated 2012 US$m
Property, plant and equipment: oil and gas assets – development	42.2	68.4
Intangible exploration and evaluation assets	431.8	447.1
	474.0	**515.5**

4.6 Inventories

Oil and gas inventories are stated at the lower of cost and net realisable value other than certain oil inventory in Côte d'Ivoire, which is settled via a reduction in the amount recoverable in respect of realised gas sales from the Lion Gas Plant. The inventory subject to this swap is recorded at its fair value.

Spare parts and materials inventories are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. The cash flows associated with the purchase of spare parts and materials are classified in investment activities with the oil and gas assets. Net realisable value represents the estimated selling price less costs to be incurred in marketing, selling and distribution.

Lifting or offtake arrangements for oil and gas produced in certain of the Group's jointly owned operations are such that each participant may not receive and sell its precise share of the overall production in each period. The resulting imbalance between cumulative entitlement and cumulative production is "underlift" or "overlift". Underlift and overlift are valued at market value and included within debtors and creditors respectively. Movements during an accounting period are adjusted through cost of sales such that gross profit is recognised on an entitlements basis.

The table details the carrying value of inventories as at 31 December:

	2013 US$m	2012 US$m
Oil and gas inventory	30.0	52.1
Spare parts and materials	50.9	42.3
	80.9	**94.4**

Spare parts and materials are stated net of a provision of US$1.6 million (2012: US$1.5 million) to write down the inventory to recoverable amount.

4.7 Interests in other entities

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Joint arrangements are those arrangements where the Group shares joint control. Such arrangements may be classified as either a joint venture (the Group has an interest in the net assets of the jointly controlled entity), or a joint operation (the Group has joint rights to the assets and joint obligations for the liabilities of the joint arrangement). The Group applies equity accounting for joint ventures and proportional consolidation for joint operations.

(a) Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation, and proportion of ownership interest is given in note 6.2 to the Company's separate financial statements. Details of the non-controlling interest in subsidiaries which are not wholly-owned are provided in note 5.10.

(b) Joint ventures

The Group has an interest in two joint ventures. During the year, the Group recognised a loss from its share in joint ventures of US$26.6 million. The loss comprises the write-off of the Group's interest in joint ventures of US$8.4 million and impairment of amounts receivable from the joint venture of US$18.2 million. This predominantly relates to the impairment of exploration and evaluation assets in respect of JDZ Block 1. During the year, as a result of adopting IFRS 11, the Group changed the accounting for these interests from proportional consolidation to equity accounting. The effects of this change are described further in note 5.15.

4.8 Contingent liabilities

A contingent liability is a liability that is not sufficiently certain to qualify for recognition as a provision. Uncertainty may exist regarding the outcome of future events.

	As at 31 December	
	2013 US$m	Restated 2012 US$m
Performance bond issued by a bank in respect of OPL 907/917	24.1	24.1
Standby letter of credit in respect of contractual agreements of the Okoro FPSO, Ebok MOPU/FSO	12.0	12.0
Performance bond issued by a bank in respect of Kenya exploration activities	14.0	12.6
Indemnity in respect of FHN's standby letter of credit	–	6.5
Guarantee in respect of FHN hedges	11.0	–
Other	–	2.1
Bank guarantee in relation to Partner	70.0	–
FHN letter of credit in respect of OML 26	10.0	10.0
	141.1	**67.3**

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5.0 Other disclosures

This section includes all disclosures which are required by IFRS or the Companies Act which have not been included elsewhere in the financial statements. In our view, these disclosures are less important and/or material to the core operations of Afren, or other one off events, and as such they have been grouped in Section 5.

5.1 Adoption of new and revised standards

The following accounting standards were all adopted as of their effective date which was 1 January 2013:

IFRS 10 Consolidated Financial Statements
IFRS 11 Joint Arrangements
IFRS 12 Disclosure of Interests in Other Entities
IFRS 13 Fair Value Measurement
IAS 27 (revised) Separate Financial Statements
IAS 28 (revised) Investments in Associates and Joint Ventures

Where necessary the 2012 and 2011 comparatives have been restated to reflect the impact of the adoption of the above accounting standards (details are provided in note 5.15 'Effect of change in accounting policies').

IFRS 9 Financial Instruments had not been endorsed by the European Union as at 31 December 2013 and so has not been adopted early.

5.2 Audit and non-audit fees

	2013 US$m	Restated 2012 US$m
An analysis of auditors' remuneration is as follows:		
Fees payable to the Company's auditor for the audit of the Company's annual accounts	0.5	0.4
Fees payable to the Company's auditor and their associates for other services to the Group:		
– The audit of the Company's subsidiaries pursuant to legislation	0.5	0.5
Total audit fees	**1.0**	**0.9**
– Audit related assurance services	0.3	0.3
– Taxation compliance services	–	0.1
– Other taxation advisory services	–	0.1
– Corporate finance services	0.9	–
Total non-audit fees	**1.2**	**0.5**

Audit related assurance services in 2013 include the fees related to the auditors' reviews of the Group's interim and quarterly reporting. Fees paid to Deloitte for audit and other services to the Company are not disclosed in its individual accounts as the Group accounts are required to discuss such fees on a consolidated basis.

During the year, external auditors performed a significant amount of non-audit work on projects such as the acquisition of a beneficial interest of 10.4% in FHN and the issuing of Senior Secured Notes. This is work external auditors would ordinarily perform for companies involved in such projects.

5.3 Credit risk management

Credit risk refers to the risk that a counterparty (most commonly a customer) will default on its contractual obligations (for example default on invoice payment) resulting in financial loss to the Group.

The Group reviews the credit risk of the entities that it sells its products to or that it enters into contractual arrangements with and will obtain guarantees and commercial letters of credit as may be considered necessary where risks are significant to the Group.

The Group's sales are diversified in terms of both region and the number of counterparties and, other than transactions with major oil companies with high credit rating and balances due from its partners, the Group does not have significant exposure to any single counterparty or group of counterparties with similar characteristics.

The credit risk on cash is limited because the majority is deposited with banks with good credit ratings assigned by international credit rating agencies or with governmental guarantee. The Group's total maximum exposure to credit risk as at 31 December 2013 was US$545.7 million (2012: US$909.3 million) made up of cash and bank balances and trade and other receivables (excluding prepayments).

5.4 Trade and other receivables

Trade receivables are recognised initially at the value of the invoice sent to the customer and subsequently at the amounts considered recoverable (amortised cost). When there is evidence that the receivable is not recoverable, it is impaired with a corresponding charge to the income statement.

Trade and other debtors includes underlift amounts – refer to note 4.6 Inventories for further details.

	2013 US$m	Restated 2012 US$m
Trade and other receivables – non-current		
Prepayments and advances to Partners	–	88.4
	–	88.4
Trade and other receivables – current		
Trade and other debtors	141.6	277.6
Prepayments and accrued income	68.0	48.5
	209.6	326.1
Prepayments and advances to Partners	99.3	7.4
	308.9	**333.5**

There were no material receivables which were past due but not impaired at either balance sheet date, nor any material bad debt provisions. Advances to Partners are expected to be recovered over 3-5 years. No trade or other receivables items bear interest.

5.5 Trade and other payables

Trade payables are recognised at the value of the invoice received from a supplier.

Trade creditors includes overlift amounts – refer to note 4.6 Inventories for further details.

	2013 US$m	Restated 2012 US$m
Trade creditors	51.7	8.1
Other creditors and operating Partners	366.0	193.1
Accruals	299.5	284.2
	717.2	**485.4**

Group accruals include interest payable of US$2.6 million (2012: US$0.4 million) relating to the bank borrowings and US$22.4 million (2012: US$32.8 million) of coupon interest relating to the loan notes, which are both described in note 3.6.

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5.6 Fair values

The financial instruments on the Afren balance sheet are measured at either fair value or amortised cost. The following table provides an analysis of carrying amounts and fair values of the Group's financial instruments.

Cash and cash equivalents, trade and other receivables, trade creditors, other creditors, finance leases and accruals and deferred consideration and payables on acquisitions have been excluded from this analysis as their fair values are equal to the carrying values.

The financial instruments in the table are grouped into Levels 1 to 3 based on the degree to which the inputs used to calculate the fair value are observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

				Carrying amount		Fair value	
	Carried at	Level	Notes	2013 US$m	Restated 2012 US$m	2013 US$m	Restated 2012 US$m
Financial assets							
Available for sale investment	Fair value	1		1.3	0.9	1.3	0.9
Derivative financial instruments	Fair value	2		0.1	–	0.1	–
				1.4	**0.9**	**1.4**	**0.9**
Financial liabilities							
Derivative financial instruments	Fair value	2		45.3	41.0	45.3	41.0
Derivatives over own equity	Amortised cost	3	(iii)	52.3	20.4	43.5	9.4
Borrowings – Ebok RBL	Amortised cost	2	(i)	204.2	184.6	229.3	179.2
Borrowings – FHN	Amortised cost	2	(i)	77.3	–	80.0	–
Borrowings – Socar	Amortised cost	2	(i)	–	49.6	–	49.7
Loan notes	Amortised cost	1	(ii)	847.6	779.1	936.1	927.5
				1,226.6	**1,074.7**	**1,334.2**	**1,206.8**

Notes:

(i) Bank borrowings: Fair values have been determined by reference to LIBOR forward curves and by discounting future cash outflows at 10%.

(ii) Transfer between levels: As at 31 December 2012 the fair value of the Loan notes was determined using discounted future cash flows and stated at US$988.6 million. As the Loan notes are actively traded on the Luxembourg Bourse stock exchange, it is considered more appropriate to disclose the fair value at the prevailing market price as at the close of business on the reporting date. The Loan notes have therefore been reclassified from Level 2 to Level 1. The impact of this reclassification has been to reduce the fair value at 31 December 2012 by US$61.1 million from US$988.6 million to US$927.5 million. There is no effect on the amount reported in the balance sheet.

(iii) Relates to FHN options which are classified at Level 3. As such their valuation requires assumptions regarding FHN's share price which is not readily available. These options were valued using a Black Scholes model for which changing certain inputs to reflect reasonable possible alternative assumptions does not change the fair value significantly.

5.7 Sensitivity analysis

Interest rate risk

The risk of the Group being adversely affected by a 1% change in interest rates was not material in 2013 or 2012.

Oil price risk

The Group's exposure to the risk of changes in oil price relates primarily to the Group's derivative financial instruments. The terms of the derivative financial instruments are such that the Group will receive a minimum amount if the market falls, but will receive a set discount from the market price if the oil price is above that minimum. The effect on Group result and equity of changes in the oil price on the fair value of the derivative financial instruments is as follows:

	Positive/(adverse) 2013 US$m	Restated Positive/(adverse) 2012 US$m
Increase in oil price by 10%	2.9	8.7
Decrease in oil price by 10%	(6.2)	(14.8)

Foreign exchange risk

The impact of a 10% change in the sterling or the Nigerian Naira to US dollar exchange rate was not material in 2013 or 2012.

5.8 Staff costs

		2013	Restated 2012
The average monthly number of employees (including Executive Directors) employed was as follows:			
Administration		36	38
Professional		258	243
		294	**281**

Their aggregate remuneration comprised:

		2013 US$m	Restated 2012 US$m
Wages and salaries		59.0	49.2
Share-based payments	(a)	25.2	26.7
Social security costs		8.5	7.6
Pension costs	(b)	3.5	2.8
		96.1	**86.3**

A proportion of the Group's staff costs shown above are recharged to the Group's joint venture partners and a proportion is capitalised into the cost of intangible and tangible oil and gas assets under the Group's accounting policy for exploration, evaluation and oil and gas assets. The amount ultimately remaining in the income statement was US$36.9 million (2012: US$28.6 million).

The 2012 numbers have been restated to reflect the Group's consolidation of FHN and Côte d'Ivoire operations as discontinued.

Details of Directors' remuneration are provided in the part of the Directors' remuneration report described as having been audited.

(a) Share-based payments

A transaction is accounted for as a share-based payment where the Group receives services from employees, Directors (or other third parties) and pays for these in shares or similar equity instruments.

The Group makes equity-settled share-based payments to certain employees and Directors. Equity-settled share-based schemes are measured at fair value (excluding the effect of non-market-based vesting conditions) at the date of grant, measured by use of an appropriate valuation model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the period to exercise, based on the Group's estimate of shares that will eventually vest.

The Company is liable for Employer's National Insurance on the difference between the market value at date of exercise and exercise price. This expense is accrued by reference to the share price of the Company at the balance sheet date. Share-based payments made to employees of subsidiaries of the Company are recharged to the relevant subsidiary when awarded.

The share-based payments expense comprises the following three schemes:

		2013 US$m	2012 US$m
Equity-settled share option scheme	(i)	12.6	17.1
Long Term Incentive Plan: Afren Performance Share Plan (equity-settled share award scheme)	(ii)	12.6	10.0
Share Award Scheme (equity-settled share award scheme)	(iii)	–	–
		25.2	**27.1**

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(i) Equity-settled share option scheme

The Group operates a share option scheme for employees. The Group's policy is to award options to employees on appointment or completion of their probationary period and periodically thereafter. Options are issued at market price on the grant date and have vesting periods of up to three years. The options expire after ten years if they remain unexercised and are forfeited if the employee leaves the Group before the options vest except at the discretion of the Board.

Details of the share options outstanding during the year are as follows:

	2013		2012	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the year	55,209,834	0.82	56,552,175	0.81
Granted during the year	2,040,000	1.41	2,040,000	1.29
Exercised during the year	(6,416,000)	0.63	(2,101,333)	0.56
Lapsed during the year	(1,430,000)	1.38	(1,281,008)	1.41
	49,403,834	**0.85**	**55,209,834**	**0.82**
Exercisable at end of the year	43,066,334	0.78	**46,455,334**	**0.73**

The weighted average remaining contractual life of the options outstanding at 31 December 2013 was 5.3 years (2012: 6.1 years).

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2013 was 148p (2012: 129p).

In 2013 options were granted on 3, 8 and 15 January, 27 March, 11 and 18 June, 28 August, 4 and 24 September and 1 October. The aggregate of the estimated fair values of the options granted on those dates was US$1.3 million.

In 2012 options were granted on 3 January, 28 March, 2 and 23 April, 4, 12, 18 and 30 June, 22 August, 2, 23 and 30 October, 6 and 27 November and 7 December. The aggregate of the estimated fair values of the options granted on those dates was US$1.3 million.

The options granted during the year have been valued by reference to the Barrier option valuation model, consistent with the prior year. The inputs into the Barrier model were as follows:

	2013	2012
Weighted average share price (pence)	141.9	129.9
Weighted average exercise price (pence)	141.9	181.0
Weighted average target price before eligibility to exercise (barrier) (pence)	198.5	181.0
Expected volatility	40%	40%
Expected life (years)	3	3
Risk free rate	4%	4%
Expected dividends	–	–

The volatility of Afren shares was again reviewed following a further 12 months of share price data. The volatility was measured utilising several formulae, including an Exponentially Weighted Moving Average model and a GARCH (Generalised Autoregressive Conditional Heteroscedasticity) model, and over several time periods. These gave a range of estimates for the share price volatility which is in line with the prior year.

The Group recognised total expenses related to equity-settled share-based payment transactions in the form of options in 2013 of US$1.0 million, all of which related to employees, including Executive Directors, of the Group (2012: US$5.0 million, all of which related to employees, including Executive Directors, of the Group).

(ii) Long Term Incentive Plan: Afren Performance Share Plan (equity-settled share award scheme)

Under the Afren Performance Share Plan, the Group also gives awards to Directors and staff subject to outperforming a comparator group of similarly focused oil and gas exploration and production companies in terms of shareholder return over a three-year period and based upon a multiple of salary. However, these shares only vest after a three-year period and the full award is made only if Afren has performed in the top quartile when compared against a selected peer group of upstream oil and gas companies, which for the 2012 award was as follows: Anadarko Petroleum Corporation, Apache Corporation, Cairn Energy, Canadian Natural Resources, DNO, Dragon Oil, Genel Energy, Gulfsands Petroleum, Hess Corporation, Heritage Oil, JKX Oil & Gas, Lundin Petroleum, Marathon Oil Corporation, Maurel et Prom, Melrose Resources, Nexen, Niko Resources, Noble Energy, PA Resources, Pioneer Natural Resources, Premier Oil, Salamander Energy, SOCO International, Talisman Energy, Tullow Oil, Vaalco Energy and Woodside Petroleum. If Afren does not achieve at least median performance in the peer group, no shares will be awarded. At the median level, 30% of the shares will vest and there is a sliding scale between median and top quartile performance where only a percentage of the total award will vest. A second performance target was applied to the 2012 award relating to the Group's Reserves Replacement Ratio (RRR), setting a target RRR of 105% over the three-year vesting period of the awards. In the event that a ratio of less than 105% is achieved then the overall award amount is reduced pro-rata.

Awards are forfeited if the employee leaves the Group before the awards vest, except under certain circumstances, e.g. redundancies, where the number of awards vesting will be pro-rated according to the length of time the employee has been employed during the three-year vesting period.

Details of the share awards outstanding are as follows:

	2013		2012	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the year	27,704,588	0.01	23,574,101	0.01
Granted during the year	13,512,561	0.01	16,226,772	0.01
Exercised during the year	(4,188,209)	0.01	(11,240,276)	0.01
Forfeited during the year	(3,124,785)	0.01	(856,009)	0.01
Outstanding at end of the year	**33,904,155**	**0.01**	**27,704,588**	**0.01**
Exercisable at end of the year	–	**0.01**	–	**0.01**

The awards outstanding at the end of 31 December 2013 have a weighted average remaining contractual life of 1.7 years (2012: 2.3 years) and an exercise price of £0.01 (2012: £0.01).

The aggregate of the fair value of the options granted during the year ended 31 December 2013 was US$13.1 million (2012: US$12.8 million).

The fair values were calculated using a stochastic model. The inputs used for fair valuing awards granted during the two periods were as follows:

	2013	2012
Weighted average share price (pence)	123.6	98.0
Weighted average exercise price (pence)	0.0	1.0
Expected volatility	40%	40%
Expected life (years)	3	3
Risk free rate	–	–
Expected dividends	–	–

The volatility of Afren shares was again reviewed following a further 12 months of share price data. The volatility was measured utilising several formulae, including an Exponentially Weighted Moving Average model and a GARCH (Generalised Autoregressive Conditional Heteroscedasticity) model, and over several time periods. These gave a range of estimates for the share price volatility which is in line with the prior year. Therefore the volatility assumption has remained consistent with the prior year, but will remain under review going forwards.

The Group recognised total expenses related to the above equity-settled share-based payment transactions in the form of options during the year ended 31 December 2013 of US$12.0 million (2012: US$10.0 million).

(iii) Share Award Scheme – equity-settled share award scheme

As part of the incentives to attract the Jefferies, Randall & Dewey technical team, a number of shares were awarded in 2008, subject to continuing employment in the most part, to the team. None of this team was eligible to an award under the Long Term Incentive Plan. The timing of the shares issued range from six months to three years over which the fair value was spread. The share award scheme was closed in 2011.

(b) Pension costs

The Group operates a defined contribution pension scheme. The Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to the defined contribution plan are recognised as staff costs and are expensed to the income statement in the periods during which related services are rendered by employees.

Notes to the Group financial statements continued

For the year ended 31 December 2013

5.9 Other reserves

	Share-based payment reserve US$m	Put option over own equity US$m	Convertible loan notes US$m	Other reserves US$m	Total US$m
Group					
At 1 January 2012 restated	32.2	(43.5)	1.9	(0.8)	(10.3)
Share-based payments for services	20.6	–	–	–	20.6
Transfer to accumulated losses	(4.6)	–	–	–	(4.6)
Other movements	–	–	–	1.2	1.2
At 31 December 2012 restated	**48.2**	**(43.5)**	**1.9**	**0.4**	**6.9**
Share-based payments for services	20.7	–	–	–	20.7
Transfer to accumulated losses	(1.5)	–	–	–	(1.5)
Exercised and expired put option	–	43.5	–	–	43.5
Put option over own equity	–	(49.8)	–	–	(49.8)
Change in equity ownership of subsidiary	9.2	–	1.4	–	10.6
Redemption of convertible loan notes	–	–	(3.3)	–	(3.3)
Other movements	–	–	–	0.4	0.4
At 31 December 2013	**76.6**	**(49.8)**	–	**0.8**	**27.5**

(a) Share-based payment reserve

The share-based payment reserve represents the fair value of the options, share awards, warrants, and LTIP granted under the Company's share-based payment schemes.

(b) Put option over own equity

During 2012, the Group held three put and/or call option contracts in relation to FHN. In the 2012 financial statements, these contracts were treated as derivative financial instruments. Following the adoption of IFRS 10, the IFRS classification of these instruments changed and under the guidance of IAS 39, they are treated as options over own equity in the restated 2012 financial statements and measured at amortised cost. During 2013, one option expired and one was exercised as part of Afren's increase in equity ownership of FHN.

In July 2013, Afren entered into a put and call agreement with Earl Act Global Investments in respect of 18,299,993 million FHN shares, representing approximately 12.5% of FHN's share capital, at a price of US$3.32 per share. These options may only be exercised after 24 months and for a period of six months thereafter. In accordance with IAS 39, the options are accounted for as options over own equity, where a liability for the present value of the obligation is recognised within other financial liabilities, with a corresponding charge in other equity. Further details are provided in note 5.6.

(c) Convertible loan note

In July 2013, the Group redeemed the convertible loan note in full. Further details are provided in note 3.1.

5.10 Non-controlling interests

	Total US$m
Non-controlling interests	
At 1 January 2012	37.7
Share-based payments for services	6.6
Share of result for the year	(11.6)
Adjustment arising from change in non-controlling interest	(1.1)
At 31 December 2012	**31.6**
Share-based payments for services	4.7
Issue of share capital	0.3
Share of result for the year	(3.5)
Redemption of convertible loan notes	(1.6)
Adjustment arising from change in non-controlling interest	(20.8)
At 31 December 2013	**10.7**

As described in notes 1.4 and 5.15, following the adoption of IFRS 10, Afren has consolidated the FHN Group. FHN is the Group's only subsidiary that is not wholly controlled. FHN has a 45% interest in the OML 26 licence onshore Nigeria and a 9% interest in OML 113 offshore Nigeria, via its own subsidiaries.

During 2013, Afren increased its beneficial interest in FHN from approximately 46.7% to 78%. As at 31 December 2013, 22% of FHN was owned by non-controlling shareholders. The analysis above shows the effect of the change in ownership on the equity attributable to the non-controlling interest in FHN.

5.11 Related party transactions

The transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation. Amounts owed by and to joint ventures and associates are disclosed in notes 6.6 and 6.8 of the Company financial statements. Transactions between the Company and its subsidiaries have been disclosed in note 6.15 of the Company financial statements.

	Sale of goods/service		Purchase of goods/services		Amounts owed to related parties	
	Year ended 2013 US$m	Year ended 2012 US$m	Year ended 2013 US$m	Year ended 2012 US$m	Year ended 2013 US$m	Year ended 2012 US$m
St. John Advisors Ltd	–	–	0.3	0.3	–	–
STJ Advisors LLP	–	–	0.2	0.5	–	–

St. John Advisors Ltd and STJ Advisors LLP are the contractor companies for the consulting services of John St. John, a Non-Executive Director of Afren, for which they receive fees, including contingent completion and success fees, from the Group. St. John Advisors also receives a monthly retainer of £15,000 under a contract which started from 27 June 2008. The contract has a 12-month period which automatically continues unless terminated by either party.

5.12 Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 'Related Party Disclosures'. Further information about the remuneration of individual Directors, transactions with Directors and Directors' interests is provided in the audited part of the Directors' remuneration report.

	2013 US$m	Restated 2012 US$m
Short-term employee benefits	8.0	6.1
Other long-term benefits	0.3	0.2
Exceptional award	–	2.6
Share-based payment	1.6	15.5
	9.9	**24.4**

5.13 Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity, over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. Goodwill is not amortised but is reviewed for impairment at least annually.

	2013 US$m	Restated 2012 US$m
Cost and carrying amount	115.2	115.2
Total	115.2	115.2

Impairment testing for cash-generating units containing goodwill

Goodwill recognised in the Group balance sheet relates solely to goodwill arising in FHN on the acquisition of OML 26, which is considered to be a cash generating unit (CGU). The recoverable amount of CGU has been determined based on a fair value less costs to sell calculation for the duration of the licence which expires in 2044. For the discounted cash flows to be calculated, management has made the following key assumptions:

- Production volumes: Estimates are based on detailed independent forecasts for the field and take into account a development plan agreed by management as part of the long-term planning process.
- Discount rate: A 10% pre-tax discount rate has been used which, taking into account other assumptions used in the calculation, management considers to be reflective of the risks. The present value of future cash flows remains above the carrying value of the CGU's net assets at 10% and 12.5% but not at 15%.
- Crude oil price: Management uses long-term US$100 per barrel price forecast for calculation of future cash flows.

5.14 Discontinued operations

On 16 May 2013, the Group entered into a sale agreement to dispose of Afren Côte d'Ivoire Limited and Lion GPL SA, which held Afren's interest in the CI-11 Block and Lion Gas Plant respectively. The disposal was completed on 31 August 2013, on which date control of these two entities passed to the acquirer.

A provisional profit on disposal of US$25.3 million has been recognised in the year. This remains subject to finalisation on agreement of working capital adjustments.

The results of the discontinued operations, which have been included in the consolidated statement of comprehensive income, were as follows:

Notes to the Group financial statements continued

For the year ended 31 December 2013

	Year ended 31 December 2013 US$m	Year ended 31 December 2012 US$m
Revenue	21.8	39.8
Expenses	(7.1)	(38.4)
Profit before tax from discontinued operations	14.7	1.4
Taxation	(1.9)	(3.5)
Provisional profit on disposal of subsidiary	25.3	–
Profit/(loss) after tax from discontinued operations	**38.1**	(2.1)

An analysis of the cash flows from discontinued operations is presented below:

	Year ended 31 December 2013 US$m	Year ended 31 December 2012 US$m
Cashflow from operating activities	4.2	14.3
Cashflow from investing activities	–	(0.1)
Cashflow from financing activities	–	–
	4.2	14.3

An analysis of the net proceeds on disposal of the entities is presented below:

	Year ended 31 December 2013 US$m	Year ended 31 December 2012 US$m
Consideration received	21.0	–
Cash in subsidiary at date of disposal	(3.5)	–
Net proceeds on disposal of subsidiary	**17.5**	–

5.15 Effect of change in accounting policies

As discussed in note 1, the financial performance and position of the Group has been restated for the year ended 31 December 2012 and the balance sheet restated as at 31 December 2011 to reflect the adoption of IFRS 10 and IFRS 11. The quantitative impact on the 31 December 2012 financial statements of adopting these standards is set out in the following tables. The adoption of IFRS 10 has resulted in the consolidation of FHN as a subsidiary in all comparative periods restated. The adoption of IFRS 11 has had an effect on the accounting for Afren's two joint ventures held through Afren Global Energy Resources Limited and Dangote Energy Equity Resources Limited. Under IFRS 11, the accounting for these two joint ventures has changed from the proportional consolidation method to the equity accounting method.

Adjustments to the consolidated balance sheet	31 December 2012 as previously stated US$m	Adoption of IFRS 10 US$m	Adoption of IFRS 11 US$m	31 December 2012 as restated US$m
Assets				
Intangible oil and gas assets	875.9	0.9	(25.5)	851.3
Property, plant and equipment	1,703.8	149.2	–	1,853.0
Goodwill	–	115.2	–	115.2
Derivative financial instruments	10.4	(10.4)	–	–
Investments	16.6	(15.7)	–	0.9
Investments in joint ventures	–	–	7.8	7.8
Trade and other receivables	262.7	46.8	16.6	326.1
Cash and cash equivalents	524.8	73.9	–	598.7
Liabilities				
Trade and other payables	(429.2)	(57.3)	1.1	(485.4)
Current borrowings	(189.4)	(26.9)	–	(216.3)
Current tax liabilities	(155.8)	(0.6)	–	(156.4)
Derivative financial instruments – current	(14.0)	(17.3)	–	(31.3)
Deferred tax liabilities	(383.9)	(93.7)	–	(477.6)
Provision for decommissioning	(36.7)	(2.7)	–	(39.4)
Non-current borrowings	(823.9)	(119.7)	–	(943.6)
Derivative financial instruments – non-current	(6.7)	(3.1)	–	(9.8)
Other payables	–	(43.5)	–	(43.5)
Equity				
Other reserves	35.9	(29.0)	–	6.9
Retained earnings	272.9	(7.5)	–	265.4
Non-controlling interest	–	31.6	–	31.6

Adjustments to the consolidated cash flow statement	31 December 2012 as previously stated US$m	Adoption of IFRS 10 US$m	Adoption of IFRS 11 US$m	31 December 2012 restated US$m
Operating profit for the period from continuing and discontinued operations	675.4	(11.8)	(0.3)	663.3
Depreciation, depletion and amortisation	374.4	5.7	–	380.1
Unrealised losses on derivative financial instruments	6.7	13.3	–	20.0
Impairment charge on exploration and evaluation assets	19.7	–	(4.7)	15.0
Share-based payments charge	17.3	12.1	–	29.4
Increase in trade and other operating receivables	(231.3)	(20.6)	–	(251.9)
Increase in trade and other operating payables	78.6	45.6	–	124.2
Purchases of property, plant and equipment	(389.6)	(4.9)	–	(394.5)
Exploration and evaluation expenditure	(136.7)	(6.0)	4.7	(138.0)
Issue of subsidiary's share capital to non-controlling interest	–	1.8	–	1.8
Net proceeds from borrowings	403.4	(6.0)	–	397.4
Repayment of borrowings and finance leases	(264.2)	(6.8)	–	(271.0)
Interest and financing fees paid	(101.0)	(10.0)	–	(111.0)
Net increase in cash and cash equivalents	232.4	12.4	(0.3)	244.5
Cash and cash equivalents at beginning of the year	291.7	62.1	–	353.8
Effect of foreign exchange rate changes	0.7	(0.3)	–	0.4
Cash and cash equivalents at end of year	524.8	74.2	(0.3)	598.7

Accounts

Notes to the Group financial statements continued

For the year ended 31 December 2013

Adjustments to the consolidated income statement	Year ended 31 December 2012 as previously stated US$m	Adoption of IFRS 10 US$m	Adoption of IFRS 11 US$m	Disposal group held for sale US$m	Year ended 31 December 2012 as restated US$m
Revenue	1,498.8	112.4	–	(39.8)	1,571.4
Cost of sales	(742.6)	(70.8)	–	32.5	(780.9)
Administrative expenses	(34.6)	(19.9)	(5.0)	4.4	(55.1)
Other operating expenses:					
– derivative financial instruments	(31.2)	(29.0)	–	–	(60.2)
– service fees receivable from associate company	4.7	(4.7)	–	–	–
– impairment of exploration and evaluation assets	(19.7)	–	4.7	–	(15.0)
Investment revenue	–	1.6	–	–	1.6
Finance costs	(72.8)	(18.5)	–	0.5	(90.8)
Other gains and (losses)					
– foreign currency gains	–	(0.9)	–	1.0	0.1
– gain on derivative financial instruments – options over shares in associate company	0.2	(0.2)	–	–	–
Share of joint venture profit	–	–	0.3		0.3
Dilution gain on investment in associate company	0.8	(0.8)	–	–	–
Share of profit/(loss) of associate company	(6.9)	6.9	–	–	–
Income tax expense	(390.8)	7.3	–	3.5	(380.0)
Profit for the year	203.4	(16.6)	–	–	186.8
Attributable to:					
Equity holders of Afren plc	203.4	(5.0)	–	–	198.4
Non-controlling interests	–	(11.6)	–	–	(11.6)
	203.4	**(16.6)**	**–**	**–**	**186.8**
Earnings per share from continuing activities					
Basic	18.7c	(0.1c)	–	–	18.6c
Diluted	17.9c	(0.2c)	–	–	17.7c
Earnings per share from all activities					
Basic	18.7c	(0.3c)	–	–	18.4c
Diluted	17.9c	(0.3c)	–	–	17.6c

Adjustments to the consolidated balance sheet	31 December 2011 as previously stated US$m	Adoption of IFRS 10 US$m	Adoption of IFRS 11 US$m	31 December 2011 as restated US$m
Assets				
Intangible oil and gas assets	713.7	0.7	(23.4)	691.0
Property, plant and equipment	1,676.0	151.0	–	1,827.0
Goodwill	–	115.2	–	115.2
Derivative financial instruments	13.4	(13.4)	–	–
Investments	21.7	(21.7)	–	–
Investments in joint ventures	–	–	7.3	7.3
Trade and other receivables	145.6	10.6	16.8	173.0
Cash and cash equivalents	291.7	62.1	–	353.8
Liabilities				
Trade and other payables	(317.4)	(8.9)	(0.7)	(327.0)
Current borrowings	(157.8)	(6.8)	–	(164.6)
Current tax liabilities	(39.6)	0.1	–	(39.5)
Deferred tax liabilities	(124.5)	(101.7)	–	(226.2)
Provision for decommissioning	(31.6)	(2.5)	–	(34.1)
Non-current borrowings	(682.2)	(138.9)	–	(821.1)
Derivative financial instruments – non-current	(7.5)	(3.9)	–	(11.4)
Other payables	–	(43.5)	–	(43.5)
Equity				
Other reserves	26.4	(36.7)	–	(10.3)
Retained earnings	64.7	(2.5)	–	62.2
Non-controlling interest	–	37.7	–	37.7

6.0 Company financial statements

As permitted by section 408(3) of the Companies Act 2006, a separate statement of comprehensive income, dealing with the results of the Parent Company, has not been presented.

Company balance sheet

As at 31 December 2013

	Notes	2013 US$m	2012 US$m
Assets			
Non-current assets			
Property, plant and equipment		4.3	3.2
Prepayments and advances to Partners		–	88.4
Investments in subsidiaries	6.2	1,031.8	883.0
Investments in trust	6.3	130.1	–
Available for sale investment		1.3	0.9
Investment in joint ventures		1.6	–
Derivative financial instrument	6.4	–	9.1
		1,169.1	**984.6**
Current assets			
Trade and other receivables	6.6	1,165.7	969.0
Prepayments and advances to Partners		99.3	7.4
Derivative financial instrument	6.4	0.1	–
Cash and cash equivalents	6.7	16.1	278.5
		1,281.2	1,254.9
Total assets		**2,450.3**	**2,239.5**
Liabilities			
Current liabilities			
Trade and other payables	6.8	(132.9)	(363.5)
Derivative financial instruments	6.4	(28.0)	(14.0)
		(160.9)	(377.5)
Net current assets		**1,120.3**	**877.4**
Non-current liabilities			
Borrowings	6.5	(847.5)	(828.7)
Derivative financial instruments	6.4	(10.0)	(5.4)
		(857.5)	(834.1)
Total liabilities		(1,018.4)	(1,211.6)
Net assets		**1,431.9**	**1,027.9**
Equity			
Share capital	6.9	19.1	18.9
Share premium	6.9	926.8	920.3
Merger reserve	6.9	179.4	179.4
Other reserves	6.11	50.9	38.3
Retained earnings		255.7	(129.0)
Total equity		**1,431.9**	**1,027.9**

The financial statements of Afren plc, registered number 05304498, were approved by the Board of Directors and authorised for issue on 26 March 2014. They were signed on its behalf by:

Darra Comyn
Group Finance Director

26 March 2014

Company cash flow statement

For the year ended 31 December 2013

	2013 US$m	2012 US$m
Operating loss for the year	(42.7)	(20.7)
Depreciation, depletion and amortisation	1.5	1.2
Derivative financial instruments	14.8	(20.0)
Share-based payments charge	3.6	6.2
Operating cash flows before movements in working capital	(22.8)	(33.3)
Increase in trade and other operating receivables	(14.9)	(48.1)
Decrease in trade and other operating payables	85.5	(27.9)
Net cash generated by operating activities	47.8	(109.3)
Purchases of property, plant and equipment	(2.7)	(1.2)
Net loan repayments from /(advances to) Group companies	99.3	513.1
Proceeds on disposal of subsidiary	7.6	–
Investment in subsidiaries	(179.0)	(375.9)
Investment revenue	0.8	0.1
Net cash (used in)/provided by investing activities	(74.0)	136.1
Issue of ordinary share capital – warrants, options, share awards and LTIP exercises	6.7	2.2
Investment in trust	(99.0)	–
Net proceeds from borrowings	304.6	291.8
Repayment of borrowings and finance leases	(346.6)	–
Interest and financing fees paid	(101.1)	(78.0)
Net cash (used in)/provided by financing activities	(235.4)	216.0
Net (decrease)/increase in cash and cash equivalents	(261.6)	242.8
Cash and cash equivalents at beginning of year	278.5	36.1
Effect of foreign exchange rate changes	(0.8)	(0.4)
Cash and cash equivalents at end of year	**16.1**	**278.5**

Company statement of changes in equity

For the year ended 31 December 2013

	Share capital US$m	Share premium account US$m	Other reserves US$m	Merger reserve US$m	Accumulated (losses)/profits US$m	Total equity US$m
At 1 January 2012	18.7	918.1	28.8	179.4	(98.2)	1,046.8
Issue of share capital	0.2	2.2	–	–	–	2.4
Share-based payments	–	–	15.1	–	–	15.1
Transfer to retained earnings/(accumulated losses)	–	–	(4.6)	–	4.6	–
Exercise of warrants designated as financial liabilities	–	–	–	–	0.2	0.2
Net loss for the year	–	–	–	–	(35.6)	(35.6)
Other comprehensive expense for the year	–	–	(1.0)	–	–	(1.0)
Balance at 31 December 2012	**18.9**	**920.3**	**38.3**	**179.4**	**(129.0)**	**1,027.9**
Issue of share capital	0.2	6.5	–	–	–	6.7
Share-based payments	–	–	13.6	–	–	13.6
Transfer to retained earnings/(accumulated losses)	–	–	(1.5)	–	1.5	–
Net profit for the year	–	–	–	–	383.2	383.2
Other comprehensive expense for the year	–	–	0.5	–	–	0.5
Balance at 31 December 2013	**19.1**	**926.8**	**50.9**	**179.4**	**255.7**	**1,431.9**

Notes to the Company financial statements

For the year ended 31 December 2013

6.1 Accounting policies

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and therefore the Company financial statements comply with Article 4 of the EU IAS Regulation.

To the extent that an accounting policy is relevant to both Afren Group and Company financial statements, refer to the Group financial statements for disclosure of the accounting policy.

Foreign currencies

In preparing the financial statements of the Company, transactions in currencies other than the Company's functional currency (foreign currencies) are recorded at the rate of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising are included in the profit and loss for the period.

The functional and presentation currency of the Company is US dollars.

6.2 Subsidiaries and associated undertakings

Investments in subsidiaries held by the Company as non-current assets are stated at cost less any provision for impairment.

A list of the significant investments in subsidiaries and associated undertakings, including the name, proportion of ownership interest, country of operation and country of registration, is given below:

Name	Principal activity	%	Country of operation	Country of registration
Directly held				
Afren Nigeria Holdings Limited	Holding company	100	Nigeria	England and Wales
Afren USA inc.	Service company	100	USA	USA, Delaware
Black Marlin Energy Holdings limited	Holding company	100	Dubai	British Virgin Islands
Afren MENA Limited	Oil and gas exploration, development and production	100	Kurdistan region of Iraq	England and Wales
Indirectly held				
Afren Energy Resources Limited	Oil and gas exploration, development and production	100	Nigeria	Nigeria
Afren Investments Oil & Gas (Nigeria) Limited	Oil and gas exploration, development and production	100	Nigeria	Nigeria
Afren Energy Services Limited	Service company	100	Nigeria	Nigeria
Afren Exploration and Production Nigeria Alpha Limited	Oil and gas exploration, development and production	100	Nigeria	Nigeria
Afren Exploration and Production Nigeria Beta Limited	Oil and gas exploration, development and production	100	Nigeria	Nigeria
Afren Nigeria Holdings (Nigeria) Limited	Holding company	100	Nigeria	Nigeria
Afren CI One Corporation	Oil and gas exploration, development and production	100	Côte d'Ivoire	Cayman
First Hydrocarbon Nigeria Company Limited (FHN)	Oil and gas exploration, development and production	78	Nigeria	Nigeria
Afren Tanzania Limited	Oil and gas exploration, development and production	100	Tanzania	Tanzania
East African Exploration (Kenya) Limited	Oil and gas exploration, development and production	100	Kenya	Kenya
East African Exploration (Seychelles) Limited	Oil and gas exploration, development and production	100	Seychelles	British Virgin Islands
East African Exploration (Madagascar) Limited	Oil and gas exploration, development and production	100	Madagascar	British Virgin Islands
East African Exploration (Ethiopia) Limited	Oil and gas exploration, development and production	100	Ethiopia	British Virgin Islands
Afren Energy Ghana Limited	Oil and gas exploration, development and production	100	Ghana	Bahamas
Afren Resources Limited	Oil and gas exploration, development and production	100	Nigeria	Nigeria

6.3 Investment in trust

Afren's ownership in FHN is structured in order to meet the criteria generally understood and sometimes required under Nigerian oil and gas industry policies for FHN to be classified as an indigenous Nigerian company, with the majority of its equity interest held by Nigerian owners. Afren split its legal and beneficial holdings in FHN such that it is the legal owner of not more than 45% of the issued ordinary shares in FHN. The remaining portion of Afren's legal interest in FHN is held in trust for the benefit of Afren by Adcax Investments Limited, a Nigerian-formed trust company. Accordingly, only the beneficial title to the Option Shares was acquired by Afren, with the legal title acquired by Adcax Investments Limited while Afren is the beneficiary of all the benefits accruing to the Option Shares.

6.4 Derivative financial instruments

To the extent a disclosure is relevant to both the Afren Group and Company financial statements, refer to the Group financial statements. The Company has the following derivatives:

	Purpose	Hedge Accounting
Commodity deferred put options (cash flow hedges)	Hedge against the price of crude oil falling	Yes
Interest rate swap	To link interest payments to the performance of certain indices that look to take advantage of a theoretical bias in the forward curve	No
Foreign exchange hedge	Hedge against changes in the USD/GBP exchange rate	No
Put (sell) and call (buy) options for FHN shares	Options to buy and sell FHN shares	No

	2013		2012	
Derivative financial instruments	Current US$m	Non-current US$m	Current US$m	Non-current US$m
Available for sale investments	–	1.3	–	0.9
Financial assets	0.1	–	–	9.1
Financial liabilities	(28.0)	(10.0)	(14.0)	(5.4)
	(27.9)	**(8.7)**	**(14.0)**	**4.6**

The above are shown at fair value and, with the exception of the FHN options, are classified at Level 2 (see note 5.6 of the Group financial statements for further details).

The FHN options are classified at Level 3. As such their valuation requires assumptions regarding FHN's share price which is not readily available. These options were valued using a Black Scholes model (inputs used are detailed below). Changing certain inputs to reasonable possible alternative assumptions does not change the fair value significantly.

	2012			2013	
Inputs	Call option	Put option A	Put option B	Put option C	
Strike price (US$)	1.00	2.24	2.47	3.32	As per option agreement
Stock price (US$)	2.00	2.00	2.00	3.14	Most relevant share price of FHN at reporting date
Time (days)	2,402	202	232	735	Days to expiry of option exercise period
Volatility (%)	25.0	25.0	25.0	25.0	Estimate for an unquoted oil and gas company
Risk free interest rate (%)	0.1	0.1	0.1	0.1	10 year US gilt rate

The movements in Level 3 instruments, measured on a recurring basis, are as follows:

	Put US$m	Call US$m	Total US$m
At 1 January 2012	**(7.3)**	**12.2**	**4.9**
Change in fair value	1.4	(1.8)	(0.4)
As at 1 January 2013	**(5.9)**	**10.4**	**4.5**
Exercised options	7.1	–	7.1
Expired options	0.8	(7.5)	(6.7)
New options	(10.9)	–	(10.9)
Change in fair value	(1.1)	(2.9)	(4.0)
At 31 December 2013	**(10.0)**	**–**	**(10.0)**

Amounts included in the profit and loss include movements in fair values and amounts taken to the income statement on expiry of options.

6.5 Borrowings

The Senior Secured Loan Notes 2016, the Senior Secured Loan Notes 2019 and the Senior Secured Loan Notes 2020 are held by the Company. To the extent a disclosure is relevant to both the Afren Group and Company financial statements, refer to the Group financial statements.

	2013		2012	
	Current US$m	Non-current US$m	Current US$m	Non-current US$m
Loan notes	–	847.5	–	779.1
Bank borrowings	–	–	–	49.6
	–	**847.5**	**–**	**828.7**

Accounts

Notes to the Company financial statements continued

For the year ended 31 December 2013

6.6 Trade and other receivables

	2013 US$m	2012 US$m
Trade and other debtors	4.3	5.0
Due from subsidiary undertakings*	1,161.2	944.6
Due from joint ventures	0.2	19.4
	1,165.7	**969.0**

* The amount is shown net of a provision for doubtful debt of US$33.8 million (2012: US$26.7 million).

There were no material past due not impaired receivables at either balance sheet date, nor any material bad debt provisions (other than as disclosed above in respect of intercompany balances).

6.7 Cash and cash equivalents

The Cash flow statement on page 146 gives a breakdown of cash movements in the year. To the extent a disclosure is relevant to both the Afren Group and Company financial statements, refer to the Group financial statements.

6.8 Trade and other payables

	2013 US$m	2012 US$m
Trade and other creditors	45.3	3.1
Accruals	46.1	48.2
Due to subsidiary undertakings	41.5	312.2
	132.9	**363.5**

6.9 Share capital, share premium and merger reserve

The allotted and issued share capital and share premium, and the merger reserve are consistent with Afren Group financial statements. Refer to note 3.5 of the Group financial statements.

6.10 Share-based payments

Details of the Afren share option scheme are disclosed in note 5.8 of the Group financial statements.

The Company is liable for Employer's National Insurance on the difference between the market value of the share-based payment at date of exercise and exercise price. This expense is accrued by reference to the share price of the Company at the balance sheet date.

The share-based payments expense comprises the following three schemes:

	2013 US$m	2012 US$m
Equity-settled share option scheme	0.3	3.1
Long Term Incentive Plan: Afren Performance Share Plan (equity-settled share award scheme)	6.5	5.4
Share Award Scheme (equity-settled share award scheme)	–	–
	6.8	**8.5**

Additional details of these schemes are disclosed in note 5.8 of the Group financial statements.

6.11 Other reserves

	Share-based payment reserve US$m	Other reserves US$m	Total US$m
Company			
At 1 January 2012	28.8	–	28.8
Share-based payments for services	15.1	–	15.1
Transfer to accumulated losses	(4.6)	–	(4.6)
Other movements	–	(1.0)	(1.0)
At 31 December 2012	**39.3**	**(1.0)**	**38.3**
Share-based payments for services	13.6	–	13.6
Transfer to accumulated losses	(1.5)	–	(1.5)
Other movements	–	0.5	0.5
At 31 December 2013	**51.4**	**(0.5)**	**50.9**

Share-based payment reserve represents the fair value of the options, share awards, warrants and LTIP granted under the Company's share-based schemes.

6.12 Operating lease commitments

At the balance sheet date, the Company had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2013 US$m	2012 US$m
Within one year	2.3	1.7
In the second to fifth years	9.2	6.7
After five years	0.6	0.4
	12.1	**8.8**

Operating lease expenses for the current and prior year were not material.

6.13 Contingent liabilities

The Company has the following contingent liabilities:

	2013 US$m	2012 US$m
Indemnity in respect of FHN's standby letter of credit	–	6.5
Guarantee in respect of FHN hedges	11.0	–
Bank guarantee in relation to Partner	70.0	–
	81.0	**6.5**

6.14 Unrecognised deferred tax assets

At the balance sheet date the Company had tax losses (primarily arising in the UK) of US$176.0 million (2012: US$91.2 million) in respect of which a deferred tax asset has not been recognised as there is insufficient evidence of future taxable profits against which these tax losses could be recovered. Such losses can be carried forward indefinitely.

The Company had temporary differences of US$16.0 million (2012: US$5.3 million) in respect of share-based payments, property, plant and equipment and pensions in respect of which deferred tax assets have not been recognised as there is insufficient evidence of future taxable profits against which these tax losses could be recovered.

6.15 Related party transactions

Amounts owed by and to subsidiaries are disclosed in notes 6.6 and 6.8 respectively. Transactions between the Company and its subsidiaries, associates and joint ventures were as follows:

2013	Subsidiaries US$m	Joint Ventures US$m
Net loan advances/(repayments)	494.4	(19.2)
Investments	286.3	–

2012	Subsidiaries US$m	Joint Ventures US$m
Net loan advances/(repayments)	448.6	(6.1)
Investments	(375.9)	–

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Group, is disclosed in note 5.12 of the Group financial statements. Further information about the remuneration of individual Directors, transactions with Directors and Directors' interests is provided in the audited part of the Directors' remuneration report.

Trading transactions

All trading transactions between the Company and related parties are disclosed in note 5.11 of the Group financial statements.

6.16 Post balance sheet events – Company and Group

On 27 February 2014 Afren signed a new US$100 million term loan facility for OML 26. This replaces the OML 26 Facility of US$80 million that existed as at 31 December 2013 which was repaid on 28 February 2014. The new facility has a four year term and bears an interest rate of Libor plus 6.5%. The new facility will be used to fund ongoing capital expenditure, operational expenditure and general corporate purposes with respect to OML 26.

Licences (not audited)

Country	Date acquired	Effective working interest (%)	Operator	Partner	Work programme
Nigeria and West Africa					
Nigeria					
Ebok[6]	Q1 2008	100%/50%[1]	Afren	Oriental	
Okoro[6]	Q2 2006	50%	Afren	Amni	
OML 26	Q3 2010	45%[2]	NPDC	FHN	
Okwok[6]	Q3 2009	70%/56%[3]	Afren	Oriental/Addax	
OML 113	Q3 2013	16.875%[7]	Yinka Folawiyo	FHN	
OML 115[6]	Q1 2010	100%/50%[1]	Afren	Oriental	
OPL 310	Q4 2008	40%[4]	Afren	Optimum	
Côte d'Ivoire					
Block CI-523	Q3 2013	20%	Taleveras	PETROCI	
Block CI-525	Q3 2013	51.75%[5]	Afren	PETROCI/Taleveras	
Ghana					
Keta Block	Q4 2007	35%	Eni	GNPC	
Congo (Brazzaville)					
La Noumbi	Q2 2006	14%	Maurel et Prom	Eni	
South Africa					
Block 2B	Q1 2011	25%[8]	Thombo	Thombo	

(1) Afren effective working interest pre/post cost recovery.
(2) Held through First Hydrocarbon Nigeria Company Limited (FHN) a subsidiary of Afren plc with a 78% beneficial holding following announcement on 5 July 2013.
(3) Afren effective working interest pre/post cost recovery. Once hurdle point is achieved, Afren effective working interest becomes 35%. Hurdle point is achieved when post-royalty revenue lifted by the parties outside of any cost recovery period is greater than US$1.2 billion.
(4) 40% effective economic interest rate post recovery.
(5) Afren's working interest in the Eland and Kudu fields within CI-525 is 61.875%.
(6) Note: On the Okoro project, Afren is the technical service provider to Amni, the named operator. On the Ebok project, Okwok and OML 115, Afren is the technical service provider to Oriental Energy Resources.
(7) Held through FHN, a subsidiary of Afren plc, post cost recovery economic interest.
(8) Working interest increases to 50% and operatorship transferred to Afren if Afren exercises option to drill an exploration well

Key

Exploration
Appraisal and Development
Production

Country	Date acquired	Effective working interest (%)	Operator	Partner	Work programme
Afren East Africa Exploration					
Ethiopia					
Blocks 7 & 8	Q3 2010	30%	New Age	Africa Oil	
Kenya					
Block L17 & L18	Q3 2010	100%	Afren	–	
Block 1	Q3 2010	80%	Afren	Lion Petroleum	
Tanzania					
Tanga Block	Q1 2011	74%	Afren	Petrodel	
Seychelles					
Blocks A & B	Q3 2010	75%	Afren	Avana Petroleum	
Madagascar					
Block 1101	Q3 2010	90%	Afren	Oyster Madagascar Limited	

Country	Date acquired	Effective working interest (%)	Operator	Partner	Work programme
Kurdistan region of Iraq					
Barda Rash	Q3 2011	60%	Afren	KRG	
Ain Sifni	Q3 2011	20%	Hunt Oil Middle East	Hunt Oil Middle East	

Oil and gas reserves (not audited)

	Working interest basis before all royalties														
	Nigeria			Côte d'Ivoire			Nigeria – São Tomé & Príncipe			Kurdistan region of Iraq			Total Group		
	Oil (mmbbl)	Gas (bcf)	mmboe	Oil (mmbbl)	Gas (bcf)	mmboe	Oil (mmbbl)	Gas (bcf)	mmboe	Oil (mmbbl)	Gas (bcf)	mmboe	Oil (mmbbl)	Gas (bcf)	mmboe
Group Proved and Probable Reserves															
At 31 December 2012	154.5	–	154.5	0.3	9.2	1.9	–	–	–	114.0	–	114.0	268.8	9.2	270.3
Revisions of previous estimates	7.7	–	7.7	–	–	–	–	–	–	–	–	–	7.7	–	7.7
Discoveries and extensions	26.4	–	26.4	–	–	–	–	–	–	–	–	–	26.4	–	26.4
Acquisitions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Divestments	–	–	–	(0.2)	(7.3)	(1.5)	–	–	–	–	–	–	(0.2)	(7.3)	(1.5)
Production	(16.4)	–	(16.4)	(0.1)	(1.9)	(0.4)	–	–	–	(0.1)	–	(0.1)	(16.7)	(1.9)	(17.0)
At 31 December 2013	172.1	–	172.1	–	–	–	–	–	–	113.9	–	113.9	286.0	–	286.0
Contingent Resources															
At 31 December 2012	60.4	–	60.4	12.9	66.0	24.2	1.9	–	1.9	754.2	–	754.2	829.3	66.0	840.7
Revisions of previous estimates	(2.6)	–	(2.6)	–	–	–	–	–	–	–	–	–	(2.6)	–	(2.6)
Discoveries and extensions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Transfers to reserves	(26.4)	–	(26.4)	–	–	–	–	–	–	–	–	–	(26.4)	–	(26.4)
Acquisitions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Divestments	–	–	–	–	–	–	(1.9)	–	(1.9)	–	–	–	(1.9)	–	(1.9)
At 31 December 2013	31.4	–	31.4	12.9	66.0	24.2	–	–	–	754.2	–	754.2	798.4	66.0	809.8
Total Reserves and Contingent Resources															
At 31 December 2012	214.8	–	214.8	13.2	75.2	26.1	1.9	–	1.9	868.2	–	868.2	1,098.1	75.2	1,111.0
Revisions of previous estimates	5.1	–	5.1	–	–	–	–	–	–	–	–	–	5.1	–	5.1
Discoveries and extensions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Acquisitions	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Divestments	–	–	–	(0.2)	(7.3)	(1.5)	(1.9)	–	(1.9)	–	–	–	(2.1)	(7.3)	(3.4)
Production	(16.4)	–	(16.4)	(0.1)	(1.9)	(0.4)	–	–	–	(0.1)	–	(0.1)	(16.7)	(1.9)	(17.0)
At 31 December 2013	203.5	–	203.5	12.9	66.0	24.2	–	–	–	868.1	–	868.1	1,084.4	66.0	1,095.8

Notes:
- Reserves and resources above are stated on a working interest basis (i.e. for the Nigerian contracts our net effective ultimate working interest based on working interest to payback (50% to 100%) and WI post payback (50%)).
- Proved plus Probable (2P) reserves have been prepared in accordance with the definitions and guidelines set forth in the 2007 PRMS approved by the SPE.
- Contingent resources are those quantities of petroleum that are estimated to be potentially recoverable from known accumulations but for which the projects are not yet considered mature enough for commercial development due to one or more contingencies.
- 2013 production excludes NGL output from the Lion Gas Plant.
- Quantities of oil equivalent are calculated using a gas-to-oil conversion factor of 5,800 scf of gas per barrel of oil equivalent.
- The oil price used by NSAI and RPS Energy for their independent reserve and resource assessments at 31 December 2013 was US$100/bbl flat.
- The Group provides for depletion and amortisation of tangible fixed assets on a net entitlement basis, which reflects the terms of the licences and agreements relating to each field. Total net entitlement reserves were 208.4 mmbbls at 31 December 2013.
- Excludes management estimates of contingent resources at OML 113 (gross 167 mmboe) and additional upside at OML 26 (gross 144 mmboe).

Glossary of terms

AGM
Annual General Meeting

appraisal well
a well drilled to follow up a discovery and evaluate its commercial potential

bbls
barrels of oil

bcf
billion cubic feet of gas

boe
barrels of oil equivalent

boepd
barrels of oil equivalent per day

bopd
barrels of oil per day

capital employed
equity plus interest-bearing debt

CR
Corporate responsibility

deg API
a measure of how heavy or light a petroleum liquid is compared with water

dwt
dead weight tonnage

E&A
Exploration and Appraisal

E&E
Exploration and Evaluation

E&P
Exploration and Production

EHSS
environment, health, safety and security

farm-in
to acquire an interest in a licence from another party

farm-out
to assign an interest in a licence to another party

FEED
Front End Engineering Design

FPSO
Floating Production Storage and Offloading vessel

ft
feet

GOR
Gas Oil Ratio

H1
first half

H2
second half

Hydrocarbons
compounds containing only the elements hydrogen and carbon; they may exist as solids, liquids or gases

IOC
International oil company

JDZ
Joint Development Zone

joint venture or JV
a group of companies who share the cost and rewards of exploring for and producing oil or gas from a permit or licence

km^2
square kilometres

kbpd
thousand barrels per day

licence or permit
area of specified size, which is licensed to a company by the government for production of oil and gas

LSE
London Stock Exchange

Major
major international oil company

m
metres

mmbbl, mmbbls
million barrels

mmbpd
million barrels per day

mmboe
millions of barrels of oil equivalent

mmbtu
million metric British thermal units

mmscfd
million standard cubic feet per day

MOPU
Mobile Offshore Platform Unit

MOU
Memorandum of Understanding

OML
Oil Mining Licence

operator
a company which organises the exploration and production programmes in a permit or licence on behalf of all the interest holders in the permit or licence

OPL
Oil Prospecting Licence

Q1
first quarter

Q2
second quarter

Q3
third quarter

Q4
fourth quarter

spud
to commence drilling a well

STOIIP
Stock Tank Oil Initially In Place

tcf
trillion cubic feet of gas

working interest (WI)
Afren's share of the field based on Afren's equity share of the field including pre-payback and post-payback equity percentages and before deduction of all royalties

1P
proven

2P
proven and probable

3P
proven, probable and possible

2D
two-dimensional

3D
three-dimensional

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