Strengthening for the future

Afren Annual Report and Accounts 2014

Strengthening for the future

Afren has faced several significant challenges over the past 12 months, both at a corporate and operational level.

The unauthorised payments announced in July 2014 led to the dismissal of the former CEO and the former COO, as well as two Associate Directors. The actions of these former Board members and senior management significantly impacted the confidence of all our stakeholders and highlighted the need to change a number of aspects of the way we work.

At an operational level, we also encountered challenges which impacted the timing of the production ramp-up across our producing asset base. This combined with the rapid deterioration in oil prices and our intensive capital expenditure programme during the second half of 2014 meant that our financial performance and liquidity were severely impacted.

The fall in oil prices led to a material impairment charge of US$1,112 million in respect of the carrying value of our production and development assets and the impact of the curtailment of future capital expenditure on our exploration assets. Furthermore, an updated reserves report at the Barda Rash PSC, Kurdistan region of Iraq, led to the write-off of the remaining 2P reserves at the field and an additional impairment charge recognised in the year of US$933 million.

Addressing these issues has not been easy. The Board is acutely aware of our responsibility to all stakeholders and is confident that, following the detailed announcements on 27 January 2015 and 13 March 2015, we have put in motion a number of important measures in agreement with our lenders to create a foundation for Afren to return to creating value in 2015 and beyond.

We have an attractive portfolio of assets across the E&P cycle underpinned by a cash generative base in Nigeria that is expected to continue growing even at current oil prices. We remain committed to all our Partners who are an integral part of our future.

We know this has been a turbulent year but we wish to thank our shareholders, lenders, Partners and staff for their patience and re-iterate our commitment to regaining the confidence of all our stakeholders as we go about strengthening Afren for the future.

Mr Toby Hayward
Interim Chief Executive Officer

Mr Egbert Imomoh
Executive Chairman

Our vision
Our vision is to be a leading independent upstream exploration and production (E&P) company.

Our strategy
We have identified five clear priorities focusing on running our business, and growing efficiently and responsibly.

How we will behave
We have adopted a new Code of Business Conduct which consists of 15 commitments that provide all Directors, employees and contractors with rules that govern every aspect of our activities. They are standards that everyone is expected to meet at all times when they are working for the Company. Our commitments address matters such as conflicts of interest, environment and climate change, health and safety, human rights and our determination to prevent bribery.

Key pages

Afren at a glance

Our business model

Our operations

Accounts

Go online for more:
www.afren.com

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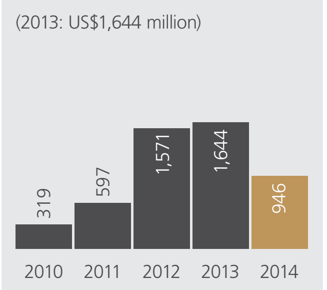
Our highlights and summary KPIs

Financial highlights

Revenue

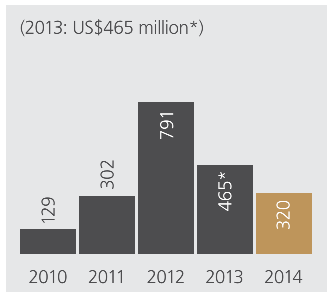
US$946m



(2013: US$1,644 million)

Gross profit

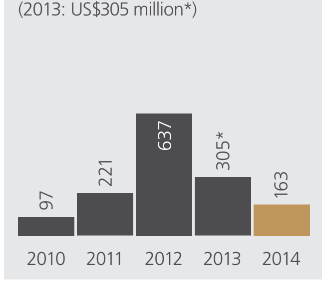
US$320m



(2013: US$465 million*)

Normalised profit before tax[1]

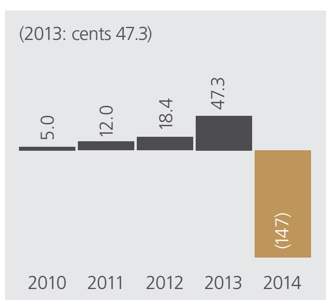
US$163m



(2013: US$305 million*)

Basic EPS (from all activities)

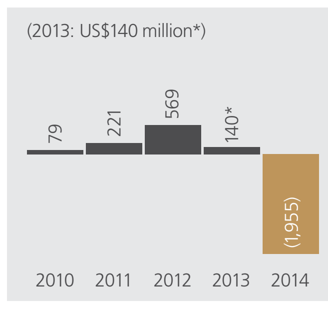
cents (147)



(2013: cents 47.3)

(Loss)/profit before tax

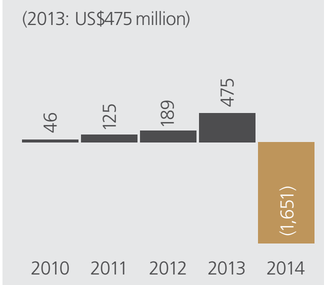
US$(1,955)m



(2013: US$140 million*)

(Loss)/profit after tax

US$(1,651)m



(2013: US$475 million)

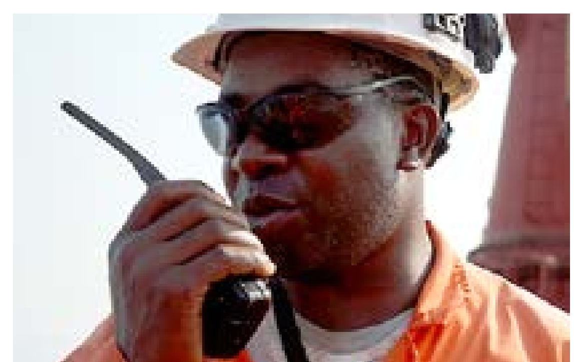
* 2013 restated numbers.

1 Refer to KPIs (Key Performance Indicators) for calculation details.

2014 Operational highlights

- Net production excluding Barda Rash of 31,819 bopd (as detailed on page 36), slightly below the full year guidance range of between 32,000 – 36,000 bopd. Year-on-year reduction of 32% due to cost recovery at Ebok and delays with bringing new wells on stream across producing asset base in Nigeria
- Financial results impacted by material impairment charge of US$1.1 billion due to the fall in oil prices and curtailment of capital expenditure and US$0.9 billion in respect of the write-off of Barda Rash reserves
- Reserves replacement ratio significantly impacted due to write-off of 2P reserves at Barda Rash
- 2015 capital allocation to be prioritised to existing producing asset base in Nigeria. Forward programme optimised at lower oil price environment. Production guidance expected to be 23,000 – 32,000 bopd reflecting lower production from Ebok following the end of all cost recovery
- Wide-ranging portfolio review underway, targeting selective divestments and farm-outs in 2015
- Broad programme of cost reductions and operational measures targeted that are expected to lead to efficiencies and significant cost savings in 2015
- Holders of existing Notes have provided interim funding of US$200 million by way of new Private Placement Notes. Proceeds to be used for general corporate purposes and capital expenditure. Wider recapitalisation programme expected to be completed by the end of July 2015 providing a further US$55 million to US$105 million in net cash proceeds

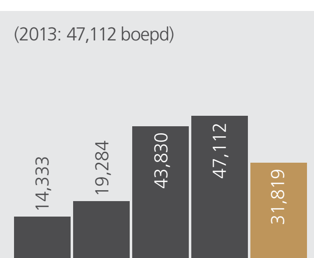
For more information see
P36



Key Performance Indicators

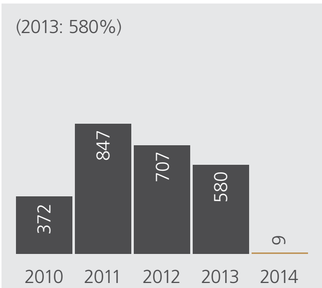
Net effective working interest production
(exc. Barda Rash)

31,819 bopd



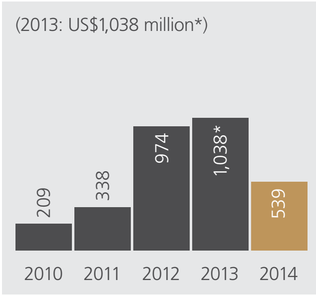
Reserves replacement ratio

9%



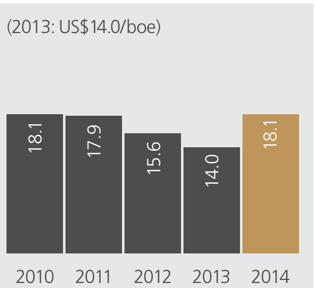
Operating cash flow

US$539m



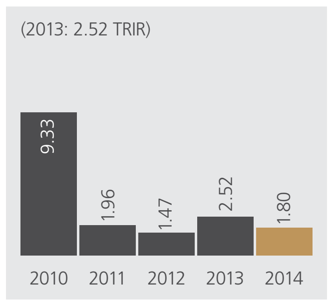
Normalised operating cost per barrel[1]

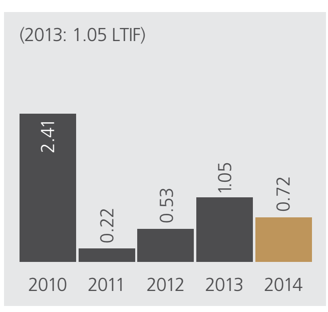
US$18.1/boe



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

1.80 TRIR 0.72 LTIF





Responsibility highlights

- Adoption of new Code of Business Conduct
- No fatalities or major health and safety incidents at any of our operations
- 2014 corporate responsibility stretch target achieved, including achieving 30% reductions in both Lost Time and Total Recordable frequency rates

For more information see
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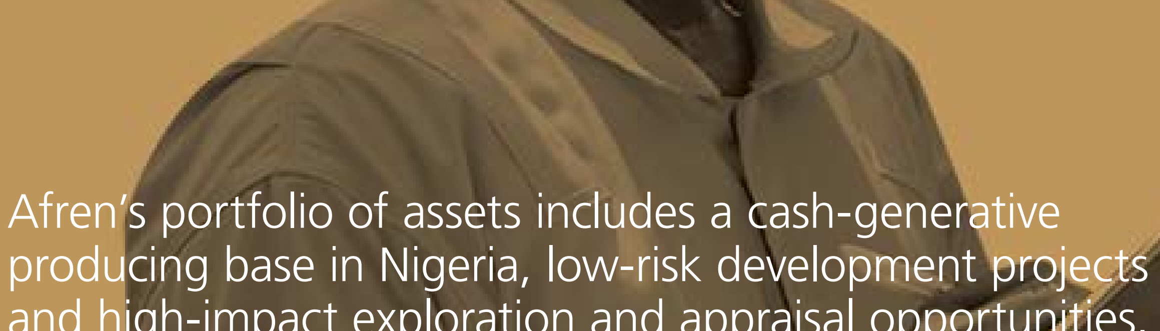
Afren at a glance

World-class opportunities across Africa



Afren's portfolio of assets includes a cash-generative producing base in Nigeria, low-risk development projects and high-impact exploration and appraisal opportunities.

Total number of employees and contractors	2014 net effective working interest production (excl. Barda Rash)	Net 2P reserves
439	**31,819 bopd**	**162 mmboe**

Net 2C resources	Total reserves and resources	Operating loss
276 mmboe	**18,083 mmboe**	**US$(1,898m)**

Our portfolio is organised into three geographical regions: Nigeria, other West and South Africa; Afren East Africa Exploration; and the Kurdistan region of Iraq.

Our focus in 2015 will be to allocate capital to our existing producing asset base in Nigeria, and manage our exploration and appraisal commitments across our portfolio with new funding alongside targeted farm-out and divestment opportunities.

Kurdistan region of Iraq

Exit options under evaluation

Exploration

Appraisal & Development

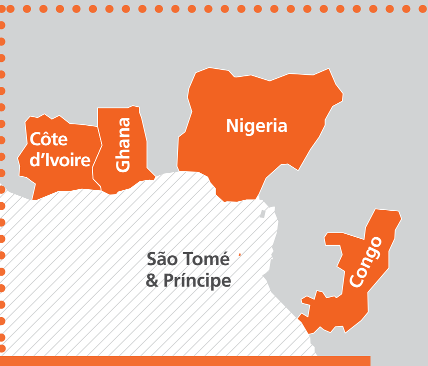
Net reserves and resources

179 mmboe

- Located in a prolific hydrocarbon province
- Established infrastructure with tie-in point to export pipeline on both fields
- Gross acreage of over 600 km²
- Regional office in Erbil, Kurdistan region of Iraq

Read more P54

Kurdistan region of Iraq



Madagascar

South Africa

Nigeria, other West and South Africa

Business activity

Exploration

Appraisal & Development

Production

Net reserves and resources

1,673 mmboe

- Balanced portfolio of assets across the full E&P cycle
- Proven record as a developer and explorer
- Gross acreage of over 20,000 km²
- Regional office in Lagos, Nigeria

Read more P38

Afren East Africa Exploration

Business activity

Exploration

Net reserves and resources

16,230 mmboe

- Diversified geology and play types with proven working hydrocarbon systems
- High-equity positions
- Prospects developed to drill-ready status
- Gross acreage of over 88,000 km²
- Regional office in Nairobi, Kenya

Read more P48

Understanding the dynamics of volatile markets

Oil and gas analysts and forecasters, Groppe, Long & Littell, see Brent remaining between US$60–75/bbl through 2017, creating opportunities for lower-cost operators.

Global economic growth

3% GDP

FTSE 350 Oil and Gas index performance (2014)

-14.9%

2014 oil price exit rate (per barrel)

US$55

Economic context

Global economic growth remained lacklustre in 2014 with an estimated 3% growth in GDP. Economic activity has been uneven across geographies as emerging economies adjust to a more sustainable pace of growth while advanced economies continue to deal with the remnants of the financial crisis, including high debt levels.

UK equity markets held up overall with the FTSE 350 index down 1.9% for the year. Stock prices for oil and gas firms pulled the index lower as a result of plunging oil prices in the second half of 2014 – discussed in detail below. These energy stocks considerably underperformed the broader market with the FTSE 350 Oil and Gas index down 14.9%.

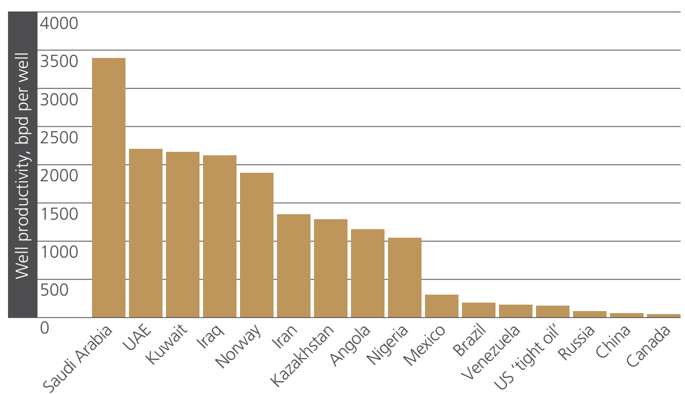
Oil consumption in 2014 rose a modest 0.5 million barrels per day (mmbd) from 2013 levels to reach a total 88.3 mmbd. Moderate increases in China and India were partly offset by continued decreases in Japan and Europe where economic activity has remained weak.

Oil demand fell in the second half of the year in reaction to the period of sustained higher oil prices experienced in the preceding four years. In the short run, oil demand is highly inelastic with few ready substitutes and little discretionary use. Over several years however, high oil prices incentivise greater efficiency of use (such as a consumer buying a more fuel-efficient automobile) and switching to more economical fuel sources (such as an electricity producer converting power plant fuel to natural gas).

Several Asian countries modified their fuel pricing policies in the latter stages of 2014 which raised consumer prices and decelerated growth. Among these were India, which deregulated diesel prices, and China, which increased the consumption tax on gasoline and diesel.

Well productivity for major oil-producing countries

(country production in excess of 1.5 mmbd)



Estimated proved gas reserves*

Source: Oil and Gas Journal

Rank	Country	Trillion Cubic Feet
1	Russia	1,688
2	Iran	1,201
3	Qatar	872
4	United States	339
5	Saudi Arabia	294
6	Turkmenistan	265
7	United Arab Emirates	215
8	Venezuela	197
9	Nigeria	180
10	China	164

* as of 1 January 2015

Estimated proved oil reserves*

Source: Oil and Gas Journal

Rank	Country	Billion bbl
1	Venezuela	298.4
2	Saudi Arabia	265.8
3	Canada	172.5
4	Iran	157.8
5	Iraq	144.2
6	Kuwait	101.5
7	United Arab Emirates	97.8
8	Russia	80.0
9	Libya	48.4
10	United States	37.9
11	Nigeria	37.1

* as of 1 January 2015

Crude oil prices

The price for benchmark Brent crude oil averaged US$109 per barrel for the first half of 2014, essentially on a par with the average price for 2013. As oil demand weakened during the second half of the year in the midst of robust supply, Brent prices declined significantly to average US$75 per barrel in the fourth quarter and ultimately exited 2014 at US$55 per barrel.

Oil supply increased 1 mmbd in 2014 with rising production in the US, Canada and Brazil that was partly offset by lower production from OPEC producers Libya and Venezuela. Higher oil prices have played a major role in supply growth as tight oil (US), oil sands (Canada) and deepwater resources (Brazil) are more costly to develop than conventional reservoirs.

Geopolitical developments also remain a key influencing factor on oil supply. Continued conflict in Libya has constrained production while roughly 1 mmbd of oil supply from Iran remains sidelined under international sanctions as negotiations were extended. Saudi Arabia sustained higher levels of oil production throughout 2014 to compensate for these constraints – successfully holding total OPEC liquids production steady.

Saudi Arabia maintained production levels even as oil demand weakened, in effect allowing prices to fall. The Saudi strategy – a period of prices low enough to reduce marginal production in North America and other places – aims to preserve market share for the longer term in exchange for a shorter-term loss of oil revenues.

Market outlook

The structural shifts in oil demand – primarily fuel substitution in favour of natural gas, greater efficiency of use, and price subsidy reform – are expected to endure, which will likely keep oil consumption growth in check. Concurrently, oil supply is forecast to remain robust as geopolitical constraints are eventually lifted and investments to expand production in key areas like Iraq are realised. The combination of weak demand and buoyant supply is expected to pressure oil prices for the next couple of years.

Annual average Brent prices are forecast by Groppe, Long & Littell (GLL) in the US$60–75 per barrel range through 2017. These price levels will create a more challenging industry environment for many companies, especially those looking to develop unconventional and other high-cost resources. That environment also presents opportunities and competitive advantages for those companies with access to more economical reserves. In addition, lower production costs can be realised as the low oil price environment is likely to impact service costs e.g. reduced rig rates and contractor fees.

Production in Nigeria held at 2.2 mmbd in 2014, making the country Africa's largest oil producer and a key global supplier. Proven oil reserves of 37.1 billion barrels rank 11th worldwide while natural gas reserves of 180 trillion cubic feet rank 9th overall – remarkable figures considering original oil and gas discoveries in Nigeria date back to the mid 1950s. Exports from Nigeria to the US have all but disappeared in the wake of growing light oil production from shales. These export volumes have largely shifted to expanding Asian markets as well as Europe to backfill for declining North Sea production and volatile output from Libya.

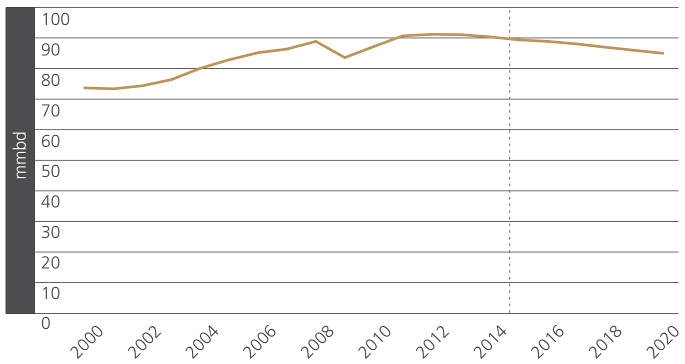
Prior to 2005, the Kurdistan region of Iraq was only minimally explored and had little or no oil production. The last decade though has seen tremendous success with over 100 exploratory and appraisal wells drilled. Oil production in Kurdistan reached 350 thousand barrels in 2014 and is expected to nearly double in 2015.

Above-ground risk has been the main concern in Kurdistan. The invasion of the Islamic State of Iraq and the Levant (ISIL) as well as a broad dispute between the Kurdistan Regional Government (KRG) and the central government in Baghdad were major factors. By late 2014 the security situation had calmed and oil development activity had resumed with little disruption. In December, an agreement between the KRG and Baghdad was signed resuming the flow of key funds as well as expanding oil exports.

Oil demand

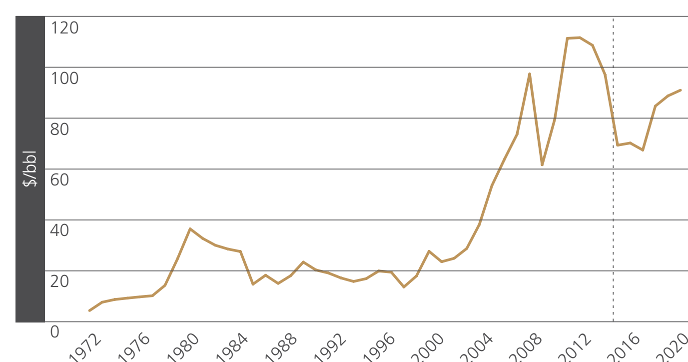
(measured at a constant $70 per bbl)

---- Forecast



Dated Brent

---- Forecast



Exploration activity in Nigeria and other West African countries has migrated offshore. The discovery of large pre-salt fields offshore Brazil has prompted exploration for "mirror image" resources across the Atlantic given a shared geology from the time Africa and South America were one larger continent. Application of new seismic and reservoir modelling technologies has greatly improved the chances for exploration success in these ventures as proven by the experience in Brazil. Even so, frontier exploration activity is likely to be limited in a lower oil price environment.

Meeting the energy challenge

The oil and gas industry is unique in that resource development involves depletion. Most estimates put the average depletion rate for crude oil at around 5% per year. Putting that into context, to simply hold global supply flat at 83 mmbd requires over 4 mmbd of new production each year – equivalent to the combined production from Brazil and Nigeria.

To make things more difficult, the "easy" oil has already been found and developed over past decades. Each new barrel will be more expensive because of the escalating costs that come with more difficult geology and greater above-ground risk. These factors – depletion and increasing development costs – support a return to higher oil prices in time.

Sustaining oil output and the energy requirements for the global economy will therefore be a challenge in both the near and long term. Meeting this challenge will require significant capital investment, technological innovation and persistence to keep pace. Companies with access to conventional reserves, financial discipline and technical excellence will not only survive the current supply overhang but also be well positioned for when oil prices eventually rebound.

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.

Chairman's and Chief Executive's statement

Introduction

Afren had an extremely challenging year in 2014. Following the unauthorised payments issue discovered in July, the Board initially suspended and then dismissed the former CEO, Osman Shahenshah, and former COO, Shahid Ullah, as well as two Associate Directors, Iain Wright and Galib Virani. Their actions significantly affected the confidence of all our stakeholders.

Operationally, Afren also encountered a number of headwinds in 2014. Operational delays impacted the timing of the production ramp-up across our producing asset base which, when combined with the rapid deterioration in the oil price environment during the second half of the year, meant that our financial performance fell well below our expectations.

The impact of the lower oil prices resulted in an impairment charge of US$273 million in respect of the carrying value of our production and development assets. In addition, as a result of the liquidity constraints of the business, future capital expenditure on our exploration and evaluation (E&E) assets has been curtailed and has led to an additional impairment charge of US$839 million. Despite this, the Group believes that upside potential remains in respect of the E&E portfolio and is optimistic of making recoveries on some of the assets that have been fully impaired through either development or sale.

Following an updated reserves report from RPS Energy, an impairment charge of US$933 million was recognised in respect of the Barda Rash PSC. This reflected the operational and technical challenges that were encountered in drilling a field which proved to be markedly different to our initial assessment and the approved Field Development Plan (FDP).

The decline in production and revenue, associated with unprecedented impairments, resulted in a loss before tax from continuing operations for the year ended 31 December 2014 of US$1,955 million. While the Group's cash position was US$237 million as at 31 December 2014, its liquidity was further impacted as a result of restricted and segregated cash balances in place to address operational requirements.

The results together with the strains of operating in a significantly lower oil price environment, severely impacted our business at the start of 2015 and led to wide ranging refinancing proposals being discussed with our lenders and advisers as well as third parties. Following such a review, the Company concluded that a transaction with its current creditors offered the best alternative that was capable of being implemented. These were agreed in principle and announced on 13 March 2015, after the Company had deferred certain amortisation and interest payments due under its secured Ebok facility and 2016 Senior Notes.

The Company has successfully raised US$200 million in interim funding and further deferred a US$50 million amortisation payment. This interim funding is expected to be refinanced by a broader financial and capital restructuring to be implemented in the early part of H2 2015. The objective of this restructuring, which is intended to raise a further US$55 million to US$105 million in net cash proceeds, is to recapitalise the business, extend the maturity of our debt, lower our cost base and focus the Company's operational efforts towards achieving production and cash flow increases from our existing Nigerian production base, as outlined in our business plan. These measures should enable Afren to benefit favourably from any potential upward re-rating in the oil price dynamics but at the same time ensure the business can return to profitability from a lower oil price base.

We continue to see value in our portfolio and are confident that we can emerge from the difficulties of the past nine months as a more nimble, well governed and transparent business.

Mr Toby Hayward
Interim Chief Executive Officer

Mr Egbert Imomoh
Executive Chairman

Cultivating the right culture

As part of the evolution of an entrepreneurial business that witnessed rapid growth in a relatively short space of time, it is fair to say that while we had the right systems and processes in place, there were a number of issues with the culture at the top of our organisation that rendered the day-to-day implementation of these ineffective.

On 31 July 2014, Afren announced that during the course of an independent review on the Board's behalf by Willkie Farr & Gallagher (UK) LLP (WFG) of the potential need for disclosure to the market of certain previous transactions (see note 1.6 to the financial statements), evidence was identified in respect of the receipt of unauthorised payments amounting to US$45 million for the benefit of the former CEO (Osman Shahenshah), former COO (Shahid Ullah) and other selected employees and third parties associated with the Ebok project. This led initially to the suspension of these two individuals and the appointment of Egbert Imomoh to Executive Chairman (previously Non-Executive Chairman) and Toby Hayward as Interim CEO (previously Senior Independent Director). On 13 October 2014, following the completion of this review by WFG, the Board decided to terminate the employment and directorships of the former CEO and COO with immediate effect on the grounds of gross misconduct. Furthermore, the Board also decided to terminate the employment of the two Associate Directors (Iain Wright and Galib Virani), who received payments in breach of the Company's approved remuneration policy.

In connection with the initial review, WFG also concluded that the Company failed to comply with the reporting obligations under the Listing Rules in respect of two of the three transactions investigated. Afren has notified the Financial Conduct Authority (FCA) in respect of these breaches and continues to cooperate with them fully. Furthermore, as part of their review and at the request of Afren, WFG engaged KPMG LLP (KPMG) to undertake an independent review of the accounting for the three transactions investigated. Following the completion of the final report on 28 October 2014, management have reassessed certain accounting judgements made in the prior year and have concluded it is appropriate to restate the financial statements at 31 December 2013. As previously re-iterated, these have not had any impact to the net assets or profit after tax (as discussed in detail in note 1.6 to the financial statements). The payment of US$45 million in unauthorised payments was made by a third party and has had no impact on Afren's financial statements.

On 31 December 2014, Afren announced that it had secured an agreement to a cash settlement of US$17.1 million in relation to the unauthorised payments from Mr Shahenshah and Mr Ullah and a further US$3.0 million towards certain investigation and legal costs. Further sums have been received from certain other individuals and steps are being taken to secure the return of remaining amounts. With the exception of those amounts relating to certain investigation and legal costs, these funds will be returned to Oriental Energy Resources Limited (Oriental).

In connection with its review of the previous transactions, WFG made certain recommendations as to how the Company could improve and strengthen its internal controls. As part of the Company's implementation of improved internal compliance procedures, the Company engaged WFG and also KPMG to assist it with certain elements of its review of its compliance with such procedures. In connection with this review, on 20 March 2015, Afren announced that it had reported to the committee of the bondholders who are subject to the ongoing discussions around interim funding, preliminary concerns regarding the hire of an individual within its operations in 2012 and the payment of certain travel and accommodation expenses connected to Afren's activities. WFG has undertaken a substantial review of such matters, which is still ongoing but which is almost complete save for some follow-up in relation to these two issues. As disclosed in note 4.8 to the financial statements, having received the preliminary findings from the WFG review, the Company has also notified the Serious Fraud Office (SFO) and has taken steps to halt its previous practices in relation to such expense payments.

The findings from WFG have clearly demonstrated a need to strengthen our corporate culture, organisation and accountabilities. Following an internal review during 2014, and prior to the discovery of the unauthorised payments, we undertook a project to completely re-design the Company's Code of Business Conduct and to train all employees and contractors on its requirements. This exercise was extended following the discovery of the unauthorised payments, to include a more detailed training exercise which was completed by all staff by the end of the year.

The new Code contains 15 commitments which govern the activities of staff members and contractors. They embrace all aspects of the organisation's business. They address bribery, gifts and entertainment, conflicts of interest, sanctions, use of Company information technology, use of Company physical assets, personal information, business information, environment and climate change, health and safety, communities, human rights, inclusive workplace behaviour, working with others and dealing in Company securities. Each commitments section contains guidance on the Group's approach. The Code also explains how the Group addresses corporate responsibility matters and contains advice on what personnel should do if they are aware of Code breaches. This information also highlights the Group's confidential whistle-blowing hotline which is run by Safecall, a specialist provider, together with information on when and how to use it.

We are confident that the new Code and the associated training procedures, which reflect industry best practice, will help instil at every level of the organisation a culture that champions and promotes the values of honesty, transparency, openness and trust.

Risk management review

Our risk management programme has continued to evolve throughout 2014. In particular we have carried out a detailed anti-bribery and corruption risk assessment and have reviewed the potential business risks associated with climate change. These reviews resulted in the adoption and publication of our revised Code of Business Conduct as outlined above and a new climate change strategy. In 2014 we also conducted an internal audit review of the business risk management function and have engaged KPMG as external consultants to assist management in addressing the findings of this review, and have outsourced the internal audit function to PwC. As a result we are currently refining the process of reviewing and reporting risks through the Audit and Risk Committee and up to the Board.

Navigating in uncertain times

In 2014, average gross and net production, excluding Barda Rash, was 47,560 and 31,819 bopd respectively (as detailed on page 36), falling slightly below our full year net production guidance of between 32,000 to 36,000 bopd. Production was at the lower end of guidance, principally due to delays installing the Ebok CFB extension, the natural decline in production from existing wells and unplanned downtime at Ebok in September 2014. OML 26 production was affected by the Q1 2014 declaration of Force Majeure by Shell, operator at the Forcados Terminal. In Q1 2014 the Ogini-22 and Ogini-23 wells were successfully spudded, drilled and completed while a third producer was spudded in December 2014 and completed in February 2015. A fourth producer, Ogini-25, was spudded in February 2015 and completed in March 2015 with drilling of a fifth producer in progress. Elsewhere, at the Okoro field, production during the period was in line with expectations, incorporating downtime earlier in the year.

On an annualised basis, Group net production in 2014 was down 32% due to cost recovery of the initial development costs at Ebok and delays in achieving production ramp-up at Ebok, OML 26 and from the Barda Rash field, Kurdistan region of Iraq. Revenue for the full year in 2014 was US$946 million (31 December 2013: US$1,644 million), reflecting both lower production volumes and the impact of lower realised oil prices during the second half of the year (1H 2014: US$108/bbl, 2H 2014: US$86/bbl). Net debt at the end of 2014 was US$1,067 million (31 December 2013: US$739 million), which included cash at bank of US$237 million (31 December 2013: US$390 million). Year-end cash at bank included US$80 million in respect of the remaining hedges of 2.85 mbbls to 31 July 2015 which Afren sold in December. Capital expenditure for the period was US$769 million, with US$625 million allocated to production and development activities and US$144 million allocated to E&E work.

On 12 January 2015, Afren outlined its intention to review its strategic options in Kurdistan, including the potential divestment of Barda Rash, reflecting both disappointing operational results at the field and a significant reserves and resources downgrade following an updated Competent Person's Report (CPR) by RPS Energy. The movement in reserves at Barda Rash has resulted in a material impairment charge in the year of US$933 million. In addition, an impairment charge of US$273 million has been recognised as a result of a review of the carrying value of our PP&E assets at lower commodity prices and a further US$115 million of goodwill has been written off. Exploration write-offs in the period were US$839 million. Despite this, the Group believes that significant upside potential remains in respect of the exploration and evaluation portfolio and is optimistic of making recoveries on some of the assets that have been fully impaired through either development or sale. Our reserves replacement ratio, defined as the ratio of the number of barrels of oil equivalent discovered compared with the number produced over a three-year period, fell significantly from 580% to 9%. This was principally due to the elimination of 2P reserves at Barda Rash and due to limited E&E success in 2014. We did achieve a small net 2P increase in the year of approximately 4 mmbbls in respect of our offshore Nigerian licence, OML 113, following the publication of an updated CPR from AGR TRACS International Ltd.

Driving shared responsibility

At the beginning of the year we developed an over-arching corporate responsibility strategy that was reviewed and approved by the Board of Directors in March 2014. This strategy document formed the basis for setting the 2014 corporate responsibility targets. Despite challenging operating conditions we met our corporate responsibility stretch target for 2014, making significant progress across a wide range of key issues. In particular, we achieved a 30% reduction in both our Lost Time and Total Recordable frequency rates across the business. Further details of our corporate responsibility performance in 2014 are given on pages 60 and 61.

Strengthening our capital base

Our financial results in 2014, as well as the sharp decline in market oil prices in the second half of 2014, placed very significant pressure on the Group's liquidity position. With revenue for 2014 of US$946 million, down 42% year-on-year, and extraordinary impairments to property, plant and equipment (US$1,206 million), intangible exploration and evaluation assets (US$839 million) and goodwill (US$115 million), the Group recorded a loss before tax from continuing operations for the year ended 31 December 2014 of US$1,955 million. As a result, the Group had net current liabilities of US$459 million as at 31 December 2014. While the Group's cash position was US$237 million as at 31 December 2014, its liquidity was impacted as a result of restricted and segregated cash balances in place to address operational requirements.

The Company's near term cash flow was also impacted by capital expenditure incurred in late 2014 before operational changes had been implemented to adapt to the current lower oil price environment, as well as an inability to continue with the planned refinancing in the middle of 2014 due to the suspension of its former CEO and COO at such time. As a result, the Directors commenced an urgent review of the Group's capital structure, liquidity and funding requirements. In connection with new costs optimisation measures to improve its liquidity position, the Board engaged Alvarez & Marsal to provide services as Chief Restructuring Officer.

In light of the Group's liquidity position, the Company obtained from the lenders of the US$300 million Ebok debt facility a deferral of the US$50 million amortisation payment due on 31 January 2015. On 4 March 2015, the Group announced that the Board had decided at the expiration of a 30 day grace period not to pay US$15 million of interest which was due on 1 February 2015 under its 2016 Senior Notes. The Board is also currently taking advantage of a 30 day grace period not to pay US$12.8 million of interest which was due on 9 April 2015 under its 2019 Senior Notes. As at 30 April 2015 Afren is in default under the terms of its 2016 Notes due to the non-payment of interest and will be in default under the terms of its 2019 Notes on 9 May 2015. The Company has received assurances from the Ad Hoc Committee of Noteholders under its 2016 Notes, 2019 Notes and 2020 Notes (Existing Notes) (which members hold in aggregate approximately 50% of the total principal face amount of the Existing Notes) (Ad Hoc Committee) that the Ad Hoc Committee has no current intention to take enforcement action with respect to the 2016 Notes or 2019 Notes held by its members as a result of the failure to make payment of interest due under the 2016 Notes or 2019 Notes, on the basis that agreement has been reached with the Company and its key stakeholders on the terms of a consensual (but conditional) restructuring.

On 13 March 2015, the Group announced a preliminary agreement for the receipt of interim funding and the recapitalisation of the business. The agreement entered into by Afren together with certain Noteholders under its Existing Notes and a majority of the lenders under the Group's existing US$300 million Ebok credit facility, is intended to ultimately result in the provision of US$255–US$305 million of net total funding before the end of July 2015 (Recapitalisation). On 30 April 2015, in respect of the interim funding, the Company entered into definitive agreements with certain Noteholders and issued US$212 million of private placement notes (PPN), providing US$200 million in net cash to the Group. In conjunction with such agreement, the lenders under the Group's existing US$300 million Ebok credit facility agreed to the deferral of the US$50 million amortisation payments due on 31 January 2015 and 30 April 2015 until the completion of the implementation of the Recapitalisation (at which point it is expected that the amortisation payments will be further deferred until after the repayment of the New High Yield Notes). The PPN will be repayable by April 2016 if not refinanced through the Recapitalisation.

In connection with the Recapitalisation, on 30 April 2015 the Group entered into a conditional agreement to raise US$55 million in additional net proceeds (after the repayment of the PPN) from the issuance of New High Yield Notes due in 2017 (New HY Notes). This amount may be increased by up to US$105 million in total additional proceeds. This would provide the net total funding of US$255 million - US$305 million. In addition, as part of the Recapitalisation (i) 25% of the Existing Notes will be converted to new equity in the Company; (ii) the remaining 75% of the Existing Notes will be extended to mature as to US$350 million in each of December 2019 and December 2020; (iii) the existing Ebok credit facility will be extended to 2019; (iv) new shares will be issued to subscribers to the New HY Notes and the PPN; and (v) the Company will undertake an equity offering of up to US$75 million to shareholders. The Group has also reached agreement with the lender of its Okwok/OML113 facility to restructure and defer this facility until 2018. This Recapitalisation will result in very substantial dilution for our existing shareholders, which reflects the underlying financial position of the Group.

In order for the Recapitalisation to be implemented there are other conditions that need to be fulfilled, including obtaining (i) the approval of requisite majorities of holders of the Existing Notes in connection with a scheme of arrangement of such Existing Notes; (ii) approval from the relevant courts in the UK and the US as to such scheme of arrangement; and (iii) agreement from the Group's remaining lenders. The Company will also seek the approval of shareholders in general meeting to the terms of the Recapitalisation, which is required in order to issue the new ordinary shares in connection with the Recapitalisation. If shareholder approval is not received, the Recapitalisation will still proceed, but on amended terms for the New HY Notes.

There is a risk that one or more of these steps may not be completed or satisfied and the Recapitalisation may not occur. If additional funds are not available to be drawn under the New HY Notes, and the Recapitalisation does not proceed, the Directors are of the opinion that the Group would become insolvent, absent an alternative proposal being received by the Company that is capable of being implemented.

If shareholder approval of the Recapitalisation is not received, the Ad Hoc Committee and the lenders under the Group's existing US$300 million Ebok credit facility have agreed to an alternative restructuring plan, whereby the economic terms of the New NY Notes will be amended, and the amendment and restatement of the Existing Notes will be revised (so that no new shares are issued). In addition, the New HY Notes will include a requirement for the Company to initiate a sale of the Group's business by the end of 2016, which together will mean that existing shareholders would be unlikely to see any return on their current investment.

On the basis that the recapitalisation is successfully achieved as outlined above, the Group's financial footing and ability to continue in operation would be significantly strengthened.

Building for the future

Looking ahead, Afren expects full year 2015 net production to average between 23,000 – 32,000 bopd, with a forecast capital spend of approximately US$0.4 billion, allocated principally to our existing high-margin Nigerian producing assets. Our forward guidance for 2015 reflects the impact of operating in a significantly lower oil price environment and the outcome of refinancing proposals currently underway. We have also agreed with our Partner, Oriental, that they will fund their share of Capex at Ebok. Going forward this will result in a lower share of production following the end of all cost recovery. In respect of our exploration and evaluation commitments this year, Afren will continue to engage with host governments and Partners to manage commitments in a low oil price environment and discuss opportunities for strategic divestments.

Our revised business plan assumes a lower oil price environment for the foreseeable future and is expected to lead to year-on-year growth in the underlying net production base through to 2017. In addition, in line with our peers, the Group is in the process of implementing a streamlining programme alongside a number of operational measures that are expected to lead to material cost savings.

During what has been a very difficult year for all our stakeholders, we would like to extend our gratitude to our employees and contractors who have demonstrated their unwavering commitment, professionalism and loyalty to steering our business towards a brighter, more prosperous future. We still have significant challenges facing the Company but we are confident that the measures we are implementing will, in time, deliver the exciting potential within our portfolio.

In 2011, we set out our three-year business targets to 2015, as summarised in the table overleaf. These have been impacted by the extraordinary challenges that we encountered in 2014. Our targets to 2015 are aligned with the forward business plan and we look forward to articulating our revised targets beyond 2015 following the appointment of the CEO.

Board changes

Following the conclusion of the investigation into the unauthorised payments, which led to the dismissal of the former CEO, Osman Shahenshah, and former COO, Shahid Ullah, we commenced the search for a new CEO in October. We are pleased to announce the appointment of Alan Linn as the new CEO for the Afren Group. He has 35 years of international experience in the oil and gas industry and brings with him a wealth of knowledge in restructuring businesses in challenging environments. In addition, the Board will be further strengthened with the appointment of new directors to broaden its expertise and an executive search firm is being retained to assist in this process; announcements will be made in due course in respect of this. Toby Hayward has stepped down from his role as interim CEO and will resume as a Non-Executive Director.

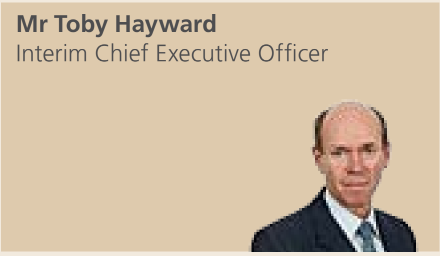
In 2014, we strengthened the Board with the appointment of Iain McLaren. Mr McLaren, who now chairs the Audit and Risk Committee and Remuneration Committee, brings extensive financial accounting and capital markets experience, having held senior leadership positions in both the finance and energy sectors. His experience will be particularly valuable as Afren embarks on a period of change.

During the year, Mr Ennio Sganzerla resigned as Non-Executive Director of Afren in order to pursue other business interests. Mr Sganzerla served as a Director of Afren Plc for over five years and has been a member of the Audit and Risk, Nomination and Remuneration Committees.

We would like to reassure all our stakeholders that the Board fully recognises the need to rebuild a stronger Board and executive team as quickly as possible, both to restore confidence and to take Afren forward to meet the opportunities that remain across its portfolio.

Mr Egbert Imomoh
Executive Chairman

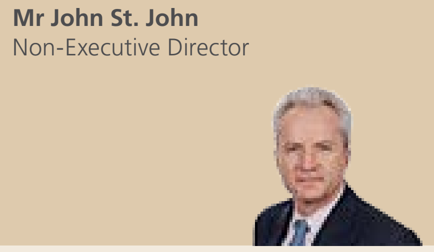
Mr Toby Hayward
Interim Chief Executive Officer



Mr Darra Comyn
Group Finance Director

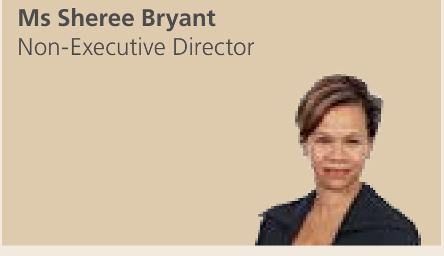
Mr Peter Bingham
Non-Executive Director

Mr John St. John
Non-Executive Director

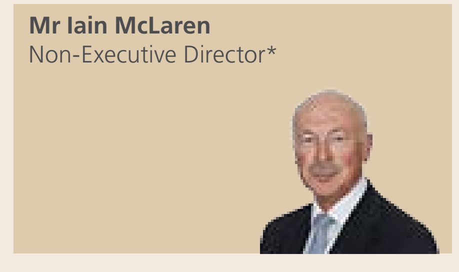


Mr Patrick Obath
Non-Executive Director

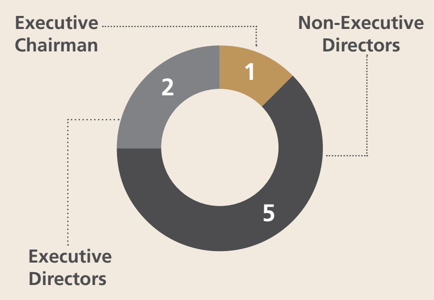
Ms Sheree Bryant
Non-Executive Director



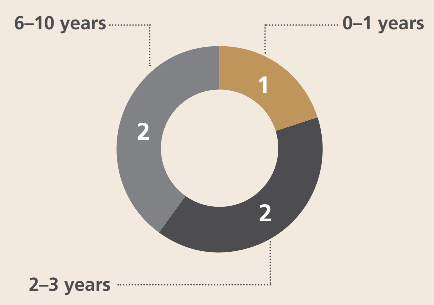
Mr Iain McLaren
Non-Executive Director*



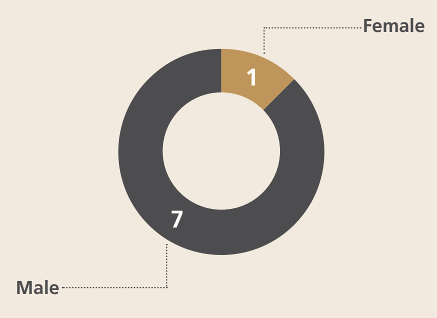
Board composition



Tenure of Non-Executive Directors



Directors by gender

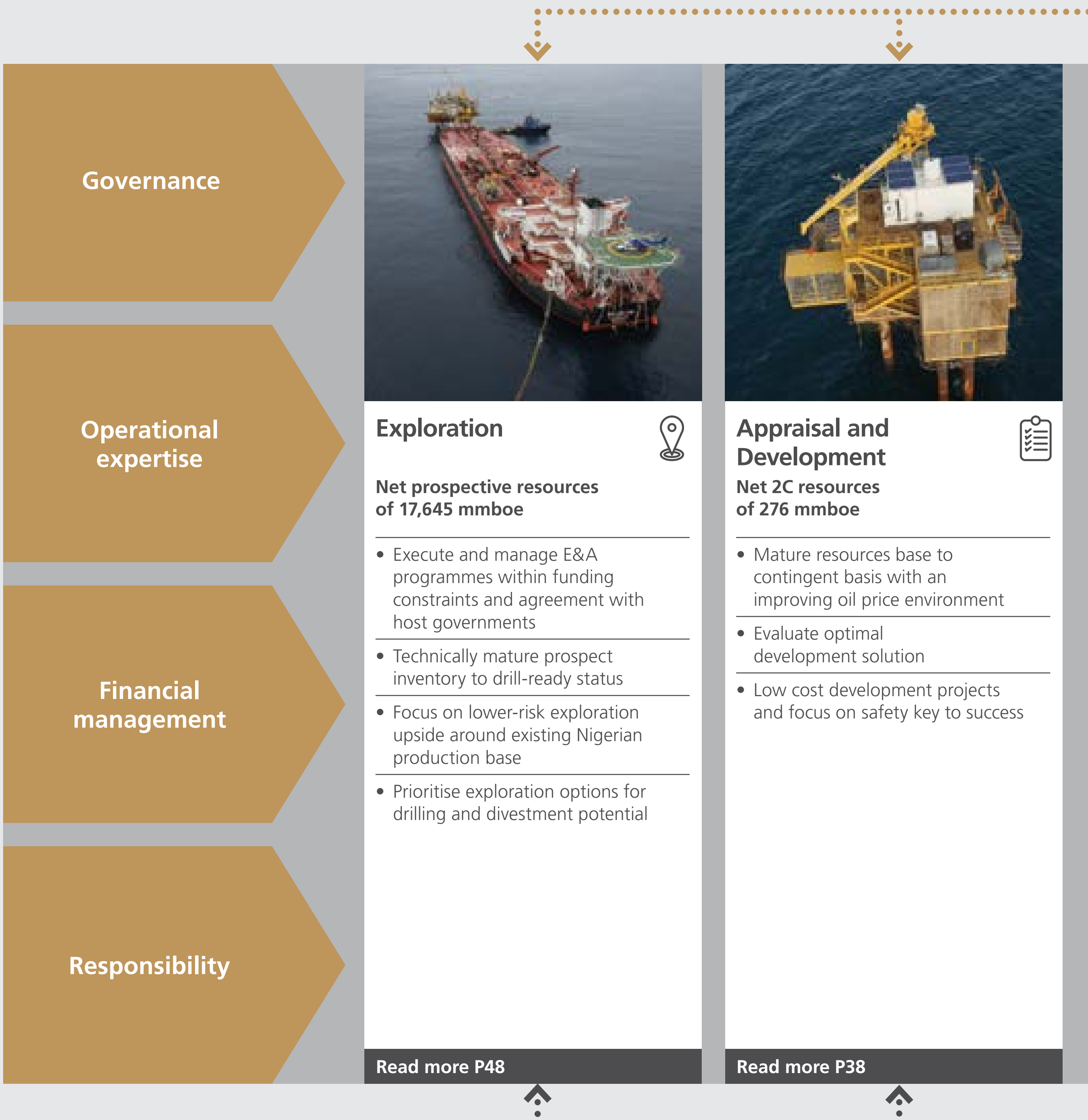


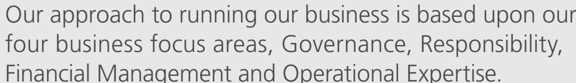
* Appointed 2 April 2014.

Business target	Progress in 2014	Outlook for 2015
Manage and optimise our production and development operations to maximise the value of the business.	Afren continued to develop its Nigerian reserves base in 2014, with reservoir performance continuing to perform in line with expectations. The Group was disappointed to announce a reserves write-off and a material impairment charge at Barda Rash following an updated CPR by RPS Energy.	Our revised business plan assumes a lower oil price environment for the foreseeable future and is expected to lead to year-on-year growth in the underlying net production base through to 2017.
Ensure available capital is deployed in the most efficient way and to suit our full cycle business requirements.	Capital expenditure for the year was US$769 million, with US$625 million allocated to production and development activities and US$144 million allocated to exploration and evaluation (E&E) work.	In light of the current low oil price environment, capital expenditure for 2015 is expected to be approximately US$0.4 billion, allocated principally to our high margin producing Nigerian assets.
Continually improve corporate responsibility performance.	Following the adoption of a comprehensive corporate responsibility strategy, we successfully moved forward on a number of key initiatives and managed to meet our stretch targets in respect of our TRIR and LTIF KPIs. Unfortunately, other corporate responsibility issues arose during the year, as detailed in the Corporate governance section.	We will continue to move ahead with our plans to increase reporting on corporate responsibility performance and have set challenging targets for 2015.
Grow production year-on-year.	Gross production excluding Barda Rash in 2014 was 47,560 bopd whilst like-for-like net production was 31,819 bopd. This was slightly below our production guidance range of between 32,000 to 36,000 bopd. Production ramp-up in 2014 was impacted by operational and contractual delays at Ebok and OML 26. Okoro performed in line with expectations.	We expect net production in 2015 to average between 23,000 – 32,000 bopd. The guidance takes into consideration the current low oil price environment with discretionary spending postponed. The revised business plan incorporates year-on-year growth in the underlying net production base through to 2017.
Continue to grow Afren's presence in our main areas of activity and geological plays.	Our focus in 2014 was to continue to develop our regional and subsurface understanding across the portfolio. Whilst we continued to make good progress with maturing our Nigerian and East African portfolio, we encountered technical and operational challenges with our Kurdistan assets.	Our focus in 2015 will be to allocate capital to our highest yield Nigerian producing assets and to selectively target divestments/farm-outs across the portfolio.
Progressively convert a significant portion of our existing 2C resource base into 2P reserves.	Following a disappointing CPR update in respect of the Barda Rash PSC, Kurdistan region of Iraq, net 2P reserves were eliminated and 2C resources fell from 746 mmboe to 148 mmboe. In addition, we realised a small net 2P increase in the year of approximately 4 mmbbls in respect of our offshore Nigerian licence, OML 113, following the publication of an updated CPR from AGR TRACS.	Our focus in 2015 will be towards ramping up production from our existing Nigerian producing asset base.
Discover 250 mmboe of net recoverable 2P & 2C reserves and resources from our forward exploration drilling programme by 2015.	In 2014, our exploration and appraisal campaign yielded mixed results. Of note, we were pleased with the results of our drilling and coring operations in Madagascar which encountered light oil accumulations in two boreholes, whilst we had disappointing news at the Ameena East well on OML 115 which was spudded at year-end and was completed in January 2015. There were no new discoveries in 2014.	In the current low oil price environment our focus this year will be to allocate capital to producing assets and manage our exploration and appraisal commitments with host governments, including considering potential opportunities for strategic divestments.

Our business model

Our business model provides an overview of how we run our business and how we generate value from our portfolio.

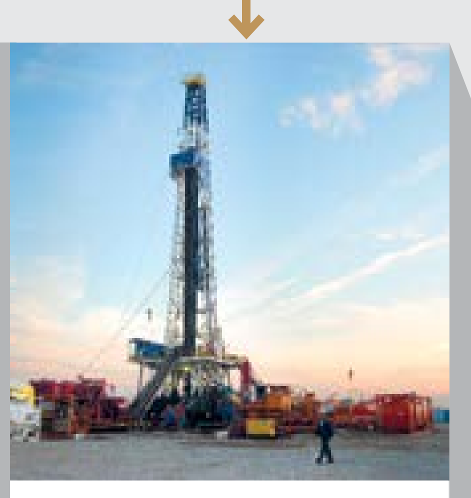




Our approach to running our business is based upon our four business focus areas, Governance, Responsibility, Financial Management and Operational Expertise.

We create value by generating cash flow from our Nigerian producing assets. This, alongside capital financing, is used to progressively de-risk and mature a rich opportunity set across the E&P value chain.

In addition, as part of ongoing active portfolio management, we continually look to optimise our portfolio through farm-outs and strategic divestments. This allows us to mitigate risk, introduce new Partners with complementary skills and generate additional cash flow to re-invest in our growth strategy.



Production

Net 2P reserves of 162 mmbbls

- Continue to prioritise investment in existing high margin Nigerian projects
- Target production ramp-up from new developments, subject to improving oil price environment
- Focus on achieving high cash returns from existing assets

Read more P38

Active Portfolio Management

Cash flow

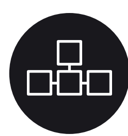
Shareholder value

High margin cash flow

Our strategy

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

This is underpinned by a strategy to provide sustainable long-term growth across the E&P value chain. To fulfil our strategy, we have identified five priorities in running our business and growing efficiently and responsibly.

Strategic Priorities	Progress in 2014
Portfolio management	Our entrepreneurial approach has enabled us to be successful in accessing low cost reserves in Nigeria. We have been consistent in achieving low entry costs by seizing the early-mover advantage ahead of peers. We focus on areas where: • there is evidence of proven working hydrocarbon systems • opportunities have been overlooked, under-developed or may be out of reach to much larger companies • we can leverage our operational expertise, key relationships or use the local structure to our advantage. Post period end, in January 2015, we announced that we plan to review our strategic options in respect of the Barda Rash field, Kurdistan region of Iraq, following disappointing operational results at the field and a significant reserves and resources downgrade by RPS Energy.
Reserves growth	Our 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 2014, our exploration and appraisal campaign yielded mixed results. We were pleased with the results of our drilling and coring operations in Madagascar which encountered light oil accumulations in two boreholes, whilst we had disappointing news at the Ameena East well which was spudded at year-end and was completed in January 2015. The impact of the low oil prices during the second half of 2014 led to a material impairment charge of US$1,112 million in respect of the carrying value of our P&D and E&E assets. In addition, a significant impairment charge of US$933 million was recognised in relation to the write-off of 2P reserves at the Barda Rash PSC. In the current low oil price environment our focus in 2015 will be to allocate capital to producing assets and manage our exploration and appraisal commitments with new funding where available alongside industry interest.
Production growth	In 2014, our average net production fell slightly below our full year guidance range of between 32,000 to 36,000 bopd, at 31,819 bopd – representing a decrease of 33% (excluding Barda Rash) from the previous year. Production in 2014 was impacted by cost recovery at Ebok, where our net entitlement fell from 100% to 80%, as well as operational and contractual delays at Ebok and OML 26. Looking ahead, Afren expects full year 2015 net production to average between 23,000 to 32,000 bopd, with forecast capital spend of approximately US$0.4 billion, giving priority to our existing high-margin Nigerian producing base. The guidance expectations reflect the impact of operating in a significantly lower oil price environment, where discretionary spending has been postponed subject to an improvement in the oil price environment.
Operational efficiency and financial discipline 	In light of the significant deterioration in the oil price environment, post-year end Afren implemented a review of its capital structure, to extend existing debt maturities, introduce new capital to sustain the forward programme alongside internally generated cash flows and implement a broad programme of cost reductions and operational efficiencies. Agreement has now been reached with lenders to provide interim funding of US$200 million by way of new Private Placement Notes with proceeds to be used for general corporate purposes and capital expenditure. A broader recapitalisation programme is expected to be completed in July 2015.
Working responsibly	Working responsibly remains a major priority for us. We are committed to ensuring Afren is recognised as a responsible organisation with high standards of corporate responsibility performance.

KPIs		Risk
Net effective working interest production (exc. Barda Rash) **31,819 bopd**		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 page 26.**
Reserves replacement ratio (three-year average) **9%**	**Net effective working interest production (exc. Barda Rash)** **31,819 bopd**	The Group uses third party specialists to provide independent reserve reports in an effort to ensure its reserves are fairly stated. **For more information see page 26.**
Reserves replacement ratio (three-year average) **9%**	**Net effective working interest production (exc Barda Rash)** **31,819 bopd**	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 page 26.**
Operating cash flow **US$539m**	**Normalised operating cost per barrel** **US$18.1/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 page 26.**
Total Recordable Incident Rate (TRIR) and Lost Time Injury Frequency (LTIF) (Incidents per million man hours worked) **1.80 TRIR** **0.72 LTIF**		There are clear risks associated with poor performance in this critical business area. These risks are both operational and can seriously impact reputation resulting in significant financial loss. Only with effective and proactive management, led from the top, can these risks be mitigated. This requires thorough assessment of the issues and the full implementation of systems and other controls. **For more information see page 26.**

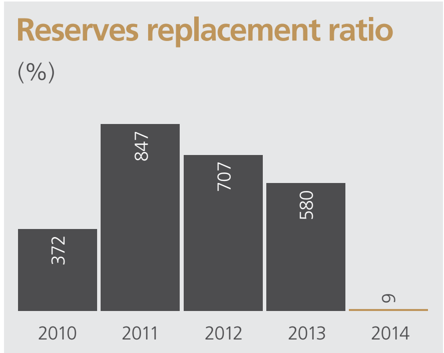
KPIs (Key Performance Indicators)

How we measure our progress

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

Reserves replacement ratio

(%)



Measure and performance

9%

(2013: 580%)
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 reserves replacement ratio was materially impacted during the year following the publication of the updated Competent Person's Report (CPR) concerning Barda Rash by RPS Energy in January 2015. The updated assessment by RPS resulted in the elimination of remaining gross 2P reserves of 190 mmbbls and the reduction of gross 2C resources from 1,243 mmbbls to 247 mmbbls. The movement in reserves and resources reflects the operational challenges which have been encountered with drilling compared to previous expectations and the approved Field Development Plan (FDP). The Group is in discussions with the Ministry of Natural Resources (MNR) regarding potential divestment opportunities for the field. Reservoir performance from our remaining 2P base in Nigeria continues to be in line with expectations.

Following FDP approval at the OML 113 field, offshore Nigeria, net 2P reserves have increased by 4 mmbbls.

Outlook

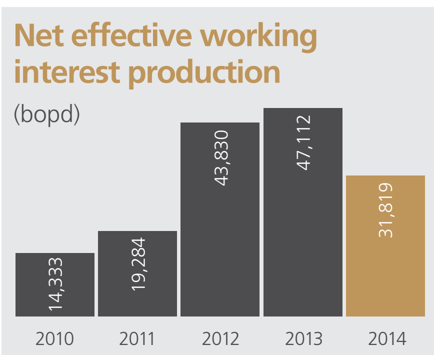
Subject to the outcome of the refinancing proposals our focus this year will be towards allocating capital towards our existing Nigerian producing base. We will manage our exploration and appraisal commitments with new funding alongside strategic divestment opportunities.

Risk management

In the current oil price environment our focus will be towards allocating capital towards growing our producing base in Nigeria.

Net effective working interest production

(bopd)

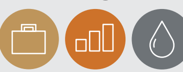


Measure and performance

31,819 bopd

(2013: 47,112 bopd)
-15,293 bopd (-32%) year-on-year decrease

Delivering on our strategy



Definition

Afren's share of oil production during the year (excluding Barda Rash) which typically reflects its working interest plus additional barrels to recover cost of capital investment and includes any volumes provided to Partners to settle net profit interests.

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

On an annualised basis, Group production in 2014 was down 33% due to cost recovery at Ebok and due to the delays in achieving production ramp-up at Ebok, OML 26 and from the Barda Rash field, Kurdistan region of Iraq.

Outlook

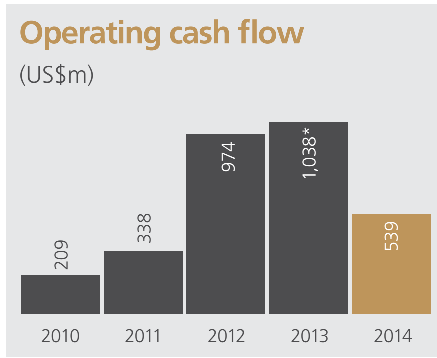
The Group maintains a strong core Nigerian producing base from which it will continue to produce and grow through to 2017 in line with our business plan and revised oil price assumptions.

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 ensure production performance is in line with the business plan expectations.

Operating cash flow

(US$m)



Measure and performance

US$539m

(2013 restated: US$1,038 million*)
-US$499 million (-48%) year-on-year decrease

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&A 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 operating cash flow was negatively impacted this year due to the 33% fall in production caused by operational and contractual delays across our producing asset base and due to the impact of the deteriorating oil price environment where realised oil prices fell from US$108/bbl in 1H to US$86/bbl in 2H.

Outlook

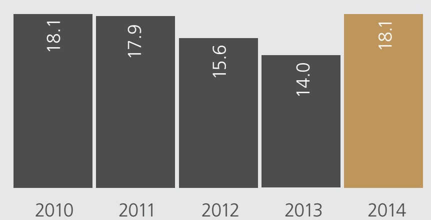
In line with our business plan, we expect continued and consistent growth in our production base through to 2017 and we have a healthy pipeline of appraisal and development opportunities which we would look to mature to producing status.

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

(2013: US$14.0/boe)



Measure and performance

US$18.1/boe

(2013: US$14.0 boe)
+US$4.3/boe (+29%) year-on-year increase

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 costs.

Relevance

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

Progress

The increase reflects the impact of lower production at Ebok which restricted opportunities for generating operational efficiencies.

Outlook

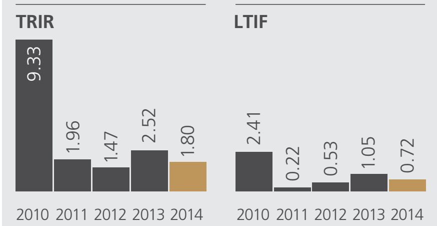
In light of current low oil prices, the Group has implemented a broad programme of cost reductions and is currently implementing a number of operational measures that will lead to efficiencies and significant cost savings that are expected to reduce cost per unit in 2015.

Risk management

The execution of our business plan and in particular the cost saving initiatives in a safe and responsible manner are key to ensuring a sustainable platform for our growth in 2015 and beyond.

Total TRIR and LTIF

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



Measure and performance

1.80 TRIR 0.72 LTIF

(2013: 2.52 TRIR,1.05 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 International Association of Oil & Gas Producers (now IOGP and formerly known as OGP).

Progress

In 2014, we adopted a corporate responsibility strategy for the business and in light of this widened our targets to include a broad range of metrics that are more representative of performance in this critical area. We continued to focus on avoiding injuries in the workplace and were successful in driving down both the Lost Time and Total Recordable frequency rates.

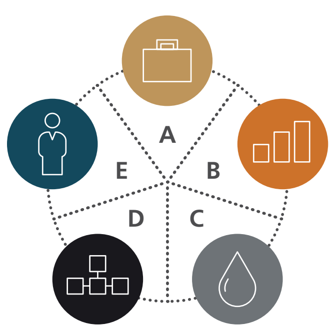
Outlook

We will continue to set challenging targets for reducing injuries in the workplace along with other key performance indicators for other corporate responsibility issues – see p60

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.

Delivering against our strategy



A Portfolio management
B Reserves growth
C Production growth
D Operational efficiency and financial discipline
E Working responsibly

For more information see page 18

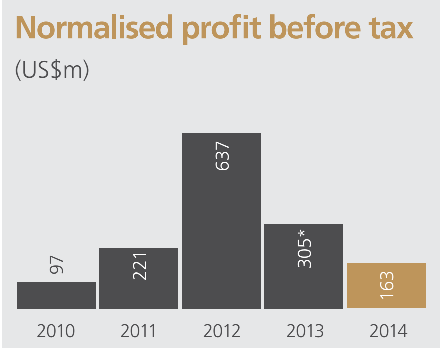
* 2013 restated numbers.

Performance metrics

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

Normalised profit before tax

(US$m)



Measure and performance

US$163m

(2013 restated: US$305 million*)
-US$142 million (-47%) year-on-year decrease

Delivering on our strategy

Definition

Profit or loss 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 or loss before tax and the before tax reported profit or loss 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 40%, principally due to 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

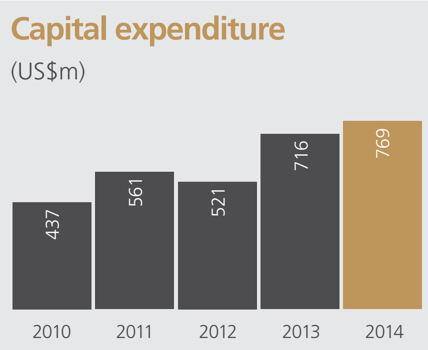
In light of the current low oil prices, we have revised our business plan and introduced a broad programme of cost reductions which are expected to realise a number of operational efficiencies and significant cost savings in 2015. This combined with an expected growth in our production profile in 2015 means that we expect to achieve a higher level of profitability this year.

Risk management

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

Capital expenditure

(US$m)



Measure and performance

US$769m

(2013: US$716 million)
+US$53 million (+7%) 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

2014 was a year of significant capital expenditure for the Group, with US$625 million allocated to production and development activities and US$144 million allocated to exploration and appraisal (E&A) work.

Outlook

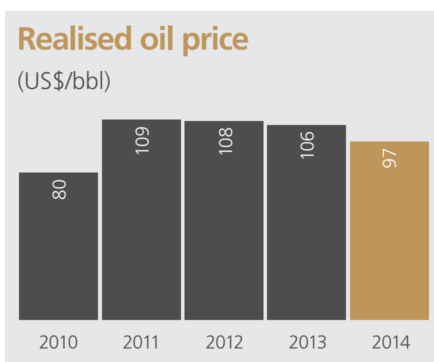
Following the rapid deterioration in the oil price environment and consistent with our business plan, capital allocation in 2015 has been prioritised to our existing high margin Nigerian producing base with discretionary spending deferred subject to an improvement in the oil price environment and additional sources of funding.

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

(US$/bbl)



Measure and performance

US$97/bbl

(2013: US$106/bbl)
-8% year-on-year decrease

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 to our revenue earned.

Progress

During the second half of 2014, the world witnessed a rapid and unexpected deterioration in the oil price environment caused by concerns of over-supply and weakening demand. The combination materially impacted the financial performance of the Group. In December, Afren sold its remaining hedges of 2.85 mmbbls, realising a cash benefit of US$80 million.

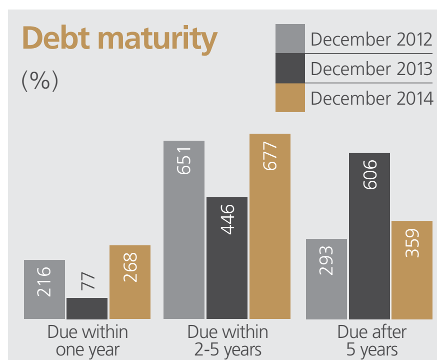
Outlook

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

Risk management

We have revised our business plan to adapt to the realities of operating in a significantly lower oil price environment. We have also implemented a broad programme of cost reductions that are expected to lead to operational efficiencies and material cost savings. Post-period end, the Group undertook a wider review of its financing requirements with the Group's lenders that is expected to lead to a recapitalisation of the business, extension of the existing debt maturity and focus the Company's operational efforts towards achieving targeted production ramp-up in line with the production plan. As part of this process, Alvarez & Marsal have been engaged to provide services as Chief Restructuring Officer.

Debt maturity



Measure and performance

79%

December 2014: 79% of debt 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

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 the wake of the unauthorised payments announcement, the Group was unable to extend the maturity of its liabilities as planned in July 2014. Furthermore, the significant volatility in the oil industry and related financing markets during the second half of the year due to the rapid decline in oil prices meant that the Group's liquidity position was significantly reduced. This resulted in the Board announcing a review of its capital structure post-period end and evaluating a number of recapitalisation options. As announced on 30 April 2015, US$200 million of interim funding will be provided by the noteholders in April and will be followed by a wider recapitalisation expected to complete during July 2015.

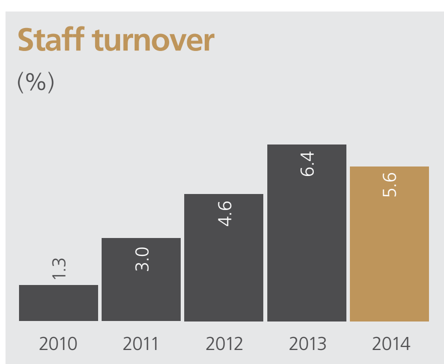
Outlook

The ability to secure additional funding and execute our business plan remain key to sustaining and growing our cash reserves.

Risk management

We will continue to review our capital structure to further optimise our sources of funding and to fund future growth. Note 5.16 to the financial statements contains details of the expected changes to the Group's debt maturity profile following the planned recapitalisation.

Staff turnover



Measure and performance

5.6%

(2013: 6.4%)
0.8 ppts year-on-year decrease

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 decrease year-on-year. Following the implementation of the cost reductions caused by the fall in oil prices we expect head-count to fall significantly.

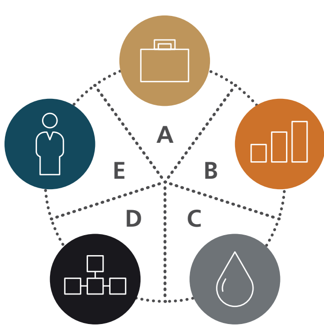
Outlook

A rapid fall in oil prices has led to industry-wide cost cutting including head-count. This is expected to continue until the oil price environment significantly improves.

Risk management

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

Delivering against our strategy



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E Working responsibly

For more information see **page 18**

* 2013 restated numbers.

Risk management process

Strengthening for the future

2014 saw the materialisation of several key risk factors including the unauthorised payments issue, delays to field development and significant drop in oil price.

Understanding and addressing critical business risks

The Company's response to these events has been swift and efforts are underway to resolve the underlying failures. With respect to the process of risk management in 2014, we outsourced the internal audit function and have engaged external consultants to support management in addressing some of the findings; in particular, to look at the reporting and escalation of risks to the Audit and Risk Committee and upwards to the Board.

An internal audit was conducted into compliance with the Bribery Act 2010 early in 2014. This audit recommended that a more detailed risk assessment be carried out to ensure that all bribery and corruption risks had been identified and that effective controls were in force. External advisors were appointed to assist in the conduct of this risk assessment and worked closely with the Afren teams across the entire business. In parallel with this work, and specifically following the suspension of the Directors in the middle of the year, the Code of Business Conduct was reviewed and revised to provide a clear framework for how we expect people to behave.

Another key activity undertaken during the year included a wide ranging review of the corporate responsibility risks and in particular those associated with climate change. This review generated a corporate responsibility strategy that was reviewed and approved by the Board in March 2014. We have been working against this strategy throughout 2014 and have made significant advances in many key areas.

Iain McLaren
Chairman of Audit and Risk Committee

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 key controls are audited 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 Finance 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.

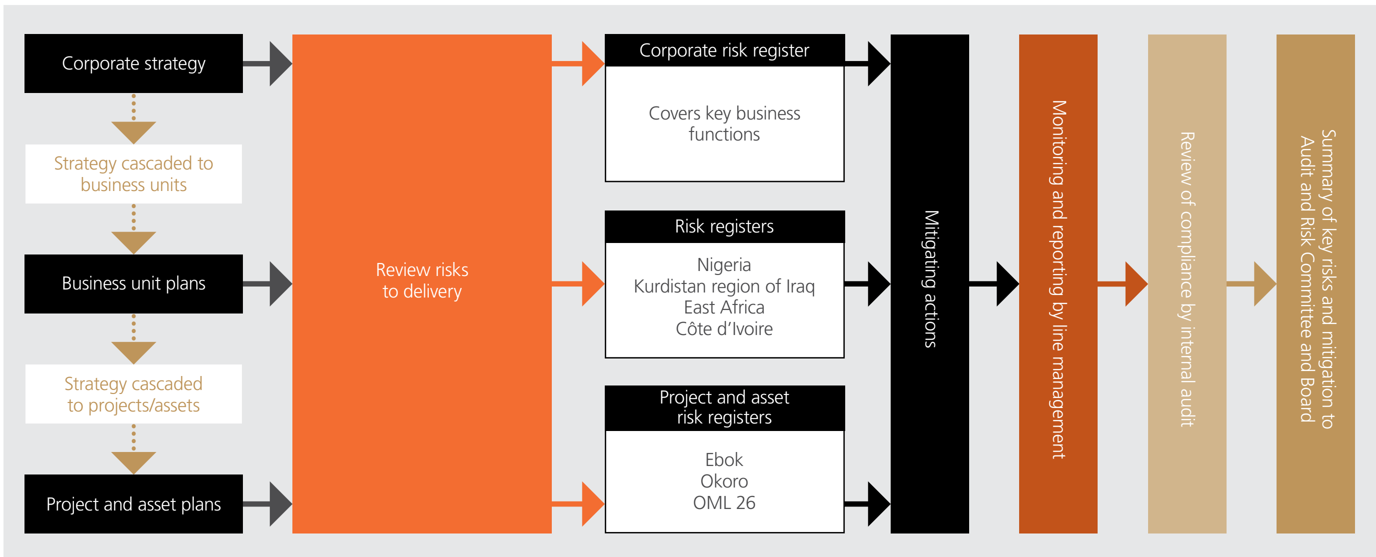
Risk manager

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.

Internal audit

The Internal audit function 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 internal audit function reports directly to the Audit and Risk Committee. Afren has outsourced the internal audit function to PwC.

Process for ongoing risk management



What are our key risks?

High
Magnitude of impact
Environmental /safety incidents
Security incidents
Field delivery
Treasury management
Unfulfilled PSC work obligations
Geo-political risk
Bribery and Corruption
Taxation and other legislation changes
Host community action
Oil price volatility
Loss of key employees
Climate change
Exploration failure
Management of growth
Low
Likelihood of occurrence
High

Principal risks and uncertainties

During 2014 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 2014, Afren encountered operational delays which impacted the timing of production ramp-up at both Ebok, with the installation of the Ebok CFB extension facilities, and OML 26, due to the declaration of Force Majeure at the Forcados Terminal in Q1 2014. In January 2015, Afren announced its intention to review its strategic options in respect of the Barda Rash PSC, following disappointing operational performance at the field and an updated reserves assessment from RPS Energy. • The maintenance of good working relations with our Partners is also critical to field delivery. Without this we face potential delays to projects, issues with funding and disagreement on how best to develop our portfolio.	• 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. • We hold regular technical and operating meetings with our Partners to keep them fully appraised of developments and to get their input and agreement on key issues.
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.	• 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	• 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 uncertainties. • 2014 saw particular problems with Boko Haram in northern Nigeria and the rise of Islamic State in Iraq. Whilst these issues received wide international media coverage our operations were not directly affected and we continue to monitor the situation closely. • 2015 will see elections in Nigeria and we will be conducting a rigorous business risk assessment of the potential impacts that may arise.	• 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. • In 2014, the Group hedged approximately 35% of production through the use of financial instruments.	• In Q4 2014, we liquidated our hedge position, which benefited from the lower oil prices in the second half of the year, to generate cash.
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 2014.	• 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.

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	No change. Field delivery risks in 2015 will remain high as a consequence of the installation and commissioning of the new Ebok facilities.	High
• Reserves replacement ratio • F&D cost		Group Head of Exploration	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	No change. 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	Increase. 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	Increase. We will review our hedge position in Q2 2015.	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.	• We conducted a comprehensive anti-bribery and corruption risk assessment during 2014. This work was integrated into the review and update of the Code of Business Conduct that was completed towards the end of the year. The new Code was approved by the Board in December and all staff and contractors underwent on-line training and testing on the requirements of the Code. • 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	• Management of growth is a reducing risk following the fall in oil price and the slowing of Company expansion.	• 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.	• 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.
Climate change	• Greenhouse gas (GHG) emissions contribute to climate change. Important stakeholders expect Afren to have a strategy and meaningful reduction targets (flaring represents over 50% of Afren's current GHG emissions). • Failure to address this issue risks reputational damage and issues with the Company's shareholders. • This also represents an opportunity for Afren to demonstrate a forward-looking approach in comparison to its peers.	We recognise the potential impact that energy use and GHG have on climate change and to seek to reduce emissions associated with flaring: • We monitor energy use and ensure energy efficiency in all operations. • We monitor and report other atmospheric emissions. • We have developed and disclosed a comprehensive climate change strategy and will identify engineering solutions to reduce flaring and set flaring reduction targets for 2015.
Financial risk		
Taxation and other legislation changes	• There is a risk that changes in tax regimes and other legislation may affect our financial results. As detailed in the financial statements, there are uncertainties surrounding the taxation treatment of marginal fields (see note 4.8: Contingent liabilities) and Pioneer status (see note 5.16: Post balance sheet events – Company and Group) in Nigeria.	• 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 is currently in the process of financial restructuring in order to provide liquidity and improved financial stability for the Group's ongoing operations.

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	Increase. We will continue to closely monitor this aspect of our business, responding swiftly and thoroughly and investigating all whistle-blowing events and other allegations of inappropriate activities.	Medium
• Staff turnover • Inability to recruit for key positions		Chief Executive/ Executive Chairman	Human Resources	Decrease. We will continue to closely monitor our KPIs to confirm that this risk remains low.	Low
• Staff turnover		HR Director	Human Resources, Directors' remuneration report	Decrease. Voluntary staff turnover decreased slightly due to the downturn in the industry.	Medium
• GHG emissions		Head of EHSS	Corporate responsibility	New. We will continue to monitor and report on our GHG emissions and will set flaring reduction targets for 2015.	Medium
• Effective tax rate		Group Finance Director	Financial review	Increase. We will continue to actively monitor potential changes in tax regimes that may impact our business.	High
• Liquidity		Group Finance Director	Financial review	Increase.	High

This Strategic report and the information referred to herein have been approved by the Board and signed on its behalf by:

Toby Hayward
Interim Chief Executive

Report of the Directors

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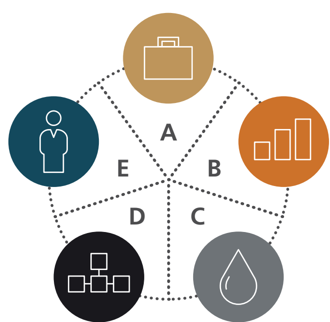
Financial review

Darra Comyn
Group Finance Director

Delivering against our strategy



- **A** Portfolio management
- **B** Reserves growth
- **C** Production growth
- **D** Operational efficiency and financial discipline
- **E** Working responsibly

For more information see P18

Restatement of 2013 financial statements

During 2014, an independent review was performed by Willkie Farr & Gallagher (UK) LLP around the potential need for disclosure to the market of certain previous transactions. In light of additional information that was brought to light as a result of the independent review, the Company has undertaken an extensive review of the accounting for these three transactions. Management have reassessed certain accounting judgements made in the prior year and have concluded that it is appropriate to restate the financial statements at 31 December 2013 in relation to one of these transactions in order to reflect subsequent changes in judgements. No material adjustments were identified at 31 December 2012. As such, although compliance with IAS 1 would generally require the presentation of a statement of financial position at the start of the period of the restatement (1 January 2013), this has not been presented. As a result of the restatement, in 2013 cost of sales increased by US$178 million to US$1,179 million and the income tax credit for the year increased by US$178 million to US$335 million. Profit before tax fell by $178 million, however there was no change to profit after tax or net assets (refer to notes 1.6 and 5.15 of the financial statements for further details).

1. Result for the year

Revenue

Revenue for 2014 was US$946 million (2013: US$1,644 million). The 42% year-on-year decrease reflects reductions in both sales' volumes and the average realised oil price.

Total working interest production from continuing operations in 2014 decreased by 32% to 31,819 excluding Barda Rash (2013: 47,112). This was primarily due to a reduced share of production and liftings from the Ebok field following the achievement of cost recovery of the initial development costs at the start of 2014.

The Group realised an average oil price of US$97/bbl (2013: US$106/bbl) before all royalties. The average Brent price for the year was US$97/bbl (2013: US$108/bbl).

Revenue excludes liftings of Ebok production by the holders of a net profit interest in the Ebok field which commenced in late 2014, however, barrels to satisfy this interest are included within production.

Cost of sales

Cost of sales for the year decreased by 47% to US$626 million (2013 restated: US$1,179 million). Reduced costs arising from lower net working interest production were more than offset by higher depreciation cost per barrel (driven by investment in the Group's producing fields to progress their development).

2013 cost of sales was restated and increased by US$178 million to reflect a change in judgement as to how the consideration of US$300 million paid in a prior year transaction with a field Partner should be split between tax and oil entitlement benefits acquired. The corresponding increase in the 2013 income tax credit is discussed in the Tax section below.

The Group achieved a normalised operating cost of US$18.1/boe (2013: US$14.0/boe). The increase from 2013 was mainly a consequence of lower production at Ebok which restricted opportunities for generating operational efficiencies. Normalised cost per barrel excludes costs and production from the Barda Rash field, one-off expenses and depreciation, depletion and amortisation. All other field-related costs are included on an annualised basis.

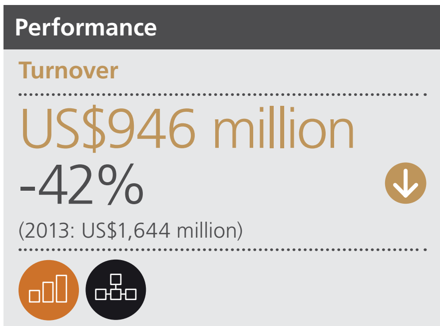
Impairments and operating result

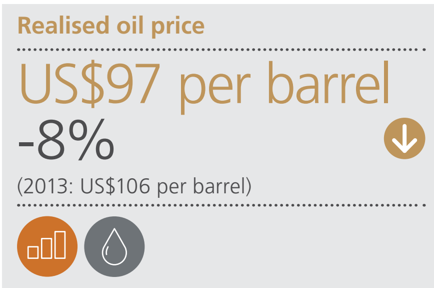
The operating result for 2014 was severely impacted by impairments to property, plant and equipment (US$1,206 million; 2013: US$ nil), intangible exploration and evaluation assets (US$839 million; 2013: US$61 million) and goodwill (US$115 million; 2013: US$ nil).

The impairment of property, plant and equipment relates primarily to Barda Rash in the Kurdistan region of Iraq of US$933 million. An updated reserves report has been received which, on the basis of extended well testing and greater knowledge surrounding well performance compared to the previous report received in 2011, indicated Barda Rash only has contingent resources and, as such, a negative net present value. As these contingent resources are considered to require more capital to develop than aligns with the Group's priorities, it is not expected that the Company will undertake the development as previously planned. Given the current market environment there are significant uncertainties around any estimated sales value and a full impairment has been recognised. In addition, an impairment of US$273 million has been recognised in relation to Ebok in Nigeria as a result of the sharp decline in oil price towards the end of 2014.

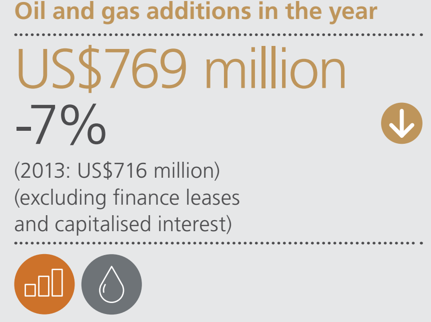
Financial highlights

Performance

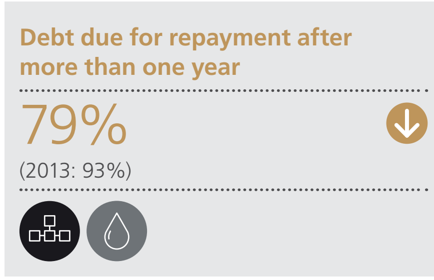


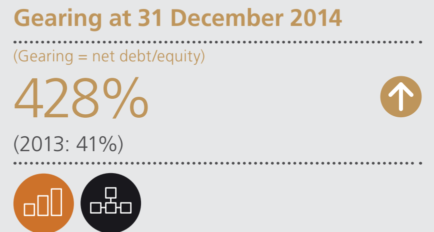


Cash flow

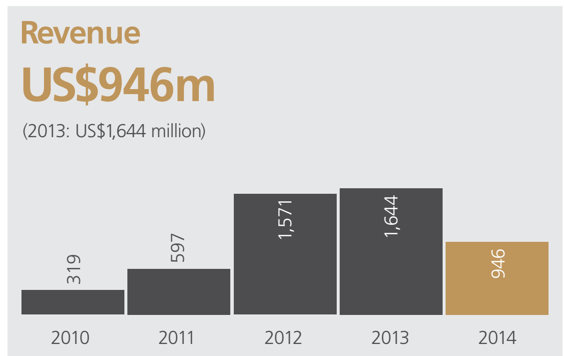


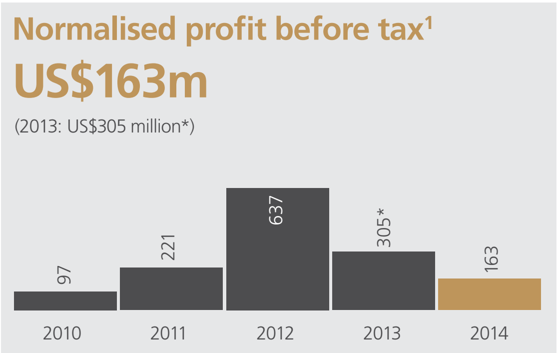
Financial position

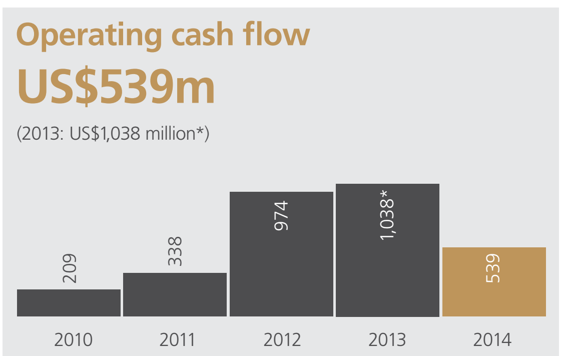




* Restated 2013 numbers – Refer to notes 1.6 and 5.15 of the Group financial statements.
** From continuing operations. Refer to note 2.4 of the financial statements for reconciliation to statutory profit before tax.







Impairments to intangible exploration and evaluation assets includes full impairments of assets in the Kurdistan region of Iraq (US$265 million) following receipt of reserve reports and Ghana (US$39 million) following an economic evaluation. In addition, in line with the requirements of IFRS 6 'Exploration for and evaluation of mineral resources', following a review of licence requirements in conjunction with funding availability, full impairments have been recorded against a number of assets in Cote d'Ivoire, East Africa and South Africa. A partial impairment was also recognised against an asset in Nigeria (US$43 million) relating to unsuccessful well costs. With the sharp fall in the market oil price in the last quarter of 2014 and the continued low price environment, market prices for E&E assets are very difficult to determine hence, in order to comply with accounting standards, it was necessary for full impairments to be recognised. Despite this, the Group believes that upside potential remains in respect of the exploration and evaluation portfolio and is optimistic of making recoveries on some of the assets that have been fully impaired through either development or sale.

In addition, the goodwill balance relating to OML 26 in Nigeria has been fully written off following an impairment review.

Finance charges and financial instruments
Finance costs for 2014 were US$67 million (2013: US$157 million). Afren benefited throughout 2014 from lower interest costs following its refinancing exercise in December 2013. The 2013 figure also included US$49 million of costs relating to the partial repurchase of the 2016 Bonds and 2019 Bonds. The Group capitalised US$66 million (2013: US$42 million) of finance charges in the year, largely relating to the development of the Barda Rash field which was financed using part of the Group's Bond proceeds. The subsequent write-off of these capitalised finance costs is included in the Barda Rash impairment charge.

For 2014, the Group recognised a loss from derivative financial instruments of US$9 million (2013: US$47 million). The US$38 million favourable change arose largely because of the fall in the market oil price during the last quarter of 2014.

* 2013 restated numbers.
1 Refer to KPIs (Key Performance Indicators) for calculation details.

Taxes borne and paid in 2013 and 2014

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 and South Africa	–	–	2	2	–	2
East Africa	–	–	3	3	–	3
Kurdistan region of Iraq	1	–	–	1	–	1
UK and USA	–	–	4	4	9	13
Total	272	58	18	348	71	419

2014	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	282	54	11	347	72	419
Other West and South Africa	–	–	–	–	–	–
East Africa	–	–	7	7	–	7
Kurdistan region of Iraq	1	–	–	1	–	1
UK and USA	–	–	5	5	21	26
Total	283	54	23	360	93	453

Within other comprehensive income is a gain of US$88 million (2013: US$ nil) resulting from the settlement in December 2014 of all oil price derivative contracts that had been entered into for 1 January 2015 onwards. Given the prevailing oil price and the Group's cash requirements, it was considered the optimum time to realise these gains. Accordingly, as at 31 December 2014, the Group did not have any oil price hedges in place. The US$88 million gain will be recognised in net profit in 2015 over the original life of the hedges.

Result before tax

The Group recorded a loss before tax from continuing operations for the year ended 31 December 2014 of US$1,955 million (2013 restated: profit of US$140 million). Normalised profit before tax was US$163 million (2013 restated: US$305 million). Normalised profit before tax is reconciled to the statutory loss/profit before tax in note 2.4 of the attached financial statements.

Tax

An income tax credit for 2014 of US$304 million (2013 restated: US$335 million) was recognised. This includes a deferred tax credit in relation to the Group's Ebok asset of US$251 million (2013 restated: US$625 million) reflecting the five-year tax holiday and the impact of the impairment review. The 2013 tax credit in respect of Ebok included a reversal of previous tax charges following the award of a five-year tax holiday period during 2013 which began in May 2011.

The 2013 tax credit, as restated, now also includes a gain of US$178 million arising from Ebok capital allowances acquired in 2013 which were previously assumed to have been paid for in full (refer to notes 1.6 and 5.15 of the financial statements for further details).

The Group pays various other taxes locally in the areas in which it operates, in the form of royalties, withholding taxes and non-recoverable VAT. In 2014, these amounted to US$453 million (2013: US$419 million) as detailed on page 34.

There are uncertainties surrounding the taxation treatment of marginal fields (see note 4.8: Contingent liabilities) and Pioneer status (see note 5.16: Post balance sheet events – Company and Group).

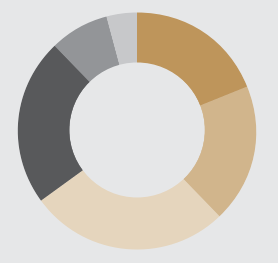
2. Financing and capital structure

Operating cash flow

Operating cash flow before movements in working capital decreased from the previous year by US$229 million to US$598 million (2013 restated: US$827 million). Reduced operating profit, for which the key factors are outlined above in the Revenue and Cost of Sales sections, was the key driver behind this decrease.

After movements in working capital, net cash generated by operating activities was US$539 million (2013 restated: US$1,038 million). This cash flow contributed towards the Group's US$769 million (2013: US$716 million) investment in its production, development, exploration and appraisal activities.

Debt	%
2016 Notes	19%
2019 Notes	19%
2020 Notes	27%
Ebok facility	23%
FHN facilities	8%
Okwok facility	4%



Financing

Gross debt at 31 December 2014 was US$1,304 million (2013: US$1,129 million). The main components of the US$175 million increase were an additional US$90 million drawdown on an existing Ebok facility, US$160 million drawdown on new facilities and US$80 million repayment in respect of a maturing facility.

The Group initiated a further refinancing project during the middle of 2014 which had to be postponed following the suspension of two Directors on 31 July 2014. When the Group was in a position to recommence the refinancing project it was severely impeded by a significantly higher risk premium and a declining oil price environment.

3. Our commitments

The Group had operating and capital commitments as at 31 December 2014 of US$644 million (2013: US$778 million), largely in respect of rig and field equipment leases and the Group's ongoing exploration and evaluation programmes.

4. Outlook

As described in note 1 to the financial statements and the going concern section of the Directors' report, following the significant decline in oil prices prior to year end and their continued low level, in the absence of satisfactory completion of the Group's current refinancing plans the Group has insufficient funding to satisfy working capital requirements and forecast debt repayments as they fall due. The Group has reached an agreement with certain of its lenders and providers of debt regarding the injection of US$200m of net Interim Funding to provide immediate liquidity to the Group and provide time to implement the required steps towards the completion of the wider recapitalisation to raise an additional US$55 million to US$105 million, as announced on 30 April 2015.

As a result, the financial statements have been prepared on the basis the Company is a going concern, although the auditor has emphasised a material uncertainty regarding going concern, which is disclosed in the Directors' report on page 76.

The Group is working with its various stakeholders in order to secure the necessary funding and complete a financial and capital restructuring to overcome short-term liquidity problems and return to a stable financial platform. Through a strategy focused around its core producing assets, the Group intends to generate a reliable and durable profit stream.

Operations review

In 2014, Afren realised full year average net working interest production of 31,819 bopd (excluding Barda Rash), below our full year guidance range of between 32,000 – 36,000 bopd. In 2015, Afren expects net production to average between 23,000 – 32,000 bopd.

Net production fell in 2014, principally due to cost recovery of the initial development costs at Ebok. In addition, operational and contractual delays at Ebok and OML 26 meant that production was realised below our full year guidance range.

In January 2015, Afren outlined its intention to review its strategic options in respect of the Barda Rash field in the Kurdistan region of Iraq, after disappointing operational results at the field and a significant reserves and resources downgrade following an update by RPS Energy. Looking ahead, following the end of all cost recovery Afren expects full year 2015 net production to average between 23,000 – 32,000 bopd, with capital allocation prioritised to our near-term Nigerian development projects at Ebok, Okoro and OML 26. The impact of the lower oil price environment has affected the timing of ramp-up across all of our producing assets in Nigeria as well as planned new production from Okwok.

Our exploration record continues to gather momentum, particularly in Nigeria where we have been successful in appraising, developing and discovering additional reserves at Ebok and Okoro. Furthermore, our basin-opening discovery at OPL 310 in 2013 continues to hold significant promise. We upgraded our prospective resource base in East Africa in 2014 following the acquisition and processing of new seismic data to complement our previous understanding of the basins. In the current low oil price environment, our focus this year will be to allocate capital to producing assets and manage our exploration and appraisal commitments with new funding, where available, alongside industry participation.

With proved plus probable recoverable reserves of 162 mmboe, contingent resources of 276 mmboe and exploration upside of 17,645 mmboe, we have an opportunity-rich platform capable of delivering further growth.

Production FY 2014 (bopd)

Production FY 2014 (bopd)	Working interest	Average gross production	Average net production
Okoro	50%	16,451	8,225
Ebok	50%[1]	27,767	22,090
OML 26	45%	3,342	1,504
Total (excluding Barda Rash)		**47,560**	**31,819**
Barda Rash	60%	330	198
Total (including Barda Rash)		**47,890**	**32,017**

1 Afren's net production in 2014 included its 50% working interest plus additional barrels to recover costs of capital investment funded by Afren. It includes any volumes provided to Partners to settle net profit interest liabilities.

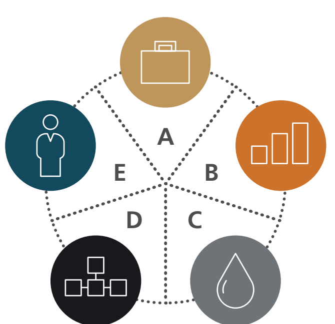
East Africa

Kurdistan region of Iraq

Our operations: Nigeria, other West and South Africa

Nigeria currently contributes all of Afren's production. 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.

Strategic alignment



A Portfolio management
B Reserves growth
C Production growth
D Operational efficiency and financial discipline
E Working responsibly

For more information see P18

Nigeria Okoro

Business activity

Appraisal & Development

Production

Working interest
50%*

Owner and local Partner
Amni International Petroleum Development Ltd

Gross 2P certified reserves
44.5 mmbbls**

2014 Gross average production
16,451 bopd

Work programme
Production and development

* Working interest post cost recovery.
** Source NSAI, reserves remaining as at 31 December 2014.

Optimising production and maximising oil recovery

Production operations continue to run smoothly at the Okoro field. Total gross production at the Okoro field in 2014 was 6 mmbbls of oil, representing a gross average daily rate of 16,451 bopd, and a process uptime of over 97%. The year-on-year decrease of circa 9% was in line with expectation, incorporating planned downtime associated with the riser re-termination work carried out in Q1 2014.

Since the start of production in 2008, the Okoro field has continued to perform ahead of expectations, delivering aggregate gross production volumes to the end of December 2014 of c.39.4 mmbbls, significantly above the original 2P scenario of 26.2 mmbbls, a remarkable achievement for our first greenfield development project.

During the year, in order to optimise production at the Okoro main field, the Adriatic 1 rig was moved to the Okoro Main Well Head Platform (WHP) where one producer, Okoro-15, and one side track, Okoro-12 ST1, were brought on stream and are currently producing at rates of approximately 2,000 bopd in line with expectations. In Q3 2014, the Partners sanctioned the Final Investment Decision (FID) for the Okoro Further Field Development (Okoro FFD).

The rig for the Mobile Offshore Platform Unit (MOPU) was procured and arrived in the construction yard in Singapore in Q4 2014. In February 2015, Amni and Afren began discussions on how best to manage the Okoro FFD in light of deteriorating oil prices with a view to re-engineering the forward work programme at Okoro.

Outlook

The re-engineered Okoro FFD may utilise the existing infrastructure at the field, and will incorporate the development of the Okoro FFD discovery over two phases from the Okoro Main WHP. The forward drilling schedule will enable production decline from the main field to be offset with new wells coming on stream from the Okoro FFD.

Nigeria Ebok

Business activity

Appraisal & Development

Production

Working interest
50%*

JV Partner
Oriental Energy Resources Ltd

Gross 2P certified reserves
83.3 mmbbls**

2014 Gross production
27,767 bopd

Work programme
Production and development

* Afren's net production in 2014 included its 50% working interest plus additional barrels to recover costs of capital investment funded by Afren. It includes any volumes provided to Partners to settle net profit interest liabilities.

** Source NSAI, reserves remaining as at 31 December 2014.

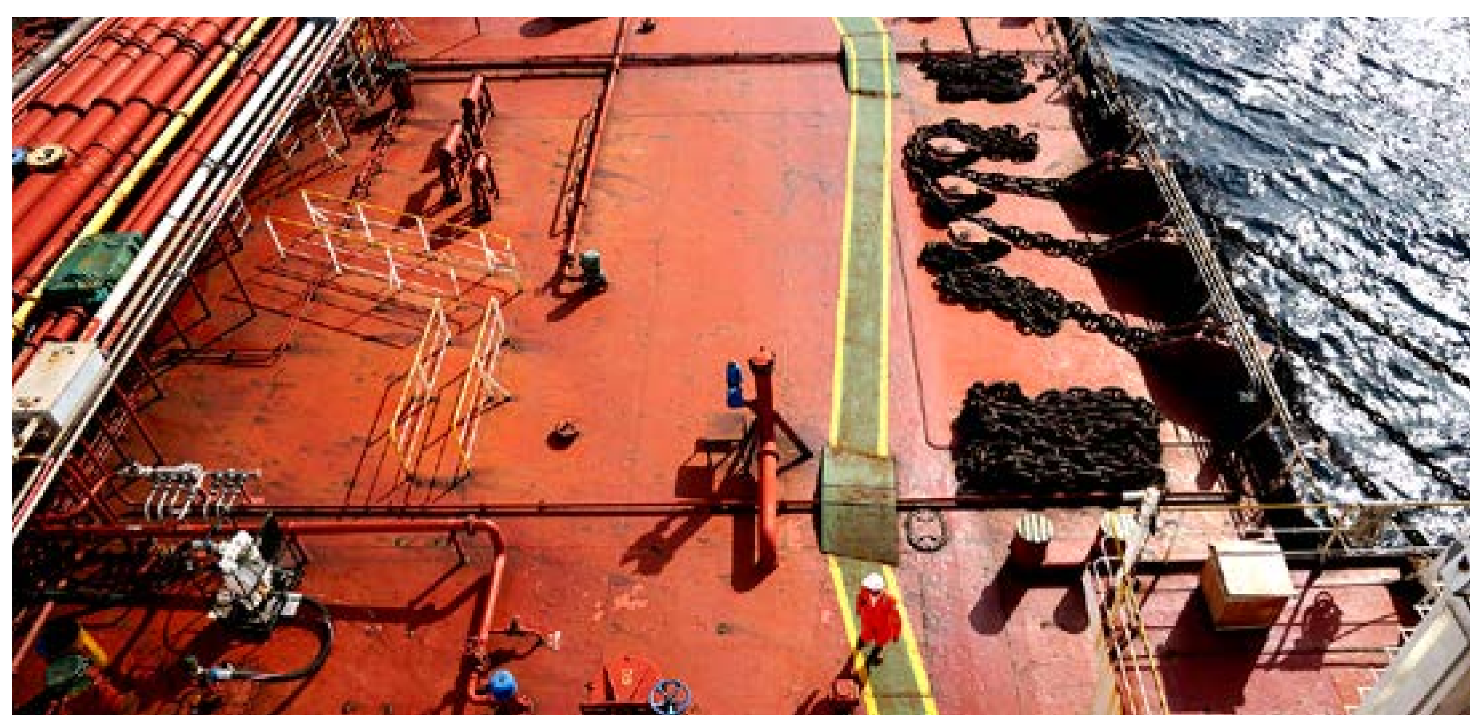
Continued strong production performance at the Ebok field

In 2014, the Ebok field produced 10.1 mmbbls of oil, representing a gross average daily rate of 27,767 bopd and a process uptime of over 97%.

The year-on-year fall in gross production at Ebok was principally due to the lack of new production from the delayed Central Fault Block (CFB) extension, which was planned to offset the natural decline from existing wells. During the year Afren and its Partner, Oriental, successfully concluded the drilling campaign from the North Fault Block (NFB) by bringing three additional wells on stream – two injectors and one producer, delivering on average 7,000 bopd. While these new wells were unable to make up for the lack of CFB production, they did help the Partners reach an exit rate for 2014 at 32,123 bopd.

2015 outlook

In 2015, the Partners intend to undertake further field development at Ebok, finalising the CFB extension platform and West Fault Block upgrades and debottlenecking. Having completed the installation of the CFB extension wellhead jacket in late Q4 2014, the Partners completed the top-side installation of the bridge and decks in March 2015 and are targeting hook-up and commissioning of the facilities by mid Q3 2015. The Central Fault Block extension platform is a 12-slot (24-well) wellhead platform designed to support 15 wells initially (10 production and five injectors), additional slots for future wells, power generation and space for installation of an additional gas compressor.



Nigeria Okwok

Business activity

Appraisal & Development

Working interest
70%/56%*

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

Gross 2P certified reserves
46.7 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 any cost recovery period is greater than US$1.2 billion.
** Source NSAI, reserves remaining as at 31 December 2014.

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.

Field Development Plan approved

In January 2014, the Partners received approval for the FDP for Okwok from the Nigerian authorities. Consequently, Okwok was reclassified as a Development asset, a strong endorsement of the successful appraisal work undertaken by the Partners since its 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.

During 2014, the Partners successfully completed the fabrication and installation of the wellhead jacket.

2015 outlook

Afren, together with its joint venture partners Oriental and Addax Petroleum, have completed and flow tested their first development well, Okwok 13. The well was drilled and completed in April 2015 from the Okwok jacket, which had been previously installed in Q4 2014. Drilled to a total measured depth of 9,212ft, the well completed in the LD-1B Lower reservoir in over 1500ft of horizontal section and was successfully flow tested at a rate of 5,400 bopd (24.5 deg API oil) on a 36/64" choke with a producing GOR of 355scf/bbl and a flowing wellhead pressure of 1,248psi.

The well has been suspended in readiness for the planned installation of a Mobile Offshore Production Unit and the Okwok crude oil sales export pipeline.

Following the completion of the well and in light of the current low oil prices, Afren and its Partner, Oriental, are currently reviewing the optimal development plan for Okwok.

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 exploration drilling and 2015 outlook

Following the completion of Ocean Bottom Cable 3D Seismic over the whole Ebok/Okwok/OML 115 area, Afren and its Partner, Oriental, spudded the Ameena East prospect in November 2014 using the Shelf Adriatic 1 drilling rig. The prospect was targeting 65 mmbbls of gross unrisked resources in zones in the Biafra/Isongo intervals that are productive north of the acreage, with secondary objectives in the shallower Qua Iboe reservoirs. The Ameena-2 well was drilled to the planned total depth of 8,200 ft. Although the secondary Qua Iboe reservoirs were found to be water-bearing in the shallow portion of the hole, light hydrocarbons were encountered in a net interval of 38 ft with an average porosity of 16%, as indicated by wireline logs. No further testing was undertaken. The well has been temporarily abandoned and made available for potential re-entry at a future time.

Nigeria OML 26

Business activity

Appraisal & Development

Production

Working interest
45%*

JV Partner
NPDC

Gross 2P certified reserves
124.1 mmbbls**

Gross contingent resources
68 mmbbls

2014 gross production
3,342 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 2014.
*** 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 implementing a phased development programme. The block also contains three discovered but as yet undeveloped fields (Aboh, Ovo and Ozoro). Significant additional exploration potential has also been defined on OML 26, with 615 mmboe gross unrisked prospective resources across multiple prospects that will continue to be worked up in parallel to and integrated with development plans.

During the year, gross average production from the Ogini and Isoko fields was 3,342 bopd. In June 2014, Partners received approval from the Department of Petroleum Resources (DPR) for the initial phase of the Ogini FDP, comprising five wells out of the 37 redevelopment wells proposed in the FDP. Following this, the Partners successfully spudded, drilled and completed two of these initial five new wells, Ogini-22 and Ogini-23, during the second half of the year. The third producer, Ogini-24, was spudded in December 2014 and completed in February 2015 and the fourth, Ogini-25, completed in March 2015. Drilling on the fifth producer, Ogini-26, is currently in progress. All five wells are being drilled from the same location cluster. The full production potential of the completed wells is yet to be fully realised due to the fact that gaslifting cannot be introduced due to safety reasons associated with gas operations while the rig is still on location. Two of the wells tested in excess of 2,000 bopd and a third about 1,000 bopd during post completion well tests without gaslift.

2015 outlook

The Partners expect to drill and complete the remaining of the initial five approved wells during H1 2015. Results and data obtained from these wells will be incorporated into field-wide data to facilitate an update of the existing FDP and enable the asset to seek approvals for further wells to be drilled. Submission of the OML 26 field development plan to Nigerian authorities for Isoko is expected in the second quarter of 2015.

The LACT unit at the Eriemu pigging manifold has undergone the Site Acceptance Test (SAT) and has been duly commissioned. Estimated volumes delivered to the Forcados Oil Terminal (FOT) during 2013 and 2014 prior to SAT and commissioning of the LACT unit are subject to reconciliation and agreement with Shell.

Our operations: Nigeria, other West and South Africa continued

Nigeria OPL 310

Business activity

Exploration

Working interest
40%*

Operator
Optimum Petroleum Development Ltd

JV Partner
Lekoil Ltd

Note: Lekoil Ltd's assignment under farm-in still pending Government approval.

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. A well was drilled as a straight line hole in August 2013 followed by a side track to access the syn-rift.

3D Seismic acquisition and 2015 outlook

Following the Ogo discovery in 2014, the 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 existing coverage on the two licences. Processing of 3D seismic data is ongoing. The fast track post-stack time migration was delivered in August 2014 and the final production pre-stack time migration was delivered in late Q4 2014. The pre-stack depth migration is due in H1 2015. The interpretation of these data sets will be used to finalise a well location. Various funding options are being investigated for appraisal drilling. Post period end, Afren has instructed NSAI to commence the preparation of a Competent Person's Report for OPL 310 incorporating the new block wide seismic data, once the processing has been completed.

Nigeria OML 113

Business activity

Exploration

Appraisal & Development

Working interest
16.875%*

Operator
Yinka Folawiyo

Gross 2P reserves
23.4 mmboe**

Gross contingent resources
179 mmboe**

Work programme
Seismic acquisition, appraisal drilling and development

* Effective economic interest, held through FHN, a subsidiary of Afren plc.
** Source: AGR – TRACS International Limited

Overview

OML 113 is located 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 mean contingent resources to be 179 mmboe, principally related to the Aje field, with an additional 205 mmboe of mean prospective resources on the block.

FDP approved, FID sanctioned and 2015 outlook

In January 2014, JV Partners submitted the FDP for the Aje field to the Nigerian 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 close to the Aje-2 subsurface location. The FDP envisages first oil commencing in late 2015 with mid-case reserves of 32.4 mmbbls.

On 7 October 2014, the JV Partners on OML 113 sanctioned the FID for the first phase of the Cenomanian development in the Aje field that will include two subsea production wells tied back to a leased FPSO.

Afren has completed an extensive 2,716 km² 3D seismic across OPL 310 and OML 113 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.

In respect of our commitments this year, Afren will continue to review its work programme in light of its funding position and the impact of low oil prices, at the same time as seeking alignment with host governments and JV Partners on the timing of work programmes.

Ghana Keta Block

Business activity

Exploration

Working interest
35%

Operator
Eni

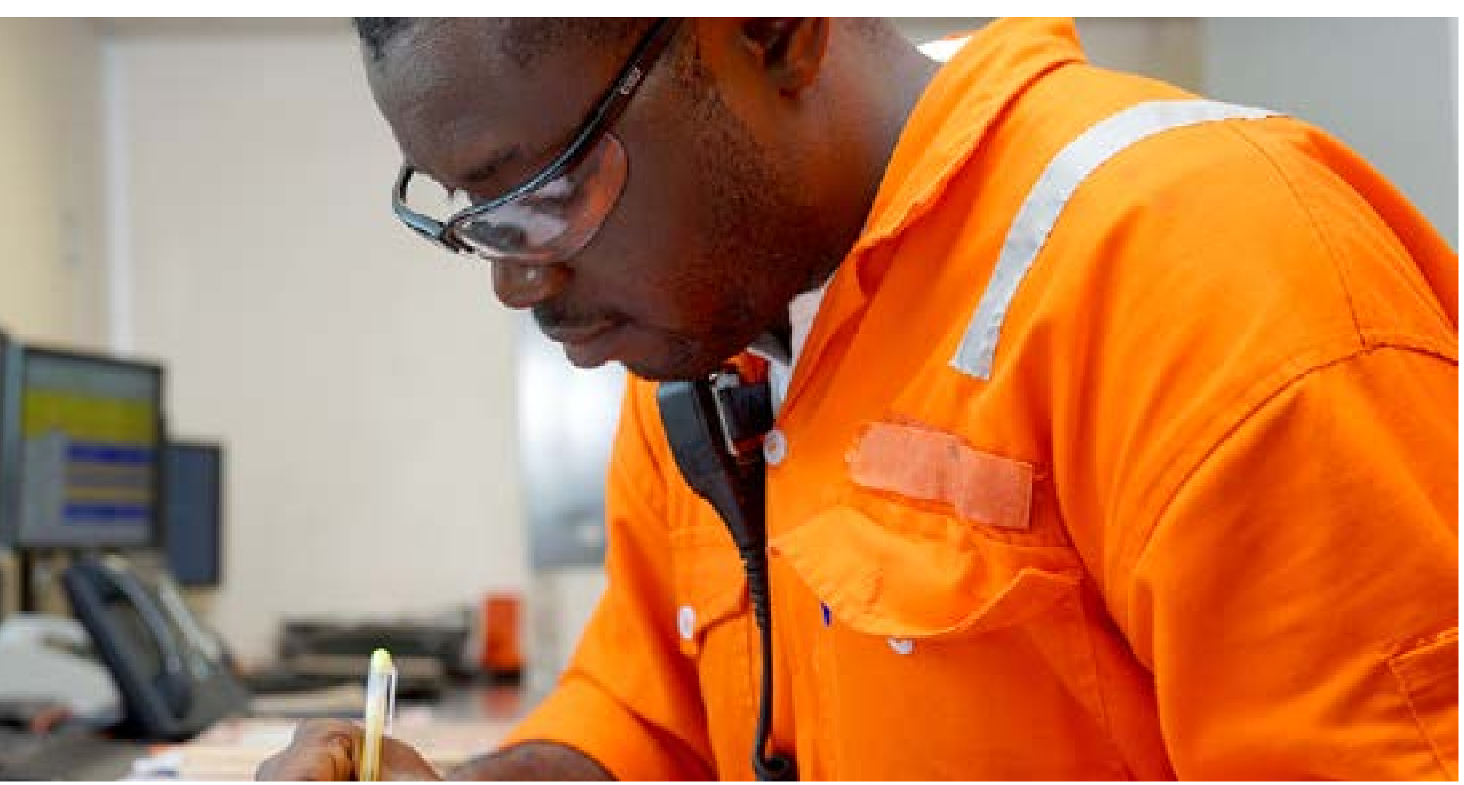
Work programme
Under review

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.

2015 outlook

Following an economic evaluation in 2014, Afren fully impaired its holding in the Keta block (US$35.5 million).



Côte d'Ivoire CI-523

Business activity

Exploration

Appraisal & Development

Working interest
20%

JV Partner
Taleveras 70%
Petroci 10%

Work programme
Seismic acquisition and processing

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 processing

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

The agreement resulted in 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 CI-523 Block included 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 CI-525 Block included the legacy CI-505 Block and the northern portion of the legacy CI-01 Block, thereby extending our acreage to the north. The operator on the CI-523 Block is Taleveras Group whilst the operator on the CI-525 Block is 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 CI-523 and CI-525 blocks significantly increase Afren's existing exploration acreage and upside potential in the region.

2015 outlook

Afren completed a 1,896km^2 3D seismic survey on CI-523 and CI-525 in Q4 2014. The data acquired will be processed in 2015.

Due to the Group's liquidity constraints resulting in a curtailment of budgeted expenditure for this asset, despite Afren retaining its interest in the asset a full impairment was recognised at the end of 2014 in order to meet with the requirements of International Financial Reporting Standards.

In respect of our commitments this year, Afren will continue to review its work programme in the light of its funding position and the impact of low oil prices at the same time as seeking alignment with host governments on the timing of work programmes and potential opportunities for strategic divestments.

Congo Brazzaville La Noumbi

Business activity

Exploration

Working interest
22.22%

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.

2015 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.

Due to the Group's liquidity constraints resulting in a curtailment of budgeted expenditure for this asset, despite Afren retaining its interest in the asset a full impairment was recognised at the end of 2014 in order to meet with the requirements of International Financial Reporting Standards.

In respect of our commitments this year, Afren will continue to review its work programme in the light of its funding position and the impact of low oil prices at the same time as seeking alignment with the host government and its Partner on the timing of work programmes and potential opportunities for strategic divestments.

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.

2015 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.

A two-year licence renewal was granted on Block 2B by the regulatory authorities on 26 January 2015. The effective date of this two-year renewal period is 13 March 2015. The work programme over this period will involve geological modelling of the A-J graben sediments.

Due to the Group's liquidity constraints resulting in a curtailment of budgeted expenditure for this asset, despite Afren retaining its interest in the asset a full impairment was recognised at the end of 2014 in order to meet with the requirements of International Financial Reporting Standards.

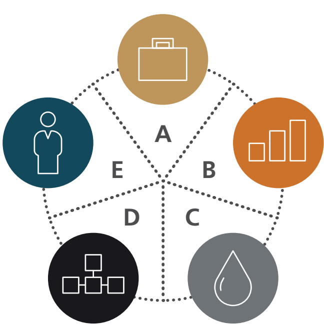
In respect of our commitments this year, Afren will continue to review its work programme in the light of its funding position and the impact of low oil prices at the same time as seeking alignment with the host government and its Partner on the timing of work programmes and potential opportunities for strategic divestments.

Our operations: East Africa

Our portfolio of East African assets covers an extensive area of over 68,000 km^2 located in basins of proved working hydrocarbon systems. We focus on onshore Karoo aged 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 our entry into the region, we have acquired extensive seismic data which has enhanced our understanding of the basins and resulted in a significant upgrade to our prospective net resource base from 1,233 mmboe to 3,275 mmboe of risked mean recoverable resources.

Strategic alignment



- **A** Portfolio management
- **B** Reserves growth
- **C** Production growth
- **D** Operational efficiency and financial discipline
- **E** Working responsibly

For more information see P18

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 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 data set has also enhanced our view of the oil prospectivity in the south of this large frontier block. A large surface anticline in the east of the acreage is also considered highly prospective for oil and further seismic acquisition was planned for Q4 2014 in order to locate an exploration well on the feature.

2015 outlook

Seismic operations were suspended on Block 1 during December 2014 as a result of regional security issues. We continue to monitor the security issues closely and will only resume operations when it is safe and prudent to do so.

Due to the Group's liquidity constraints resulting in a curtailment of budgeted expenditure for this asset, despite Afren retaining its interest in the asset a full impairment was recognised at the end of 2014 in order to meet with the requirements of International Financial Reporting Standards.

In respect of our commitments this year, Afren will continue to review its work programme in the light of its funding position and the impact of low oil prices at the same time as seeking alignment with host government and its Partner on the timing of work programmes and potential opportunities for strategic divestments.

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 km². There is an onshore component and in the offshore water depths vary from a few feet along the shoreline to up to around 2,625 ft in the Pemba Channel.

There are several potential source rocks for 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 is recorded within the Eocene section in the Pemba-5 well. There are oil seeps in the Lamu Basin and on Pemba Island linked to Eocene and Jurassic source rocks which imply 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. Oil and gas was discovered outboard of L18 by BG in Q1 2014 (the Sunbird-1 discovery).

In January 2012, Afren completed the acquisition of 1,207 km of 2D seismic data targeting the deeper water portion of the blocks. Interpretation of the data 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 net mean prospective resources on the blocks, to 668 mmboe. Afren completed the acquisition of 1,006 km² of 3D seismic data during December 2012, in lieu of a well commitment, to better understand the deep water prospectivity. 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. The onshore seismic data highlighted an expansive shallow-water/onshore trend called the Mombasa High. An airborne gravity and magnetic survey was acquired over the Mombasa High structure in Q2 2014 to allow the optimal positioning of a 250 line km 2D seismic survey which commenced acquisition in Q4 2014.

2015 outlook

The 250 line kilometre onshore 2D seismic survey was completed in January 2015, the results of which will be used to locate targets for exploration drilling.

Due to the Group's liquidity constraints resulting in a curtailment of budgeted expenditure for this asset, despite Afren retaining its interest in the asset a full impairment was recognised at the end of 2014 in order to meet with the requirements of International Financial Reporting Standards.

In respect of our commitments this year, Afren will continue to review its work programme in the light of its funding position and the impact of low oil prices at the same time as seeking alignment with the host government on the timing of work programmes and potential opportunities for strategic divestments.

Tanzania Tanga Block

Business activity

Exploration

Working interest
74%

Operator
Afren

Work programme
Exploration drilling

Overview

The Tanga Block is located offshore in 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 the southerly extension of the same coastal high and basin trough plays, allowing us to use our regional expertise and knowledge.

In July 2013, Afren initiated seismic interpretation of a 620 km² 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. Further interpretation work has elevated the Nanasi prospect to the forefront of drilling opportunities in the deepwater of the Tanga block and work is ongoing to raise the shallow water prospects to ready-to-drill status. This will potentially involve the acquisition of a shallow water 3D seismic survey of around 400 km².

2015 outlook

The Partners plan the acquisition of a shallow water 3D seismic survey of around 400 km² subject to regulatory approval and availability of funding in 2015.

Due to the Group's liquidity constraints resulting in a curtailment of budgeted expenditure for this asset, a full impairment was recognised at the end of 2014 in order to meet with the requirements of International Financial Reporting Standards

In respect of our commitments this year, Afren will continue to review its work programme in the light of its funding position and the impact of low oil prices at the same time as seeking alignment with the host government and its Partner on the timing of work programmes and potential opportunities for strategic divestments.

IVORENE

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 source rocks. The Karoo formation contains both a 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 prospectivity.

In 2013, Afren completed a major 3D seismic programme, the first 3D surveys 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 has been completed. Early results have confirmed pre-3D prospectivity in the southern deep water portion of Area A.

2015 outlook

A 1,200 square kilometre 3D seismic survey is in the planning stage to cover shallow water leads in Area A.

Due to the Group's liquidity constraints resulting in a curtailment of budgeted expenditure for this asset, despite Afren retaining its interest in the asset a full impairment was recognised at the end of 2014 in order to meet with the requirements of International Financial Reporting Standards.

In respect of our commitments this year, Afren will continue to review its work programme in the light of its funding position and the impact of low oil prices at the same time as seeking alignment with the host government and its Partner on the timing of work programmes and potential opportunities for strategic divestments.

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 km². 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. 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.

Successful shallow borehole coring programme

In late Q4 2014, Afren completed a multi-location shallow borehole coring programme which included the re-drill of a previously reported oil discovery. A total of four strategic locations on Block 1101, which measured around 11,200 km² (2.8 million acres), were successfully drilled and cored to an aggregate depth of 6,500 ft with approximately 5,720 ft of core samples recovered. Drilling at each of the locations successfully completed the respective technical objectives to assess specific aspects of the Block's petroleum systems.

Two core holes were drilled to depths of 2,112 ft and 1,625 ft adjacent to the 1902 coal borehole (Ankaramy-1) which had reportedly encountered "hydrocarbon shows". Cores recovered from both locations indicated the presence of hydrocarbons and potentially good reservoir quality over multiple zones.

Early indications provide further evidence of at least three different source rocks working across the block in the Triassic, Jurassic and Cretaceous.

2015 outlook

Further detailed analysis of the cores will be undertaken in Q2 2015 to confirm the nature and extent of the hydrocarbons.

Net risked mean prospective resources on the block are estimated at 205 mmboe.

Due to the Group's liquidity constraints resulting in a curtailment of budgeted expenditure for this asset, despite Afren retaining its interest in the asset a full impairment was recognised at the end of 2014 in order to meet with the requirements of International Financial Reporting Standards.

In respect of our commitments this year, Afren will continue to review its work programme in the light of its funding position and the impact of low oil prices at the same time as seeking alignment with the host government and its Partner on the timing of work programmes and potential opportunities for strategic divestments.

Ethiopia Block 8

Business activity

Exploration

Working interest
43%

Operator
New Age

Work programme
Commercialisation studies

Overview

Block 8 is located in the Ogaden Basin covering an area of 11,062 km². Exploration in Ethiopia began in the 1970s with Tenneco discovering the Calub and Hilal gas fields and 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. The El Kuran-3 well was spudded on 13 October 2013 using the Sakson 501 drilling rig and reached a total depth of 11,575 ft. Oil and gas was penetrated in several intervals and commerciality studies have commenced in order to assess the optimal way of developing these reservoirs. The Ethiopian ministry has granted the Joint Venture an 18 month period to carry out these studies.

2015 outlook

Studies will be completed on the optimal way of developing and exporting the oil and gas contained in the El Kuran discovery.

Due to the Group's liquidity constraints resulting in a curtailment of budgeted expenditure for this asset, despite Afren retaining its interest in the asset a full impairment was recognised at the end of 2014 in order to meet with the requirements of International Financial Reporting Standards.

In respect of our commitments this year, Afren will continue to review its work programme in the light of its funding position and the impact of low oil prices at the same time as seeking alignment with the host government and its Partner on the timing of work programmes and potential opportunities for strategic divestments.

Our operations: Kurdistan region of Iraq

Barda Rash

Business activity

Appraisal & Development

Production

Working interest
60%

Operator
Afren

Gross 2P certified reserves
0 mmbbls*

Gross contingent resources
247 mmbbls*

2014 Gross average production
330 bopd

Work programme
Production and development

* Source: RPS Energy. Reserves and Resources remaining as at 31 December 2014.

Overview

The Barda Rash PSC is 55 km north-west of Erbil. 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.

Strategic options being evaluated

On 12 January 2015, Afren announced that an updated Competent Person's Report (CPR) of Barda Rash, carried out as part of the Company's annual reserves review, was expected to show a material reduction to previously published estimates of reserves and resources, essentially eliminating gross 2P reserves of 190 mmbbls and revising gross 2C resources from 1,243 mmbbls to around 250 mmbbls. The final RPS report confirmed the results of the announcement.

The decrease in 2P and 2C reserves and resources followed the 2014 reprocessing of 3D seismic shot in 2012 alongside results from the Company's drilling campaign. Overall, the reservoirs have not performed according to previous expectations of the Company, RPS and the approved FDP. The wells have produced higher water cuts than expected and the Company has encountered operational challenges associated with the drilling of difficult complex fractured reservoirs. Production from these reservoirs could potentially be achieved with the implementation of recovery schemes requiring significant capital expenditure, which may well be appropriate for a company with a different strategic focus. Furthermore, while recent results at the field have indicated the presence of light oil accumulations from the deeper Triassic Kurra Chine reservoirs, these have a high level of associated Hydrogen Sulfide (H_2S), which would require significant capital expenditure to develop. In light of the above, the Company is in discussions with the MNR regarding potential divestment opportunity options for the field and has taken the decision to fully impair the Barda Rash project.

Ain Sifni

Business activity

Appraisal & Development

Working interest
20%

Operator
Hunt Oil Middle East Ltd

Gross contingent resources
157 mmbbls*

Work programme
Development

* Source: RPS Energy. Resources remaining as at 31 December 2014.

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 the 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.

Field operations at the Ain Sifni block recommenced in September 2014 following a temporary suspension in August due to the regional security issues. The Simrit-4 well that was spudded in early 2014 has reached Target Depth (TD) in the Jurassic and Triassic reservoirs. The Simrit/Betnar Field Development Plan was approved by the Ministry of Mineral Resources on 27 November 2014. Simrit-4 testing is ongoing with one drill stem test (DST) completed in the Sargelu, one in the Naokelekan and two drill stem tests completed in the Kurra Chine in 2014. One DST in the Kurra Chine and one DST in the Mus/Adaiyah are scheduled for 2015. The DST in the Sargelu flowed up to 6,089 bopd with a maximum of 1% water cut on 28/64” choke and 893 psi well head pressure. The DST in the Naokelekan flowed up to 5,743 bopd with no water on 128/64” choke and 434 psi well head pressure. The DST in Kurra Chine C flowed up to 941 bopd with 80% water cut on 1” choke and 762 psi well head pressure, whilst the DST in Kurra Chine B flowed up to 2,630 bopd with 40% water cut on 76/64” choke and 397 psi well head pressure.

2015 outlook

Negotiations are ongoing with the MNR to determine the future work programme for Maqlub which includes completing the DST on Maqlub-1. The Partners’ plan for Simrit is to recomplete one well and put two wells on production through an Early Production Facility in 2015.

An independent Competent Person’s Report estimates Afren net Contingent Resources, including Maqlub, at 31.4 mmboe for Ain Sifni. Although there is an approved Field Development Plan, the project is uneconomic at current oil prices. Given the uncertainty surrounding a sustainable oil export mechanism, low oil price, and re-focused efforts toward our Nigerian assets, management have decided to fully impair the Ain Sifni asset and are evaluating their options with respect to future capital commitments.

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.

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

Key areas of focus

In 2014, the Board of Directors adopted a new corporate responsibility strategy which recognised five key areas of focus. These are:

Environment and climate change
62

Health and safety
65

Communities
66

Business conduct
67

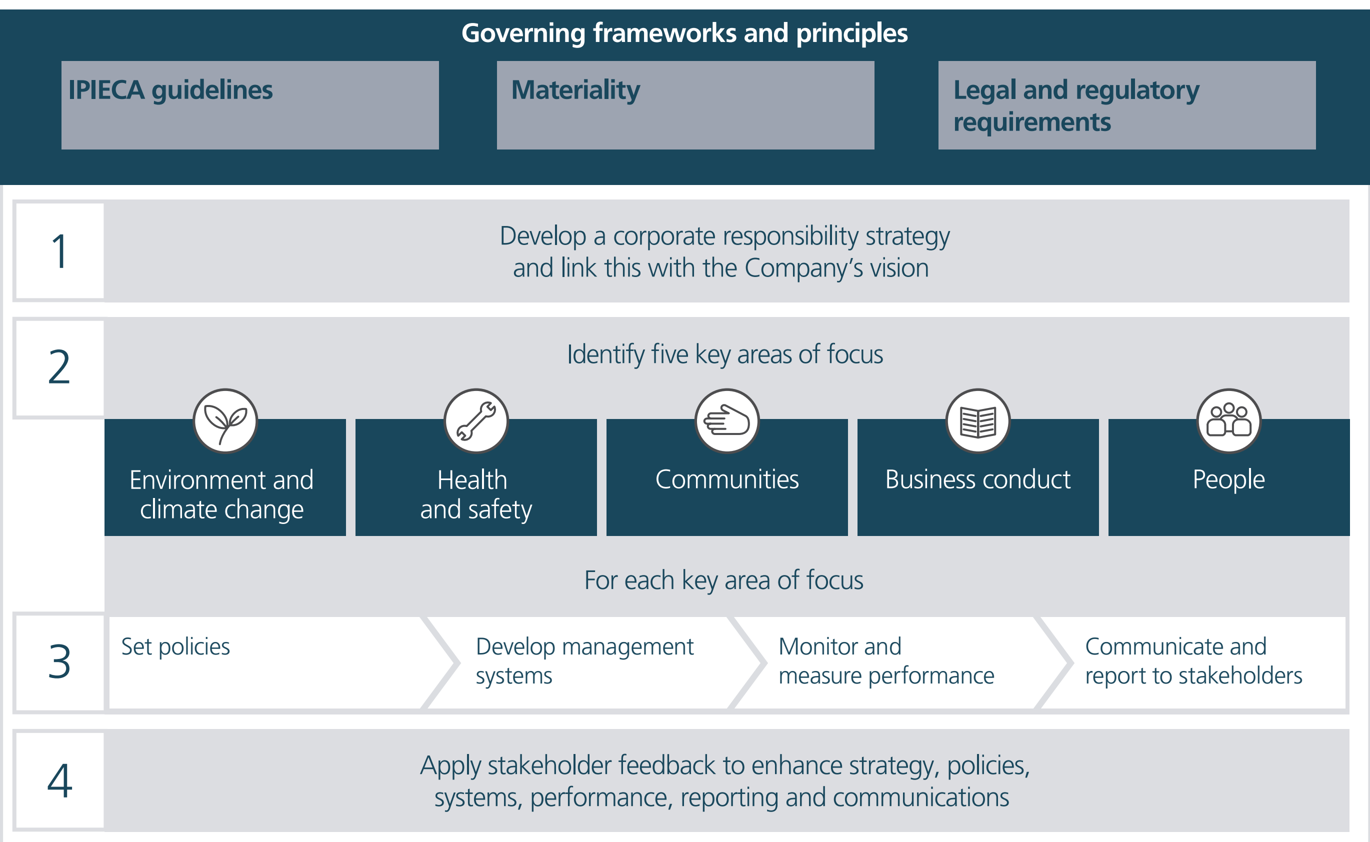
People
69

Our approach was generated by taking as the framework the industry guidance on sustainability produced by IPIECA and carrying out a gap analysis between current performance and stakeholder expectations. The strategy design process identified a series of high priority issues and recommendations to address them. These are reflected in our targets and aims for 2014 and 2015.

Balanced score card and management remuneration

In line with our peers and best practice, a balanced score card has been generated with key performance indicators (KPIs) and work activities against each of the priority issues. The scorecard is linked to management remuneration to demonstrate the strong link between strategy, performance and reward.

Figure 1.



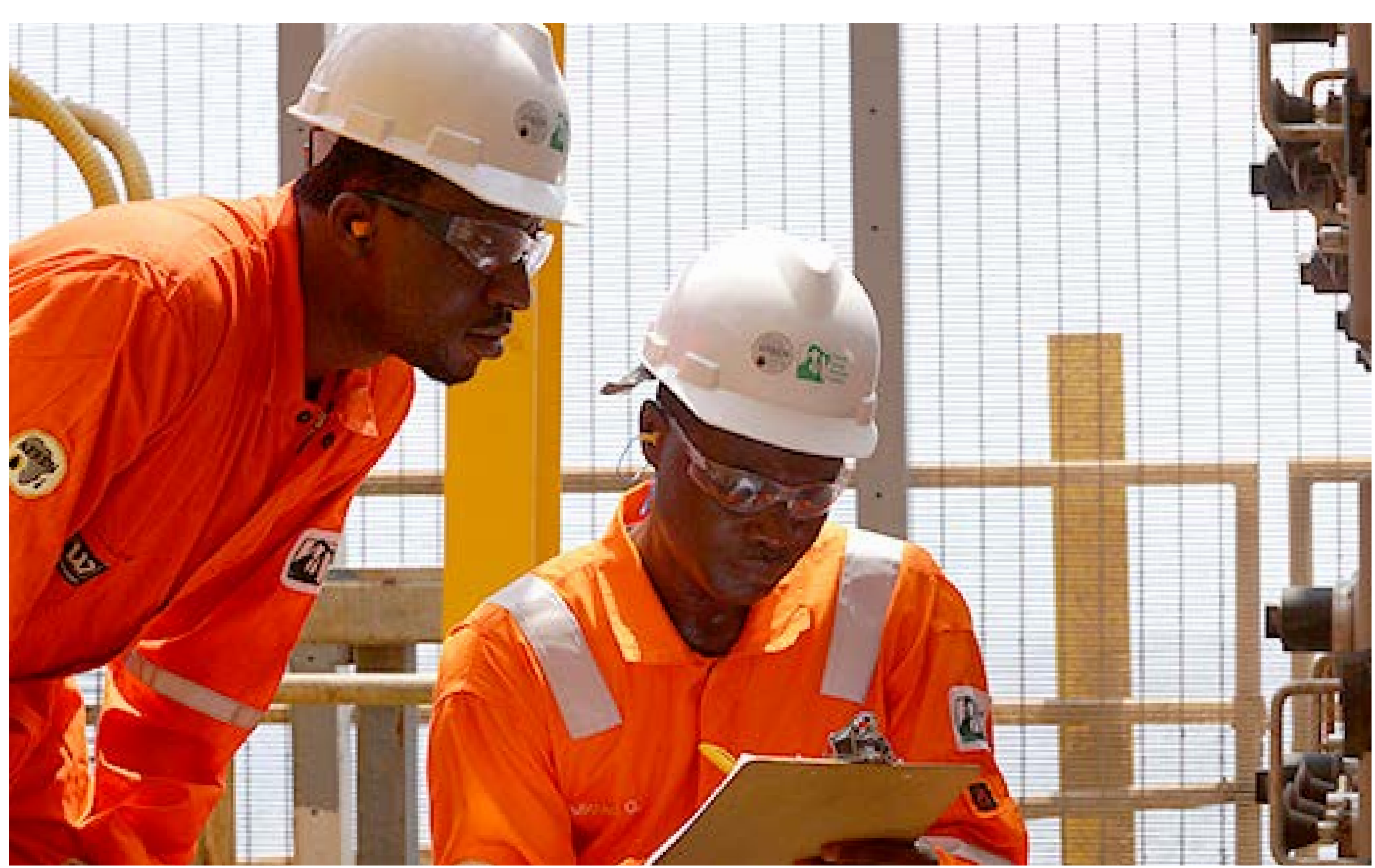
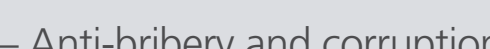


Figure 2. Our areas of focus

- Diversity and equality of opportunity
- Training and development
- Regular dialogue and communication

- Greenhouse gas and other atmospheric emissions
- Biodiversity
- Water use
- Spills
- Discharges to water
- Reuse, recycling and waste management
- Environmental management



- Anti-bribery and corruption
- Prohibition of forced and child labour
- Customer and supplier relations
- Focus on local content
- Host government transactions
- Human rights
- Stakeholder engagement and dialogue

- Health and Safety culture
- Accident prevention
- Product stewardship
- Process safety
- Occupational health
- Workforce participation

- Social investment
- Respect for the rights of indigenous people
- Prohibition of involuntary resettlement
- Pro-active conduct of community affairs

The Afren approach to corporate responsibility continued

Transparency and reporting
We continued with the development of our monitoring and reporting framework in 2015, in particular looking at improving the capture and reporting of greenhouse gases (GHG) and waste quantities. This data will be reported through the Afren website once it has been checked and verified. We also published the climate change strategy referred to below and invited comment and feedback from investors and other interested stakeholders.

Environment and climate change
In line with our stated targets for 2014 we reviewed our approach to climate change, looking at the risks and opportunities presented by this issue. As a result, we have developed and approved a comprehensive climate change strategy which can be viewed on the website. Through this review process we have been able to substantially improve the Company's position against the Carbon Disclosure Project (now CDP) ranking system, improving from a score of 37 in 2013 to 77 in 2014; this is very favourable when compared to our peer group.

Health and Safety
During 2014 we were successful in driving down injuries in the workplace by 30%, achieving our targets for both Lost Time Injury Frequency of below 0.92 and Total Recordable Incident Rate of below 2.77. We also reviewed and updated our corporate crisis management plans and conducted a series of training sessions culminating in a full-blown exercise in December.

People
As part of the review of the Company's performance management programme we have enhanced the appraisal criteria to include issues relating to Company culture, namely demonstration of an awareness of the Company's EHSS standards and promotion of these principles within the business. It also assesses the level of understanding of Afren's Code of Business Conduct and demonstration of high levels of integrity and responsibility in dealings with others.

Communities
Our social investment programme continued during 2014 in the key areas of education, skills, employment and health. We also reviewed and enhanced our overall system for managing community affairs, focusing on the selection and approval process, project budgeting and execution and the monitoring and evaluation of projects.

Business conduct
A major revision was made to the Code of Business Conduct during 2014; these changes were approved by the Board in December and this was followed by a programme of on-line training and testing for all employees and contractors. The results of the exercise have been reviewed to identify potential future training requirements. Refresher training on the Code of Business Conduct will be carried out annually and all new starters will receive the training as part of the induction process.

In May we became a corporate supporter of the Extractive Industries Transparency Initiative (EITI). We are also involved in supporting EITI activities through our participation in a number of local multi-stakeholder groups.

Framework for 2015 EHSS targets

Issue
Environment and climate change
Greenhouse gas (GHG) emissions
Energy use
Flaring
Biodiversity
Spills to the environment
Discharges to water
Waste
Audits and management systems
Health and Safety
Occupational injury
Fatalities
Process safety and asset integrity
Audits and management systems
Incident notification
Crisis management
Security
People
Health and safety culture
Communities
Local community impact
Business conduct
Anti-bribery and corruption
Transactions with host governments

2014 target		2014 performance	2015 target
Develop and disclose a comprehensive climate change strategy.	✓	Afren's climate change strategy was reviewed and approved by the Board in December and can be found on the Company's website.	To reduce the GHG emissions associated with flared gas in our operated assets by 5% from the 2014 total of 513,034 tonnes of CO_2e.
Improve the Company's data collection.	✓	Improved capture and granularity of data achieved for reporting of 2014 GHG emissions.	
Review and confirm accuracy of reported GHG emissions in particular for flaring and set flaring reduction targets for 2015.	✓	Completed. We are evaluating the feasibility of gas injection at the Ebok field and will set flaring reduction targets for 2015.	
Conduct environmental/social impact assessments before all project activity.	✓	Completed for all new projects in 2014.	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.	✓	Achieved.	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.	–	Not achieved.	Monitor and report total oil discharges to the environment from produced water for operated assets.
Install new produced water treatment equipment at Okoro and Ebok to ensure discharge quality is maintained as water volumes increase.	–	Not achieved.	To agree a produced water compliance plan with the Nigerian Department of Petroleum Resources for the Ebok and Okoro production facilities.
Record and report tonnages of hazardous and non hazardous wastes. Record and report tonnages of wastes that are recycled.	✓	Achieved.	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.	✓	Substantially completed. Framework has been developed and will be fully rolled out during 2015.	Complete the roll out of the environmental management framework across the Company.
Drive down the LTIF and TRIR values. Achieve an LTIF of below 0.92 and a TRIR below 2.77.	✓	Achieved improved LTIF (down 31.4%) and TRIR (down 28.2%) performance which was better than target.	Continue to improve safety performance by achieving a reduction in LTIF and TRIR below the 2014 values.
Zero fatalities.	✓	Achieved.	Zero fatalities.
Fewer than five process integrity breaches (Loss of Primary Containment) resulting in release of hydrocarbons in operated assets.	✓	Achieved.	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.	N/A	We were unable to conduct audits with the British Safety Council due to concerns over the security situation in both Nigeria and Kurdistan.	Develop and execute a comprehensive audit plan for 2015 including both internal and independent audits.
Promote the reporting and investigation of near misses.	✓	Ongoing.	To develop and execute a plan for ongoing training and exercising of the corporate crisis management team.
Review and re-issue the corporate Crisis Management Plan and hold an exercise.	✓	Achieved.	
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.	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.
All operations senior managers above grade 9 to have at least one EHSS objective in their annual performance targets.	✓	Achieved.	We aim to revitalise the Afren EHSS culture during the course of 2015. This will include a fundamental review of the corporate policies and procedures and an awareness campaign to promote the Afren Safety Champion rules which address key areas of safety risk and appropriate controls.
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.	✓	Achieved.	To continue to effectively engage with our local communities to ensure there are no community disruptions (causing shut down or lost productivity) to operated assets.
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).	✓	Achieved. However, as discussed in note 4.8 to the financial statements, Afren have notified the Serious Fraud Office of preliminary concerns in regards to an internal investigation.	Run annual refresher training on the Code of Business Conduct for all personnel before the end of 2015. Have no successful prosecutions or other legal actions brought against Afren for bribery or corruption. Continue to support the activities of the Extractive Industries Transparency Initiative (EITI).

Environment and climate change

Key objective

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

Policy highlights

- We will comply with the relevant local and national regulations, frameworks, guidelines, globally applicable standards and best practice at all times.
- The Company designed and put in place a climate change strategy in 2014 which is available on the Company's website.
- We will conserve resources and protect the environment where we operate and minimise any adverse impacts resulting from our operations.
- We will actively investigate methods for flaring reduction, including re-injecting gas back into the ground and applying it to power equipment.
- We will apply re-use and recycling methods wherever possible throughout our operations.
- We will minimise waste generation and dispose of waste responsibly.
- We will minimise our use of water in areas where it is scarce and carefully control our discharges to water.
- We will regularly monitor our environmental performance at senior management and Board level.
- We will encourage dialogue and stakeholder participation in the industry's approach to environmental matters and climate change.

System highlights

- The Company's Chief Operating Officer is responsible for the Company's management of environmental and climate issues and is supported by the Head of EHSS and the EHSS department.
- All new exploration and production projects are the subject of our established and detailed environmental assessment process before they proceed. This includes an examination of significant potential effects on flora, fauna, biodiversity, use of scarce resources, use of water, greenhouse gas emissions and how related risks (for example of spills and pollution) are mitigated. The assessments are conducted in line with industry best practice and the appropriate national and international standards.
- We have a detailed environmental management system that applies to all our operations.
- We devise site level biodiversity action plans where these are required and source, where possible, resources from suppliers operating a certification scheme.
- We have weekly (for senior operations management), monthly (for senior operations management and Executive Directors) and quarterly (for the Board) reporting mechanisms for our environmental performance. Incident reports are completed immediately and distributed to senior operations management and the Executive Directors.
- We are committed to conducting environmental management systems that are aligned to or certified against ISO14001.
- We engage a third party specialist to conduct periodic environmental audits against ISO14001 standards, policies and procedures.

Greenhouse gas emissions

Reporting and transparency

During 2014 the Company responded to the increasing level of interest in its approach to climate change matters from its investors and other stakeholders in a number of ways. The Company has been publishing its greenhouse gas emissions for several years and consequently was able to comply with the new UK legal reporting requirements in its last annual report through this established process.

Afren has also been participating in and responding to investor research organisations that focus on climate change in a variety of ways. One example of this is the more rigorous review of the risks and opportunities associated with climate change which was reported in the annual exercise managed by Carbon Disclosure Project (now known as CDP). CDP is a global investor-led research organisation that collects and distributes climate change data and information from internationally listed companies. This resulted in a substantial rise in the Company's disclosure rating from 37 to 77, which was one of the biggest increases recorded by a FTSE 350 company.

In December the Company also published and invited comment on its climate change strategy which is included on its website. This acknowledges the challenges presented to the oil industry by this issue and discusses the Company's view on the roles of government and the energy industry in addressing them. It outlines the risks and opportunities that climate change presents to Afren and describes how the organisation approaches the issue. The strategy also highlights what we see as the main drivers for Greenhouse Gas (GHG) emission reductions and what we see as our short and long-term aims. We have also committed to engage with our external stakeholders about our approach and have invited feedback and comment.

For 2014 we were supported with the collation and reporting of GHG emissions by Ecometrica, a specialist UK company that has also supplied us with advice and guidance on data collection, emissions factors and GHG calculations; they also closely examine the information produced to ensure accuracy and consistency.

- We conduct comprehensive environmental assessment procedures concerning all our suppliers and contractors that are conducted as part of the contract and procurement process.
- Our approach to our environment and climate change issues is outlined in our Code of Business Conduct. All employees and contractors received training on the Code's requirements during 2014 and this is also a feature of our new employee induction procedures.

GHG emissions

Baseline and reporting year

As reported last year we have been collecting data on our greenhouse gas emissions since 2009. Consequently, we have chosen 2009 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 2014.

Organisation and operating boundaries

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

As previously reported, our direct emissions are generally calculated from fuel use data, whether 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. In this way the carbon footprint for the business can be expressed as a single number.

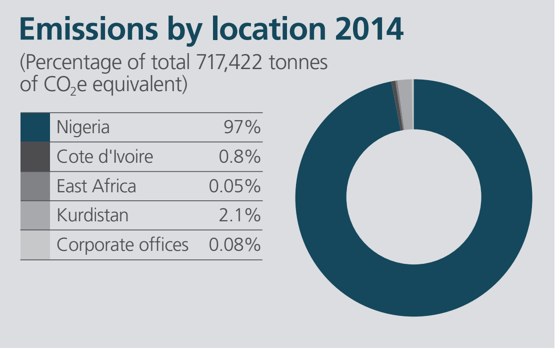
The other greenhouse gases, hydrofluorocarbons (HFCs), perfluorocarbons (PFCs) and sulphur hexafluoride, are not closely associated with oil and gas exploration and production. The total emissions of these gases are therefore expected to be small and have not been calculated.

Factors for flared gas were sourced from the UK Department of Energy and Climate Change (DECC)'s Environmental Emissions Monitoring System (EEMS) Atmospheric Emissions Calculations guidance. This guidance provides the environmental database for the UK oil and gas industry and provides measured and calculated data relating to emissions from offshore installations and associated onshore terminals. This particular guidance was chosen as Afren is based in the UK and to ensure consistency with the methodology applied previously.

We improved our calculation of GHGs emitted as a result of electricity consumption at our offices by applying geographically appropriate emission factors (from the EPA eGRID, IEA).

Emissions by location 2014

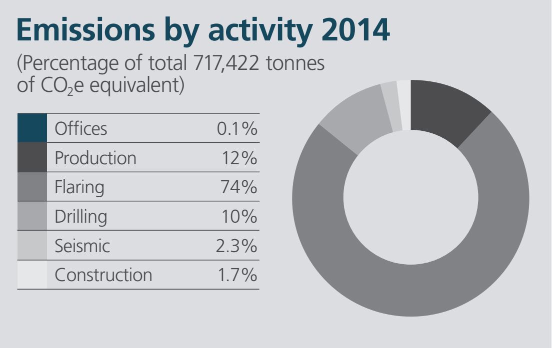
(Percentage of total 717,422 tonnes of CO_2e equivalent)



Location	%
Nigeria	97%
Cote d'Ivoire	0.8%
East Africa	0.05%
Kurdistan	2.1%
Corporate offices	0.08%

Emissions by activity 2014

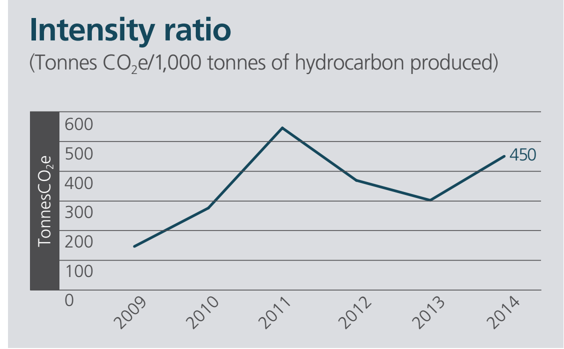
(Percentage of total 717,422 tonnes of CO_2e equivalent)



Activity	%
Offices	0.1%
Production	12%
Flaring	74%
Drilling	10%
Seismic	2.3%
Construction	1.7%

Intensity ratio

(Tonnes CO_2e/1,000 tonnes of hydrocarbon produced)



Emission reductions

As reported in the 2013 Annual Report, flaring represents over 50% of Afren's current GHG emissions. Failure to address this issue risks reputational damage and criticism from the Company's shareholders and other key stakeholders. As a consequence, we have been evaluating for some time the possibility of gas re-injection at the Ebok field as a means of avoiding flaring. These studies are nearing completion and we will be targeting a 5% reduction in flaring during the course of 2015.

Spills

We recorded two oil spills to the environment of approximately one barrel each. All spills occurred at our offshore operations in Nigeria and were reported to the local regulators.

Spill response exercises were conducted at our operating sites at Ebok, Okoro and Barda Rash. Lessons learned from these have been fed back into the spill response plans at each location.

Waste management

In 2014 we conducted waste audits at our assets in Nigeria and Kurdistan to help understand the potential liabilities and opportunities for waste reduction. We have now begun more detailed monitoring and analysis of waste quantities and have identified areas where we can make significant cost reductions from waste minimisation. A summary of the quantities of wastes generated in 2014 is given in the table below.

Produced water

The authorities in Nigeria are changing the produced water guidelines for oil industry operations to require zero discharge in shallow waters. We are required to demonstrate that we are addressing this by taking steps to ensure that all produced water is re-injected back into the ground. In 2015 we intend to put in place plans to meet these requirements at the Okoro and Ebok fields.

Waste generated in 2014

Field	Un-segregated (kgs)	Non-Haz (kgs)	Haz (kgs)	Sludge (kgs)	Total (kgs)
General waste					
Okoro	98,393	35,472	54,500	–	188,365
Ebok	–	230,695	17,082	22,653	270,430
OML 115 (Ameena well)	13,500	8,900	–	–	22,400
Barda Rash	–	6,474	–	–	6,474
Total					**487,669**
Cuttings waste					
Ebok cuttings	–	–	–	–	3,350,200
Okoro cuttings	–	–	–	–	1,775,800
OML 115 (Ameena well) cuttings	–	–	–	–	1,281,700
Total Cuttings	–	–	–	–	**6,407,700**
Tank Cleaning	–	–	–	–	**1,989,272**
Waste oil					
Barda Rash	–	–	4,102	–	4,102

Health and Safety

Key objective

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

Policy highlights

- We will comply with the relevant local and national regulations, frameworks, guidelines, globally applicable standards 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 our employees and contractors.
- We will regularly monitor our environmental performance at senior management and Board level.
- 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, communication and education methods in line with industry best practice.
- The Company's use of armed guards is dictated by our evaluation of security issues and related levels of risk. Where private armed security is not permitted (Nigeria and East Africa) we work with the local police and government security forces. We use private armed security in Kurdistan for journey management. In all instances we work within the laws of the country where we operate and in line with our international human rights obligations.

System highlights

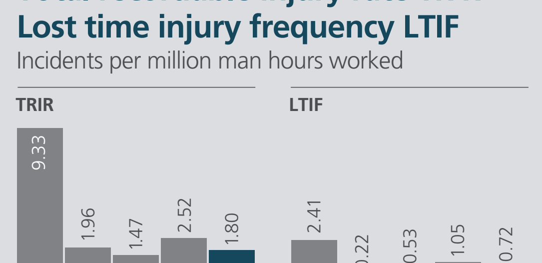
- The Company's Chief Operating Officer is responsible for the Company's management of health and safety issues and is supported by the Head of EHSS and the EHSS department.
- All new exploration and production projects are the subject of our established and detailed health and safety assessment process before they proceed. This includes a thorough examination of risk associated with personal injury, fire, explosion and security. The assessments are conducted in line with industry best practice and the appropriate national and international standards.
- We have a detailed health and safety management system that applies to all our operations.
- We have weekly (for senior operations management), monthly (for senior operations management and Executive Directors) and quarterly (for the Board) reporting mechanisms for our environmental performance. Incident reports are completed immediately and distributed to senior operations management and the Executive Directors.
- All new employees and contractors receive health and safety training as part of their induction processes. Health and safety training for employees and contractors is conducted regularly at the Company's production facilities and periodically elsewhere. The Company is developing its internal communications and training systems to raise awareness of health and safety and reduce the risk of incidents.

Safety performance

Overall safety performance improved significantly in 2014. There was a notable fall in both the Lost Time Injury Frequency or LTIF (by 31.4%) and the Total Recordable Incident Rate or TRIR (by 28.2%). The Company is committed to the provision of a healthy and safe workplace and took steps to improve its health and safety supervision at all of its production and exploration sites during the year. We intend to ensure that this improvement is maintained in 2015. Our plans include the conduct of a health and safety communications campaign based around our new Champion Safety Rules. A health and safety film has already been completed and the intention is for this to be the focus of the activity along with related training and development initiatives.

Total recordable injury rate TRIR
Lost time injury frequency LTIF

Incidents per million man hours worked



Communities

Key objective

We will contribute positively to our local communities and work in partnership with them to generate shared economic wealth and mutually beneficial outcomes.

Policy highlights

- We will comply with the relevant local and national regulations, frameworks, guidelines, globally applicable standards and best practice at all times.
- We support the principles contained within the UN 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 obtained for our projects and that this is maintained throughout their duration.
- We are committed to conducting regular dialogue with governments, our local communities and other stakeholders about community and human rights matters.

System highlights

- The Company's Chief Operating Officer is responsible for the Company's management of community matters and is supported by the Head of EHSS and the Company's community teams. The teams are also responsible for promoting and monitoring the Company's approach to diversity and equal opportunities across the business.
- The Company's community and human rights policy, approach and performance is regularly monitored by the Board and its senior management. Community and human rights issues are also incorporated into the Company's risk management processes.
- All new exploration and production projects are the subject of our established and detailed social impact process before they proceed. This includes a thorough examination of impacts on local communities, an assessment of local human rights, (and, if applicable, indigenous rights), matters and consultation processes with local stakeholders.
- We take a systematic approach to our community projects by identifying local stakeholders, assessing and measuring social, community and human rights related risk and need.
- The Company maintains dedicated community investment teams in Nigeria, Kurdistan and East Africa and a corporate level team in Houston.
- 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.
- Our approach to our communities and human rights issues is outlined in our Code of Business Conduct. All employees and contractors received training on the Code's requirements during 2014 and this is also a feature of our new employee induction procedures.
- The Company conducts a number of training and development programmes which are tailored to individual needs and roles.

Community project highlights

Afren and its Partners invested nearly $9m in community projects in Nigeria during 2014 with an outreach of over 9,300 people. The most prominent programmes included the two mentioned below and our participation in the Ejike Foundation basketball camps.

The Technical Skills Acquisition Programme (TSAP) empowers young people in our host communities with important technical and vocational skills. TSPA students are equipped with entrepreneurial skills, start-up funding and starter packs tailored to their training specialities to enable them to open new microenterprises. 131 beneficiaries took part in this programme in 2014.

Afren and its Partner Amni funded the construction of three jetties for the communities of Eastern Okoro. Additional work was also performed to shore protection facilities to prevent erosion and coastal flooding. These facilities increased the accessibility of the communities and consequently improved the quality of life for over 1,000 local people.

The Ejike Foundation arranges for talented local people to be trained by leading basketball and American Football coaches. This project, funded by Afren and its Partners, has led to over 100 local people gaining admission to American high schools and colleges through sports scholarships. Over 600 people took part during 2014.

Community affairs developments during the year

M&E framework development

In 2014, the Company decided to develop its monitoring and evaluation (M&E) framework for its community projects. The aims are to improve our assessment processes so that they are more robust and consistent and to enable their results to be applied more effectively in future projects.

The framework was developed in conjunction with an experienced external advisor. A theoretical version was developed after reviewing the relevant literature. We then reviewed the data for two projects and adapted it to fit with the Company's programmes. We pilot tested it on two of our larger community programmes (the Technical Skills Acquisition Programme and the Jetties Project). The strategic elements of the framework included identifying areas of need, the resources and activities required to address them, the immediate outputs and outcomes and the longer-term impacts. It was tested using stakeholder dialogue processes that included discussions with beneficiaries, local community leaders, project partners and our own staff.

The results highlighted a number of matters which we intend to address in future projects. We identified that data collection methods needed to be more culturally sensitive (students were more inclined to respond than older people for instance). We also concluded that we should take into account the often complex relationships that exist in our communities that may affect the perception of project outcomes. The importance of obtaining early support for projects was also shown to be helpful in avoiding subsequent disagreements on objectives and activities.

Business conduct

Key objective

We will conduct all of our business activities fairly.

Policy highlights

- All Company employees will adhere to the 15 commitments that are included in our new Code of Business Conduct. This was approved by the Board in December 2014.
- We prohibit political donations and will not directly or indirectly participate in political activities.
- Everyone will seek advice in advance about any issue where there may be a conflict of interest between personal issues and those of the Company.
- 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 employees and contractors received training by the end of December 2014 in the requirements of the new Afren Code of Business Conduct. It now forms part of the induction process for all new personnel (employees and contractors).
- The Company maintains an ABC Register. This 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 and all staff members are required to record these types of transaction when they are made. It is reviewed every three months by the Anti-Bribery Committee, comprising senior staff from our legal and finance departments. A committee report is examined by the Afren Audit and Risk Committee.
- 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 ensure that we conduct regular dialogue and communications with our current and potential shareholders.

Becoming a company supporter of the Extractive Industries Transparency Initiative (EITI)

Afren demonstrated its commitment to financial transparency in May when we became a company supporter of EITI.

The organisation is a coalition of governments, companies and civil society working together to improve openness and accountable management of revenues from natural resources. It provides a robust methodology for monitoring and reconciling company payments and government revenues at the country level.

We have already been playing a role in EITI's activities through our participation in the organisation's multi-stakeholder groups in some of the countries where our operations are located.

We support and comply with the relevant reporting processes in each country. We also endorse the EU and UK government's commitment to ensure that listed and other large oil, gas and mining companies disclose payments to governments on a project-by-project and country-by-country basis.

Our new Code of Business Conduct

During 2014, we undertook a project which aimed to completely re-design the Company's Code of Business Conduct and to train all employees and contractors on its requirements. It was led by an experienced external specialist advisor with input from the legal, EHSS and human resources departments.

Following the suspension of the Company's CEO and COO at the end of July, the project was extended to include a more detailed training exercise. Skillcast, an external software specialist which supports companies in developing their business conduct approach and training staff, was engaged to support this aspect of it. After a review by our legal advisors, the completed version of the Code was approved by the Board and presented to staff during the second week of December. A downloadable version was made available on the Company's website.

The Code contains 15 commitments which govern the activities of staff members and contractors. They embrace all aspects of the organisation's business. They address bribery, gifts and entertainment, conflicts of interest, sanctions, use of Company information technology, use of Company physical assets, personal information, business information, environment and climate change, health and safety, communities, human rights, inclusive workplace behaviour, working with others and dealing in Company securities. Each commitments section contains guidance on the Company's approach. The Code also explains how the Company addresses corporate responsibility matters and contains advice on what personnel should do if they are aware of Code breaches. This information also highlights the Company's confidential whistle-blowing hotline which is run by Safecall, a specialist provider, together with information on when and how to use it.

A training exercise was undertaken in December which required all staff and contractors to complete an online module by the end of the year. This involved reading the entire text of the new Code. It also tested everyone's understanding of our commitments by requiring each person to answer three questions about possible business scenarios relating to each one (45 in total). Three possible answers were supplied with the respondent being asked to select the one that they believed to be the most appropriate. The preferred Company approach was then highlighted together with an explanation as to why this was the case. We have been pleased with the results of this exercise with 69% of all responses being correct and with consistent scoring across all locations and job grades. We have identified a number of common areas where scoring was lower than the average and we intend to address these through the conduct of further training exercises in due course.

We are confident that our new Code and the associated training procedures represent industry best practice. The project's completion demonstrated our determination to address the issues which led to the departure of two of the Company's Executive Directors and two other senior managers in the second half of 2014. We welcome stakeholder feedback to our new Code. This can be submitted by using the dedicated email address, which is CodeofConduct@afren.com.

People

Key objective

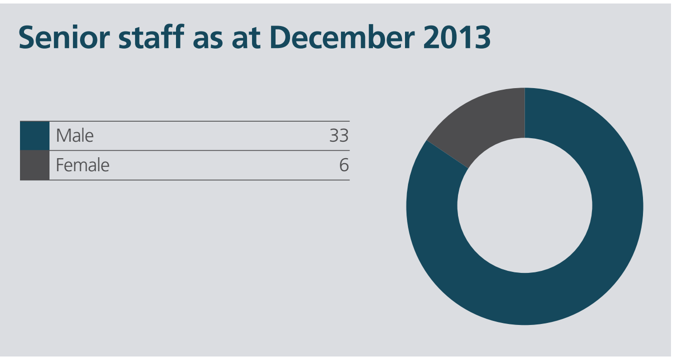
We will be a first class and responsible employer.

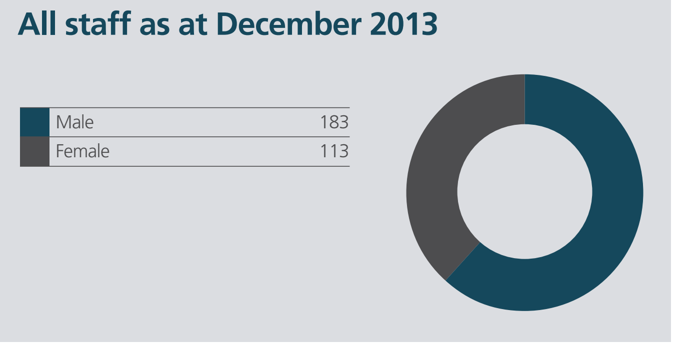
Policy highlights

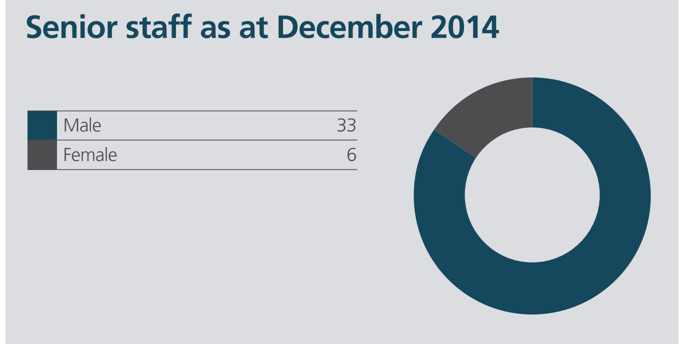
- We will comply with the relevant local and national employment regulations, frameworks, guidelines, globally applicable standards and best practice at all times.
- We support the four fundamental principles contained in the International Labour Organization Declaration. We will not discriminate on 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.

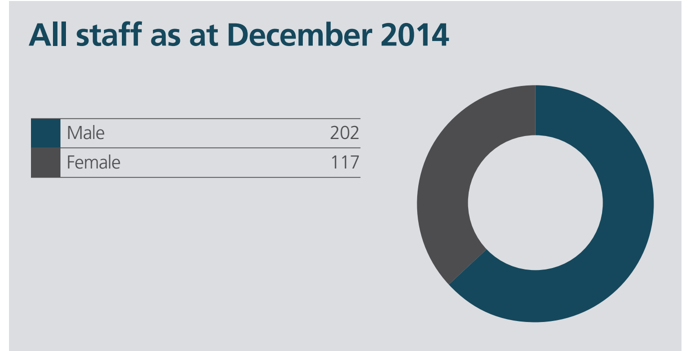
System highlights

- The Company's Chief Operating Officer is responsible for the Company's management of people matters and is supported by the Director of Human Resources and the Company's dedicated HR teams. The team's responsibilities include promoting and monitoring the Company's approach to diversity and equal opportunities across the business.
- 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 (including age, ethnic origin and gender).
- 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.
- The Company has training and development programmes which are available to all staff and contractors. These are tailored according to the needs of each individual and their roles. The Company also provides training and development initiatives that are open to all staff and take the form of online learning programmes.









Corporate governance

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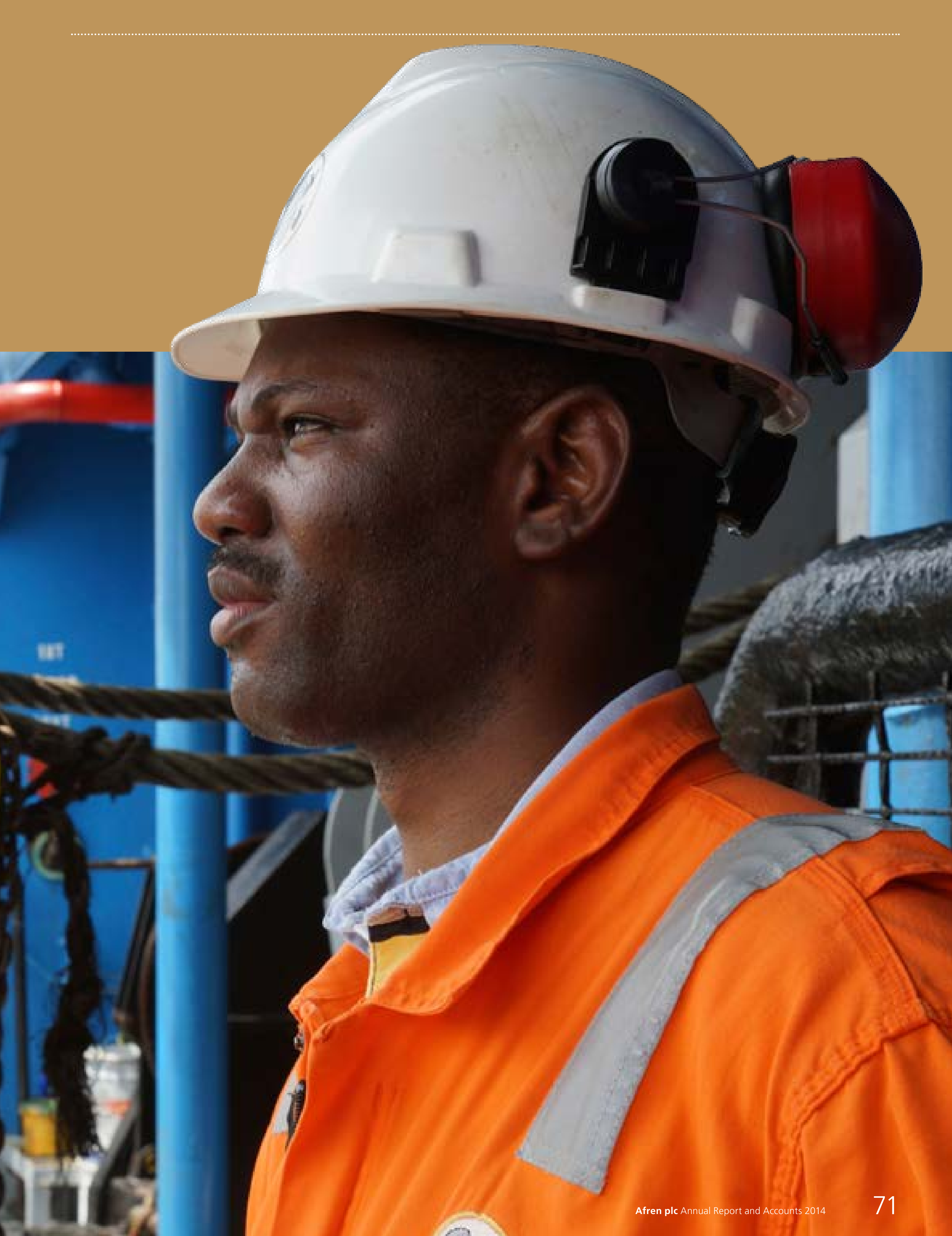


Governance overview

We would like to reassure all our stakeholders that we fully recognise the need to rebuild a stronger Board and executive team as quickly as possible.

Mr Egbert Imomoh
Executive Chairman

Dear Shareholder

The Chairman's and Chief Executive's statement on pages 10 to 15 reports the challenging issues that we faced during the second half of the year following the unauthorised payments issue and the aftermath of the fall in oil prices. It also outlines the steps we have taken to address these alongside the information reported on page 68 within the corporate responsibility section relating to our new Code of Business Conduct.

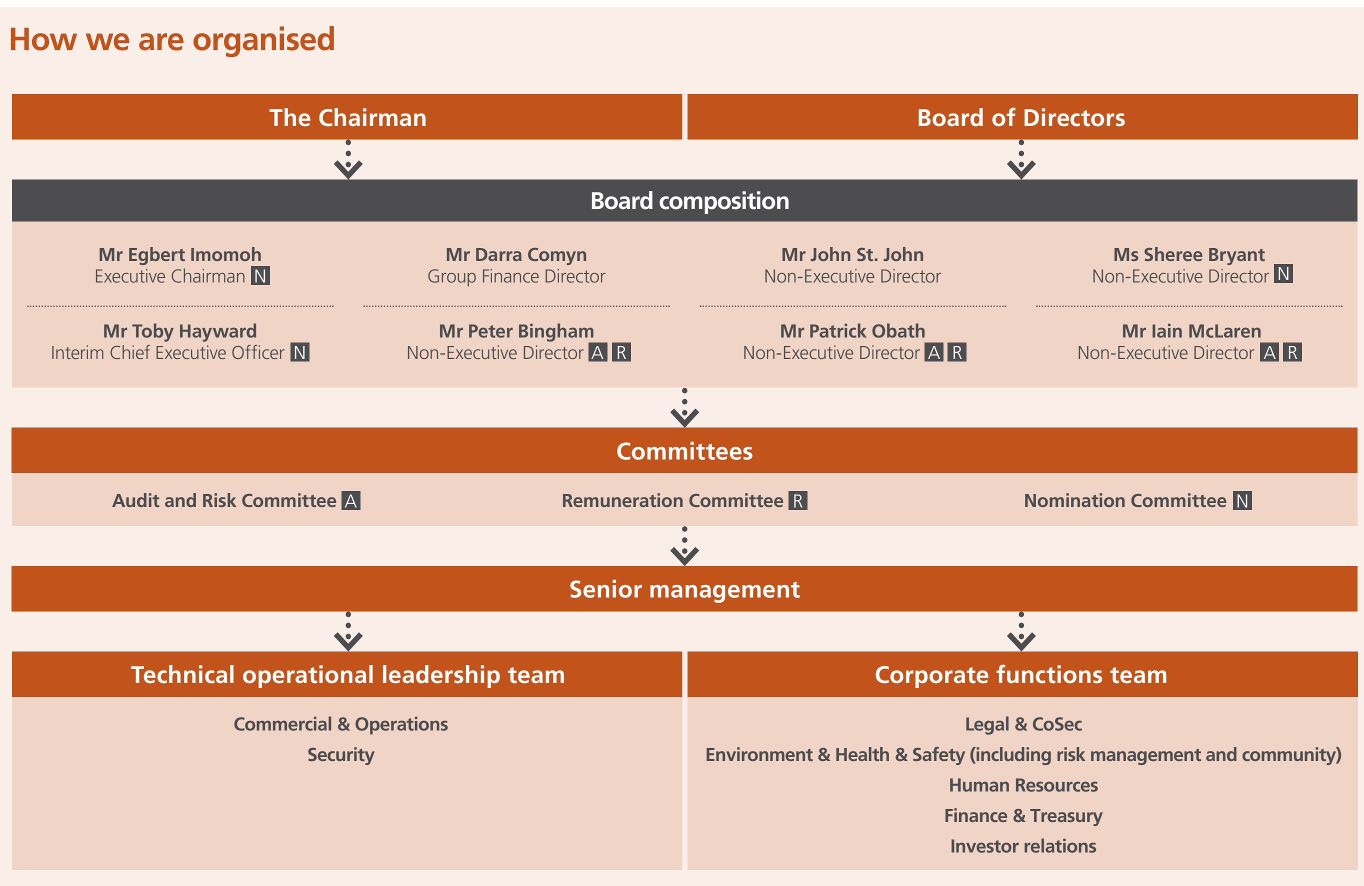
In light of the unusual circumstances that we were presented with at the end of July, the Board decided to appoint myself as Executive Chairman, Mr Toby Hayward as Interim Chief Executive Officer and retain the composition of the Board as a whole. The Board believed that this approach was in the best interests of shareholders as it promoted stability and continuity.

During 2015, the Board intends to strengthen Board membership and improve Afren's internal control framework. Board committee membership will also be reviewed and refreshed in the first half of 2015. The Board intends to enhance corporate governance principles in line with best practice.

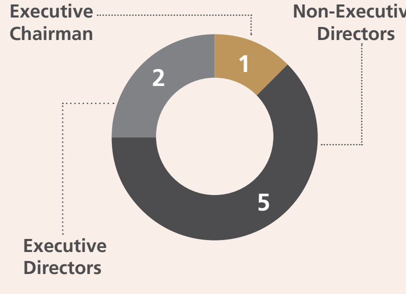
Afren governance structure

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.

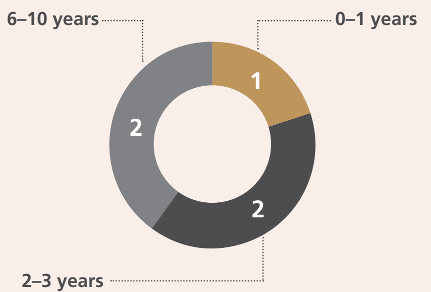
How we are organised



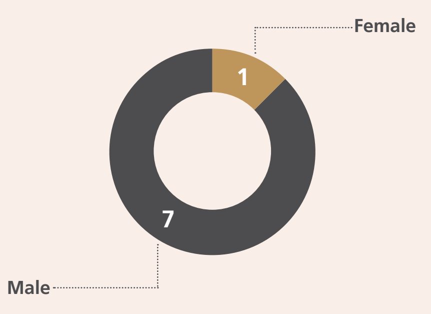
Board composition



Tenure of Non-Executive Directors



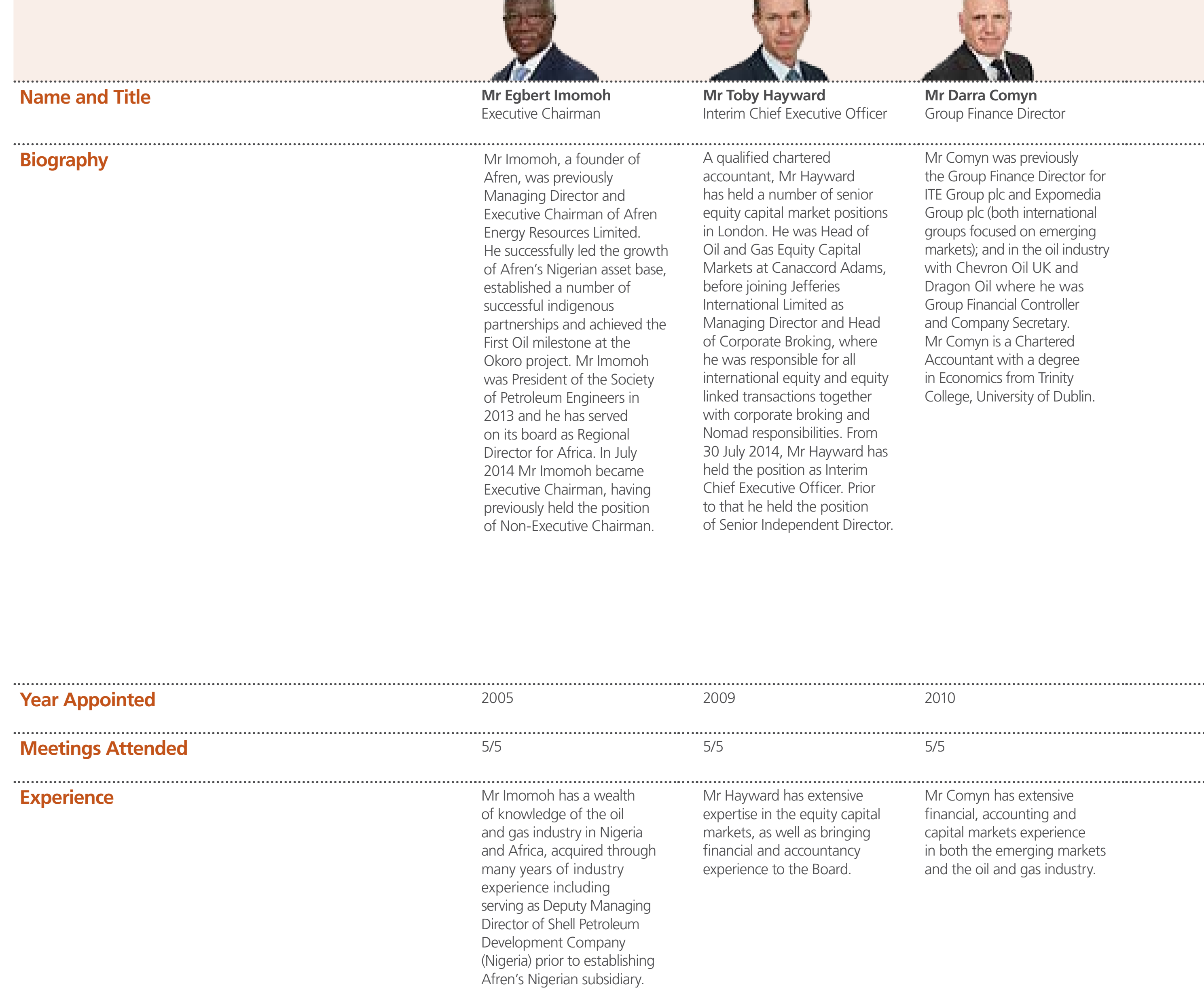
Directors by gender



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

Board of Directors



Name and Title	**Mr Egbert Imomoh** Executive Chairman	**Mr Toby Hayward** Interim Chief Executive Officer	**Mr Darra Comyn** Group Finance 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. Mr Imomoh was President of the Society of Petroleum Engineers in 2013 and he has served on its board as Regional Director for Africa. In July 2014 Mr Imomoh became Executive Chairman, having previously held the position of Non-Executive Chairman.	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. From 30 July 2014, Mr Hayward has held the position as Interim Chief Executive Officer. Prior to that he held the position of Senior Independent Director.	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.
Year Appointed	2005	2009	2010
Meetings Attended	5/5	5/5	5/5
Experience	Mr Imomoh has 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.	Mr Hayward has extensive expertise in the equity capital markets, as well as bringing financial and accountancy experience to the Board.	Mr Comyn has extensive financial, accounting and capital markets experience in both the emerging markets and the oil and gas industry.
Committee Membership	Nomination Committee	Nomination Committee	
Independent	Not applicable	Not applicable	Not applicable

Mr Peter Bingham Non-Executive Director	**Mr John St. John** Non-Executive Director	**Mr Patrick Obath** Non-Executive Director	**Ms Sheree Bryant** Non-Executive Director	**Mr Iain McLaren** Non-Executive Director
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.	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 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 McLaren is a chartered accountant with over 40 years' experience working in international financial markets, accounting and auditing as well as the oil and gas industry. He currently serves as a Non-Executive Director of Cairn Energy Plc, Chairman of Investors Capital Trust Plc, Non-Executive Director of Baillie Gifford Shin Nippon Plc, Edinburgh Dragon Plc, Ecofin Water & Power Opportunities Plc and Mitra Energy Limited.
2005	2007	2012	2013	2014
5/5	5/5	4/5	4/5	3/3
With over 40 years' experience, Mr Bingham brings considerable knowledge of international financial markets.	Mr St. John's significant experience provides considerable insight into the international capital and financial markets.	With over 36 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 McLaren is a past president of the Institute of Chartered Accountants of Scotland and has a BA in Accountancy and Finance from Heriot-Watt University. He also serves as Governor of St Columba's Hospice and a member of Court of Heriot-Watt University.
Audit and Risk Committee Remuneration Committee		Audit and Risk Committee Remuneration Committee	Nomination Committee	Audit and Risk Committee Remuneration Committee
Yes	Yes	Yes	Yes	Yes

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 2014. The Corporate governance statement on pages 80 to 91 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.

Results and dividends

The Group's loss attributable to shareholders for the year was US$1,537 million (2013: US$517 million profit attributable to shareholders). The Directors have not recommended the payment of a dividend (2013: US$nil).

Directors and their interests

The Directors who served during the year were:

Egbert Imomoh (Chairman)
Peter Bingham
Sheree Bryant
Darra Comyn
Toby Hayward
Iain McLaren (appointed 2 April 2014)
Patrick Obath
Osman Shahenshah (appointment ceased 13 October 2014)
Ennio Sganzerla (resigned 6 November 2014)
John St. John
Shahid Ullah (appointment ceased 13 October 2014)

Their beneficial interests in shares in the Company are as shown below. Details of Directors' share options are provided in the Directors' remuneration report on pages 96 to 97.

Directors' indemnity arrangements

The Company maintains Directors' and Officers' liability insurance cover.

Financial instruments

Information about the use of financial instruments by the Company and its subsidiaries, including details on the risk management objectives, is given in note 5.6 to the financial statements.

Post balance sheet events

Details of significant events affecting the Company and the Group since the balance sheet date are contained in note 5.16 to the financial statements.

Political donations

No political donations were made in either 2014 or 2013. We prohibit political donations and will not directly or indirectly participate in political activities.

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 32 to 35. In addition, section 5 of the Notes to the Group financial statements includes the Group's objectives, policies and processes for managing its capital, its financial

Directors and their interests

Audited

Name	Committees: Audit and Risk	Nomination	Remuneration	Ordinary shares at £0.01 each: As at 01.01.2015	At 31.12.2014	At 31.12.2013
Egbert Imomoh, Executive Chairman		•†		5,404,411	5,404,411	5,404,411
Osman Shahenshah, Chief Executive[1]				N/A	N/A	5,895,319
Shahid Ullah, Chief Operating Officer[1]				N/A	N/A	4,645,722
Darra Comyn, Group Finance Director				823,605	823,605	573,598
Peter Bingham, Non-Executive Director	•		•	–	–	–
Toby Hayward, Interim Chief Executive Officer	•◊	•	•◊*	205,000	205,000	205,000
Ennio Sganzerla, Non-Executive Director	•≈	•≈	•≈	N/A	N/A	24,000
John St. John, Non-Executive Director				177,823	177,823	177,823
Patrick Obath, Non-Executive Director	•		•	–	–	–
Sheree Bryant, Non-Executive Director		•		–	–	–
Iain McLaren, Non-Executive Director	•†		•†	30,000	30,000	

† Chairman of Committee
* Chairman until July 2014
≈ Member until November 2014
1 Employment terminated 13 October 2014
◊ Member until July 2014

risk management objectives and details of its financial instruments and hedging activities. Note 5.3 describes its exposures to credit risk and liquidity risk.

Events following the dismissal of the Group's former CEO and COO have placed significant pressure on the Group's liquidity position, resulting in the Group having net current liabilities of US$459 million as at 31 December 2014.

The Company's inability to execute the planned refinancing in the middle of 2014, followed by the sharp decline in oil prices, led the Directors to initiate an urgent review of the Group's capital structure, liquidity and funding requirements as announced on 20 January 2015.

On 30 January 2015, the Group announced it had obtained from the lenders of the US$300 million Ebok debt facility a deferral of the US$50 million amortisation payment due on 31 January 2015. On 4 March 2015, the Group announced that the Board had decided at the expiration of a 30 day grace period not to pay US$15 million of interest which was due on 1 February 2015 under its 2016 Senior Notes.

On 13 March 2015, the Group announced a preliminary agreement for the receipt of Interim Funding and the Recapitalisation of the business. The agreement entered into by Afren together with certain Noteholders under its 2016 Notes, 2019 Notes and 2020 Notes (Noteholders) and a majority of lenders under the Group's existing US$300 million Ebok credit facility, is intended to result in the provision of US$255– US$305 million of net total funding by the end of July 2015. On 30 April 2015, the Company entered into definitive agreements with certain Noteholders and issued US$212 million of private placement notes (PPN), providing Interim Funding of US$200 million in net cash to the Group. In conjunction with such agreement, the lenders under the Group's existing US$300 million Ebok credit facility agreed to the deferral of the US$50 million amortisation payments due on 31 January 2015 and 30 April 2015 until the completion of the implementation of the Recapitalisation (at which point it is expected that the amortisation payments will be further deferred until after the repayment of the New High Yield Notes – see below).

In connection with the Recapitalisation, on 30 April 2015 the Group also entered into a conditional agreement to raise US$55 million in additional net proceeds (after the repayment of the PPN) from the issuance of new High Yield Notes due in 2017 (New HY Notes). This amount may be increased to up to US$105 million in total additional net proceeds. In addition, as part of the Recapitalisation (i) 25% of the existing Notes will be converted to new equity in the Company; (ii) the remaining 75% of the 2016 Notes, 2019 Notes and 2020 Notes (Existing Notes) will be extended to mature as to US$350 million in each of December 2019 and December 2020; (iii) the existing Ebok credit facility will be extended to 2019; (iv) new shares will be issued to subscribers to the New HY Notes and the PPN; and (v) the Company will undertake an equity offering of up to US$75 million to shareholders. The Group has also reached agreement with the lender of its Okwok/OML 113 facility to restructure and defer this facility until 2018.

The US$200 million net cash proceeds from the issuance of the PPN will be deposited in escrow, to be drawn down by the Group over the coming months. Withdrawals from escrow are required to be applied broadly in accordance with agreed financial forecasts, and are subject to an agreed drawdown schedule and the Group's continuing compliance with certain default conditions. The PPN would be repayable by April 2016 if not refinanced through the Recapitalisation.

In order for the Recapitalisation to be implemented there are other conditions that need to be fulfilled including obtaining (i) the approval of requisite majorities of holders of the Existing Notes; (ii) approval from the relevant courts; and (iii) agreement from the Group's remaining lenders. The Company will also seek the approval of shareholders in general meeting to the terms of the Recapitalisation, which is required in order to issue the new ordinary shares in connection with the Recapitalisation. If shareholder approval is not received, the Recapitalisation will still proceed, but on amended terms for the New HY Notes (see below).

As at 30 April 2015, Afren is in default under the terms of its 2016 Senior Notes due to the non-payment of interest. The Company has received assurances from the Ad Hoc Committee of Noteholders (which members hold in aggregate approximately 63% of the principal face amount of the 2016 Notes and approximately 50% of the total principal face amount of the 2016 Notes, 2019 Notes and 2020 Notes) (the Ad Hoc Committee) that the Ad Hoc Committee has no current intention to take enforcement action with respect to the 2016 Notes held by its members as a result of the failure to make payment of interest due under the 2016 Notes, on the basis that agreement has been reached with the Company and its key stakeholders on the terms of a consensual (but conditional) restructuring.

On 9 April 2015, the Group announced that the Board was taking advantage of a 30 day grace period not to pay US$12.8 million of interest which was due on 8 April 2015 under its 2019 Senior Notes. As at 30 April, Afren is not in default under the terms of its 2019 Notes due to the non-payment of interest, but the 30 day grace period expires on 8 May 2015. The Company has received assurances from the Ad Hoc Committee that it has no current intention to take enforcement action with respect to the 2019 Notes held by its members should the Company fail to make payment of interest due under the 2019 Notes.

There is a risk that one or more of these steps may not be completed or satisfied and the Recapitalisation may not occur. If additional funds are not available to be drawn under the New HY Notes, and the Recapitalisation does not proceed, the Directors are of the opinion that the Group would become insolvent, absent an alternative proposal being received by the Company.

If shareholder approval of the Recapitalisation is not received, the Ad Hoc Committee and the lenders under the Group's existing US$300 million Ebok credit facility have agreed to an alternative restructuring plan, whereby the economic terms of the New HY Notes will be amended, and the amendment and restatement of the Existing Notes will be revised (so that no new shares are issued). In addition, the New HY Notes will include a requirement for the Company to initiate a sale of the Group's business, which together will mean that existing shareholders would be unlikely to see any return on their current investment.

On the basis that the Recapitalisation is successfully achieved as outlined above, the Group's financial footing and ability to continue in operation would be significantly strengthened. The Group's financial forecasts and projections for the next 12 months indicate that the Group would then be able to meet its obligations as they fall due, however, this assessment is sensitive to a number of downside risks such as any further significant

deterioration in the outlook for oil prices, any significant disruption to the Group's production revenue stream due to operational or other factors, and the crystallisation of other risks such as those described in the Risk Management section of the Strategic report and in notes 4.8 and 5.16 to the Group's financial statements, particularly if such downside risks were to materialise in combination. Therefore, the Group expects that it will still need to seek industry partnerships, strategic divestments and other fundraising transactions as necessary to build resilience against, or respond to, downside risks, capture the opportunity in the Group's portfolio and secure the Group's future.

The Directors recognise that the combination of the circumstances described above represents a material uncertainty that may cast significant doubt as to the Group's ability to continue as a going concern and that it may be unable to realise its assets in the normal course of business. Accordingly, the auditor has included an emphasis of this matter in their report. Nevertheless, the Directors expect that the Recapitalisation will obtain all of the necessary approvals and consents as set out above and the Directors therefore have a reasonable expectation that the Group will be able to successfully navigate the present uncertainties and continue in operation. Accordingly, the financial statements have been prepared on a going concern basis and no break up adjustments have been made.

Employees

Information on:

- employee development and training;
- how we engage with our employees to ensure they understand Afren's performance, direction and values;
- the actions taken to share knowledge with our employees and keep them informed of developments; and
- our commitment to cultural diversity and equal opportunities

can be found on page 69 and is incorporated in this report by reference.

As can be seen in Afren's Code of Business Conduct, Afren is committed to providing a workplace which offers equal opportunity for promotion and advancement. The Code of Business Conduct is supported by global policies and mandatory procedures which in turn are supported by local and operating unit policies and procedures.

As part of Afren's equal opportunities policy, procedures are in place that are designed to provide for full and fair consideration and selection of disabled applicants, to ensure they are properly trained to perform safely and effectively and to provide career opportunities that allow them to fulfil their potential. Where an employee becomes disabled in the course of their employment, Afren will actively seek to retain them wherever possible by making adjustments to their work content and environment or by retraining them to undertake new roles.

Greenhouse gas emissions

Details of the Group's emissions of carbon dioxide equivalent from the activities for which the Group is responsible are provided on pages 63 and 64.

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 80 to 85.

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 subject to certain conditions. 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 at 31 December 2014 and 11 April 2015, interests notified to the Company in accordance with Chapter 5 of the Disclosure and Transparency Rules comprised:

	Number held at 31 December 2014	Number held at 11 April 2015
Barclays Bank	1.96%	9.37%
Hargreaves Lansdown Asset Management	1.34%	8.98%
Halifax Share Dealing	0.84%	7.21%
South Atlantic Petroleum Limited	7.05%	7.05%
TD Direct Investing	6.47%	7.77%
SKAGEN Global	4.67%	0.00%
Van Eck Associates Corporation	4.29%	0.13%
HSBC Client Holdings UK Limited	0.56%	4.61%
Norges Bank	3.28%	3.21%
Vidacos Nominees (Standard Life)	8.13%	0.00%

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' resolution of 4 June 2014, to purchase through the market 110,176,736 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 at the next Annual General Meeting of the Company in 2015 or, if earlier, on 30 June 2015.

Auditor

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 auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is 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 auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Annual General Meeting

At the Annual General Meeting of the Company, resolutions will be proposed to receive these financial statements and the Directors' and auditor's 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 auditor
- authorise the Directors to fix Deloitte LLP's remuneration as auditor
- 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

Toby Hayward
Interim Chief Executive

30 April 2015

Corporate governance statement

Introduction from the Chairman

The events in the second half of the year, which resulted in the termination of the contracts of the Company's Chief Executive Officer and Chief Operating Officer, highlighted the need to strengthen our corporate governance. In the first half of the year we began two important exercises to strengthen our approach. These were the establishment of a comprehensive new Code of Business Conduct (see page 68) and a related training exercise for all staff and contractors. We also conducted an internal audit of our current Anti-Bribery and Corruption policy and procedures and commissioned a comprehensive Anti-Bribery and Corruption Risk Review from KPMG. The Code was published in December and a compulsory test of its contents was undertaken by all staff and Directors by the end of the year (see page 68). We are determined to ensure that our business conduct and corporate governance standards are in line with best practice.

About the Board of Directors

The Board is responsible for providing leadership and setting Afren's strategic objectives and key policies. It monitors Company performance, supplies guidance, arranges succession planning and ensures that the Company's obligations to its shareholders and key stakeholders are met. It is responsible for appointing key advisors, professional service providers and assessing their performance. It is tasked with ensuring that appropriate resources are in place to enable Afren to meet its objectives. The Board also oversees Afren's internal control systems and is responsible to shareholders for the proper management of the Group.

At the end of the reporting period, the Board comprised an Executive Chairman, two Executive Directors and five Non-Executive Directors.

The Afren Board has a broad range of commercial, financial and other relevant expertise. Biographies of the Directors are on pages 74 to 75. The Nomination Committee is responsible for periodically reviewing the size, structure and composition of the Board and considering succession planning for both Directors and members of the Group's senior management team. It is also responsible for new Board appointments and makes recommendations to the Board on the appointment of new Directors, ensuring that appointments are made on merit and against objective criteria.

In deciding the recommendations to be made to the Board on the appointment of new Directors, the Nomination Committee considers the skills, experience and knowledge of the existing Directors, diversity requirements and the advice received from Afren's advisors. It then assesses which of the potential candidates would bring the most benefit to the Board by enhancing those qualities already present or filling any perceived gaps in knowledge, experience, diversity or skills. It considers the potential candidate's experience and knowledge of the territories in which Afren operates, the oil and gas industry, capital markets, 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 that any new Directors are provided with a full induction on joining.

The Board and the executive management

Afren's day to day management of its business is the responsibility of the Chief Executive Officer supported by the executive management. There are seven different departments within the business (see illustrative diagram on page 73). Each has its own department head that reports to the Executive Directors, applying a variety of daily and monthly reporting methods.

Internal audit

Afren maintains an internal audit function. After the departure of the Company's internal auditor during the year, this function has been outsourced to PwC following a competitive tender. Internal audit activity is directed, monitored and reviewed directly by the Audit and Risk Committee and is not controlled by the executive management.

Changes to the Board of Directors during 2014

Since the beginning of 2014, the following changes have taken place regarding the composition of the Board.

Mr Iain McLaren joined the Board as an Independent Non-Executive Director in April 2014 and was subsequently appointed as the Chair of the Audit and Risk and Remuneration Committees (replacing Mr Peter Bingham and Mr Toby Hayward respectively) and Senior Independent Non-Executive Director in July 2014.

Mr Egbert Imomoh became Executive Chairman in July 2014 (previously Non-Executive Chairman).

Mr Toby Hayward was appointed Interim Chief Executive Officer in July 2014 (previously Non-Executive Director).

Mr Osman Shahenshah's employment as Chief Executive Officer and his Directorship were terminated in October 2014 following his suspension in July 2014.

Mr Shahid Ullah's employment as Chief Operating Officer and his Directorship were terminated in October 2014 following his suspension in July 2014.

Mr Ennio Sganzerla resigned from his position as Non-Executive Director in November 2014.

Following the independent investigation and review by Willkie Farr and Gallagher (WFG) and the subsequent termination of the employment and Directorships of the Chief Executive Officer, Chief Operating Officer and other senior members of management, the Board is in the process of undertaking an executive search for replacement senior executives. As part of this search, the Board has appointed Alan Linn as new Chief Executive Officer.

Chairman and Chief Executive

In July 2014, the Chief Executive Officer, Mr Osman Shahenshah, and the Chief Operating Officer, Mr Shahid Ullah, were both suspended whilst an investigation into unauthorised payments was completed (further information is provided on page 11. Their employment and Directorships were subsequently terminated following a full investigation and review by WFG. Following their suspension, Mr Egbert Imomoh became Executive Chairman and Mr Toby Hayward became Interim Chief Executive Officer.

From this point until the end of the year Mr Imomoh continued his responsibilities as Chairman and shared the responsibilities of Chief Executive Officer with Mr Hayward. Mr Imomoh in particular focused on our relationships with our business partners and field operations supported by senior management. Mr Hayward focused on the Company's relationships with its shareholders and financiers.

The intention is to return the Company's executive management structure to one which reflects the best practice requirements of the UK Corporate Governance Code within the near future. This will mean that the Chairman's role will be Non-Executive, responsible for Board leadership, setting the agenda for the Board and ensuring its effectiveness. The Chief Executive will be responsible for leading the Executive Directors and senior management, ensuring that the business is run effectively and implementing policy and strategy. Both will be responsible for ensuring that Afren maintains the highest business conduct standards at all times.

Non-Executive Directors

The Non-Executive Directors undertake a supervisory role. They are required to contribute to and challenge the development of the Company's strategy through the application of the skills, experience and knowledge each brings to the Board. They are also required to review the performance of the Executive Directors and the Company's senior management.

Each Non-Executive Director is required to ensure that they have sufficient information for the discharge of their duties. This may be obtained through dialogue with management, training where appropriate to update their knowledge and skills and consultation with senior independent professional advisors as required.

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

Senior Independent Director

Mr Iain McLaren, chairman of the Audit and Risk Committee, is the Senior Independent Director. He was appointed in July 2014 after Mr Toby Hayward became Interim Chief Executive Officer. Mr McLaren was selected for the role because of his experience and expertise.

The Senior Independent Director acts as a "sounding board" for the Chairman of the Board when required. He also chairs meetings with the other Non-Executive Directors (without the Chairman being present) encouraging open dialogue, particularly regarding the Chairman's performance.

He is available to shareholders if they have concerns which cannot, or should not, be addressed to the Chairman or Executive Directors. He is required to act on the results of any performance evaluation of the Chairman. He is also required to maintain sufficient contact with major shareholders, when requested, to understand their issues and concerns thereby assisting the Board to develop a balanced understanding of their opinions. He is also required to attend the Annual General Meeting and be available for discussion with shareholders.

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 the Board's composition, the Company has reassessed the independence of all its Non-Executive Directors. The Board regards all of its Non-Executive Directors as independent within the meaning of the term as defined in the UK Corporate Governance Code.

Annually, the Board of Directors reviews whether each Non-Executive 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. In making a decision, 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 all Non-Executive Directors have retained independence of character and judgement and have 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.

Mr Peter Bingham has served as a Director of the Company for more than nine years however, given he continues to display appropriate independence from the Executive Directors by exercising objective, unfettered and independent judgements, he is determined to be independent. In July 2014, Mr Bingham stepped down as Chairman of the Audit and Risk Committee and was replaced by Mr Iain McLaren.

Mr John 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. The Board takes the view that this does not affect the independence of the Non-Executive Directors. Further information can be found in the Directors' remuneration report on pages 92 to 102.

Board composition

The Board decided, in view of recent circumstances and events, that the current composition should be maintained as an interim measure to ensure continuity and stability. This was to ensure that the business was governed as effectively as possible and in the best interests of the Company's shareholders. This approach is also discussed below.

During 2015, the Directors will also be looking to refresh and strengthen the Board membership and continue to improve Afren's internal risk management and controls. Board committee membership will also be reviewed and refreshed in the first half of 2015. During 2015, the Board intends to adopt enhanced corporate governance principles which will be in line with best practice.

The Board considers that there is an appropriate balance between Executive and Non-Executive Directors for governing the business effectively and promoting shareholder interests.

A summary of the skills and experience of the Board are shown in the table on pages 74 and 75.

Board committees

The Board has established and delegated responsibilities to three principal Board committees. These are the Audit and Risk, Remuneration and Nomination Committees. Each committee has defined terms of reference that are summarised on the following pages and available in full on the Company's website. The Board is kept up to date on the activities of the committees through reports from the committee Chairmen at each Board meeting. The operations of these committees is set out on pages 86 to 102.

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 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 so that they have the opportunity to raise any issues and provide 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 2014 is shown below.

Board meeting attendance in 2014

During the year, the Board held five scheduled Board meetings. In addition to these scheduled meetings, a number of other meetings took place to discuss specific matters that required consideration at short notice.

In addition to these meetings, at the June 2014 Board meeting the Board formally resolved to appoint a special purpose Operating Committee, comprising only Non-Executive Directors, to manage the WFG review into potential breaches of the Listing Rules and Disclosure and Transparency Rules in respect of three transactions between Afren and its Partners that took place in 2012 and 2013. The Committee met on four occasions during the year to address specific matters and oversaw the conduct of both the WFG review and an associated KPMG review, reporting back to the Board in relation to the progress and, ultimately, the findings of the reviews, which identified receipt of unauthorised payments by the Chief Executive Officer, the Chief Operating Officers and other senior management.

Key activities of the Board in 2014

Performance

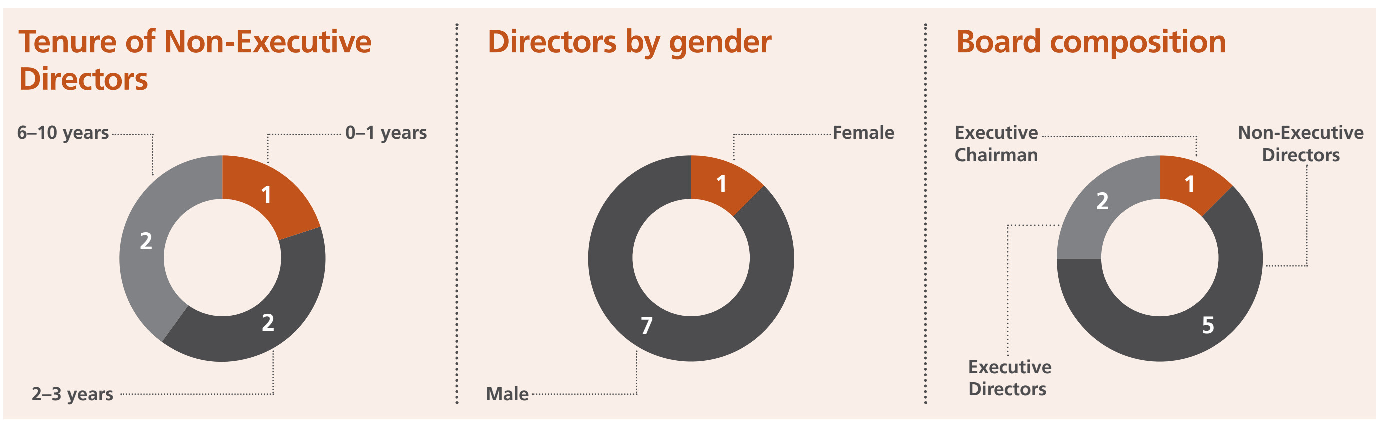
During 2014, the Board's key activities included consideration of performance, operational and strategic matters in addition to detailed briefings on specific aspects of compliance and corporate governance (including regular updates on the progress of the WFG review), which impacted the Company, the Group, the Board and their respective obligations.

Following the completion of the investigation by WFG the Board approved a revised version of the Afren Code of Business Conduct, which includes guidance on anti-corruption and bribery, to ensure best practice and compliance with the UK Bribery Act and its associated guidance. Testing of the understanding of the Code was subsequently rolled out throughout the Group. The Company's Related Party Transaction Policy was also updated during the year to comply with Listing Principle 2 and to align Afren with FTSE 250 companies.

Board and committee meeting attendance 2014

		Committee meetings		
Name	Board meetings	Audit and Risk	Nomination	Remuneration
Egbert Imomoh, Chairman	5/5		1/1†	
Toby Hayward, Interim Chief Executive	5/5	2/2	1/1	4/4^
Osman Shahenshah, Chief Executive#	4/4			
Shahid Ullah, Chief Operating Officer#	4/4			
Darra Comyn, Group Finance Director	5/5			
Peter Bingham, Non-Executive Director	5/5	4/4		5/5
Ennio Sganzerla, Non-Executive Director	4/4	3/3	1/1	4/5
John St. John, Non-Executive Director	5/5			
Patrick Obath, Non-Executive Director	4/5	4/4		5/5
Sheree Bryant, Non-Executive Director	4/5		1/1	
Iain McLaren*	3/3	3/3†		1/1†

\# Suspended July 2014, Dismissed October 2014
^ Chairman of Committee until July 2014.
* Joined on 2 April 2014 † Chairman of Committee



The Board reviewed succession planning and is continuing to look at options to refresh the current composition of the Board and its committees. It is expected that new appointments will be made in the first half of the 2015 financial year. Succession planning would usually fall within the remit of the Nomination Committee, however, due to the Company's exceptional circumstances during 2014, the full Board has taken on this responsibility. The Board will be reviewing and refreshing the membership of all the Board committees during the first half of 2015. In considering succession planning, the Board has undertaken a detailed review of the skills which will be desirable for non-executive appointments and will review the steps being taken to identify further non-executive appointments. The Board has also considered the issue of 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.

During 2014, considerable time was spent on strategic and operational matters and governance-related issues, in particular the WFG review, their findings and follow up actions.

The table on page 82 sets out the number of Board and committee meetings held during the year to 31 December 2014 and the number of meetings attended by each Director.

Board diversity

The Board recognises that effective management of a London-listed African 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 employed by the Group at 31 December 2014 is shown on page 69. The current Board consists of individuals from a variety of countries including the United Kingdom, Nigeria and Kenya 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.

The Board currently has one female Director and seven male Directors and is keen to increase the ratio of female to male Directors on the Board. As part of its search for additional Non-Executive Directors, the Board has engaged consultancies that fully consider diversity matters as part of their activities and we have made it clear that we would not accept male-only candidate shortlists.

We hope to develop our representation of diversity at a senior management and Board level in the coming years. This will, however, be balanced against the need to ensure that all appointments to the Board are made on merit and with regard to an appropriate balance of skills, experience, independence and knowledge. The Board is pleased, however, to note the increasing numbers of women in recent years amongst its senior management team, some of whom 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 actual or potential conflicts of interest 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, which are then disclosed and considered at the following Board meeting. The Board conducts an annual review of all previously authorised situational conflicts, considering each one afresh, according to current circumstances. 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, by reviewing requests from Directors and by making recommendations to the Board. The Committee may 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

The Chairman, with the support of the Company Secretary, is responsible for the induction of new Directors and the ongoing development of all Directors. On joining the Board, all Directors receive an induction designed to provide an understanding of Afren's business, governance and key stakeholders. The induction is tailored to each Director's experience, background and areas of focus and 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. Directors may also request any further information they feel is necessary. All Directors receive regular briefings to update their skills and knowledge, for example on legal and regulatory requirements and developments.

Induction briefings typically cover the Group's strategy, organisational structure, business functions and activities, the statutory reporting cycle and financing principles, operational activities, information technology strategy, and legal and regulatory issues. Additional briefing or training sessions are also arranged which deal with corporate governance issues and compliance with the Company's obligations as a premium listed company.

All Directors were required to complete the Code of Business Conduct training exercise along with all the Company's employees and contractors by the end of the year. It is intended that the Board will receive training on the planned new Corporate Governance Principles referred to above during 2015.

Evaluation of Board performance

The Board undertakes a review of its performance and that of its committees each year. In March 2014, the Board engaged Armstrong Bonham Carter LLP (ABC) to conduct an internal Board review in respect of the financial year ending 31 December 2013 which took the form of a facilitated self-evaluation. The review included 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, Board and Committee organisation, composition, operation and dynamics. Each Director assessed themselves and the other Directors against a number of criteria. Directors also undertook an assessment of the Chairman's ability to create the conditions for overall Board effectiveness and for setting the tone at the top.

ABC collated and analysed the results from each section of the evaluation and prepared separate reports, summarising key points and including unattributed comments given in the individual responses. The reports were initially discussed with the Chairman before being presented to the Board.

Directors also 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 own performance from the then Senior Independent Director, Toby Hayward.

Key conclusions of the 2014 evaluation

The Board evaluation concluded that the Board continued to make progress both year on year and since the first review conducted by ABC in May 2011, and continued to be effective. However, issues remained which could further improve the effectiveness of the Board. These included further improvement in determining and agreeing the strategy; Board composition, particularly in relation to diversity; independent benchmarking of the EHSS function; understanding employee attitudes; and raising the visibility of the Board across the Company.

The review also reported that the Group's committees have continued to improve their effectiveness. It also recommended that an external evaluation be undertaken in respect of the 2014 financial year. However, given the subsequent events in the second half of 2014, the review by WFG and KPMG, and the ongoing search for a new permanent Chief Executive Officer and new Non-Executive Directors to strengthen the Board composition, this has not yet been completed. We will look to commence an external evaluation in 2015 once the recruitment has been completed.

Shareholder communication

The Board considers that it is important to maintain a dialogue with investors, aimed at ensuring a mutual understanding of objectives. Investors' 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 make themselves available to meet with major shareholders during the year.

Investor relations is a standing agenda item and the Board receives regular reports on any changes to the holdings of the Company's main institutional shareholders. In addition, the Group Head of Investor Relations presents a report to the Board on investor relations generally, identifying the key issues raised by institutional and other key shareholders. Specific issues raised by key shareholders are also reported to the Board, as appropriate, outside scheduled Board meetings.

Communications with shareholders regarding business strategy and financial performance are co-ordinated by the Investor Relations department, which reports to the Group Head of Investor Relations. 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.

Following the suspension of the then Chief Executive Officer, Mr Osman Shahenshah, and Chief Operating Officer, Mr Shahid Ullah, the Company, together with the Chairman and Interim CEO, liaised with the top 20 shareholders to provide them with the background to the investigation and introduce them to the interim leadership team. Shareholders were subsequently kept abreast of developments and the progress of the WFG review, which resulted in the dismissal of Mr Osman Shahenshah and Mr Shahid Ullah and two Associate Directors, Mr Iain Wright and Mr Galib Virani. In addition, a Q&A session has been held focusing on the impact of the reviews and transactions to the Company's assets, financials and asset integrity.

Investor presentations are published on the Company's website and results presentations are available by webcast during the year. Additionally, this Annual Report and the half-year results, 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 ("AGM")

The Company's AGM provides all shareholders with the opportunity to further develop their understanding of the Company. At the AGM shareholders may 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 sends to shareholders the Notice of AGM and any related papers at least 20 working days before the meeting. All Directors are invited and encouraged to attend each AGM. At the AGM, the Chairman presents a review of the Group's business.

Company Secretary

The Company Secretary provides company secretarial services to the Board and is responsible for advising the Board on governance matters and ensuring that all Board procedures are complied with. The Company Secretary is also responsible for developing and maintaining the information systems and processes that enable the Board to fulfil its role. All Directors have access to the Company Secretary.

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 Share Dealing 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. This ensures 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. There are systems and controls for implementing and monitoring the 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.

Compliance with the UK Corporate Governance Code

As a company with a premium listing on the London Stock Exchange, Afren is required by the UK Listing Authority to disclose its compliance with the UK Corporate Governance Code ("the Code") and explain any non-compliance.

It is the Board's view that the Company has been fully compliant throughout 2014 with the relevant provisions of the Code except for the matter noted below.

Code provision A.2.1 states that the roles of Chairman and Chief Executive should not be exercised by the same individual. The division of responsibilities between the Chairman and Chief Executive should be clearly established, set out in writing and agreed by the Board.

As detailed above, following the suspension of the Company's Chief Executive Officer and Chief Operating Officer in July, the role of Chief Executive Officer is shared by the Chairman and the Interim Chief Executive Officer. This decision was taken as the Board considered that this arrangement was in the best interests of the Company's shareholders and to ensure continuity and stability. The intention is to return the Company's management structure to one which reflects the best practice requirements of this Code's provision within the near future.

Code provision B.2.1 states that a majority of members of the Nomination Committee should be independent Non-Executive Directors. Following the changes to the Board in July referred to above, the majority of committee members held executive directorships. This decision was taken as an interim measure as it was also considered to be in the best interests of the Company's shareholders and to ensure continuity and stability. The Company intends to review and refresh its Board committees in the first half of 2015 and to return the Nomination Committee's membership structure to one which reflects the best practice requirements of this Code provision.

Requirements of the Listing Rules

The following table provides references to where the applicable information required by the Listing Rule 9.8.4R is disclosed within this Annual Report:

Listing Rule requirement	Where addressed
A statement of the amount of interest capitalised by the Group during the period under review with an indication of the amount and treatment of any related tax relief.	Note 3.6 Finance costs within Notes to the Group financial statements (page 128).
Details of any long-term incentive schemes as required by LR 9.4.3 R.	Note 5.8 Staff costs within Notes to the Group financial statements (page 139) and the Directors' remuneration report (page 92).
Details of any arrangements under which a Director of the Company has waived or agreed to waive any emoluments from the Company or any subsidiary undertaking. Where a Director has agreed to waive future emoluments, details of such waiver together with those relating to emoluments which were waived during the period under review.	Remuneration Committee Chairman's comments (page 92).

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 Toby Hayward and Ms Sheree Bryant. Mr Ennio Sganzerla was also a member of the Committee until his resignation from the Board in November 2014.

Member	No. of meetings
Mr Egbert Imomoh (Chairman)	1/1
Mr Toby Hayward	1/1
Mr Sheree Bryant	1/1
Mr Ennio Sganzela (until 6 November 2014)	1/1

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 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 terms of reference of the Nomination Committee are available from the Company Secretary and are summarised on the Company's website.

The Nomination Committee met once during the year to recruit an additional Non-Executive Director and to consider the composition of the Board. It appointed independent recruitment consultants Harvey Nash to assist in the search for a new Non-Executive Director.

The Committee's activities during 2014

Appointment of a new Non-Executive Director	The Committee recommended a new Non-Executive Director, Mr Iain McLaren, to ensure the Board was strengthened.
Existing Board structure	The Committee conducted a 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.

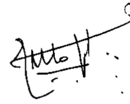
Dear Shareholder

In the first quarter of the year, following the decision by the Board to appoint a further Non-Executive Director, the Committee initiated an extensive selection process to identify a suitable candidate to strengthen the Board.

With the assistance of specialist recruitment consultants, Harvey Nash, it undertook a recruitment exercise to agreed criteria for the role, shortlisting two candidates from an initial long list. The Committee recommended Mr Iain McLaren's appointment. Mr McLaren was also recommended to join the Audit and Risk Committee and to become its Chairman in due course.

Following recent circumstances and events, the Board decided to maintain the current composition as an interim measure to enable continuity and stability. We believed that this was the best way of ensuring that the business was governed as effectively as possible and in the best interests of the Company's shareholders.

During 2015, the Committee will lead the search for candidates to strengthen and refresh Board membership supported by independent professional advisors.



Mr Egbert Imomoh
Chairman of the Nomination Committee
30 April 2015

Audit and Risk Committee

Iain McLaren
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. Mr Iain McLaren, a chartered accountant and past President of the Institute of Chartered Accountants of Scotland, has financial experience through his previous and current roles, and both Mr Peter Bingham and Mr Patrick Obath have a range of relevant financial and commercial experience.

Member	No. of meetings
Mr Iain McLaren* (Chairman)	3/3
Mr Peter Bingham	4/4
Mr Patrick Obath	4/4
Former member	
Mr Toby Hayward (until 31 July 2014)	2/2
Mr Ennio Sganzerla (until 6 November 2014)	3/3

* joined the Audit and Risk Committee on 3 April 2014 and became Chairman in July 2014

Introduction

The role of the Audit and Risk Committee is to assist the Board in overseeing the accounting, financial reporting, internal control and risk management processes of the Company, as well as monitoring the quality of the audit process of the Company and Group financial statements. The Committee also ensures that the Board regularly assesses business risks, risk management and risk mitigation strategies.

The Audit and Risk Committee met four times during 2014 and has kept the Board informed of the Committee's activities and of any issues arising, through verbal reports given at every Board meeting immediately following a Committee meeting, and through circulation of the Committee's minutes. The Chairman of the Company, CEO, 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 the finance management being present.

The terms of reference of the Audit and Risk Committee are available from the Company Secretary and are summarised on the Company's website: www.afren.com

Dear Shareholder

During 2014, I succeeded Peter Bingham as Chairman of the Audit and Risk Committee. Peter remains on the Committee and we continue to benefit from his extensive knowledge and experience. The Committee comprises three Non-Executive Directors. Toby Hayward, who had been a member of the Committee whilst he was the Senior Independent Director, stepped down in July 2014 when he became Interim Chief Executive Officer and Ennio Sganzerla resigned in November 2014. I thank them both for their contribution to the Committee.

As outlined elsewhere in this report, the Company has faced a number of challenges which the Board has had to address over the past 12 months in relation to the unauthorised payments made by third parties to certain executives. The Committee reviewed the reports from WFG and KPMG into the transactions that were undertaken and assessed whether there was any impact on the Company's stated financial position. This was discussed and comprehensively considered with Deloitte, the Company's auditors, and additionally with an independent accounting advice team from PwC. The outcome of these reviews has resulted in a restatement of the 2013 financial statements as set out in note 5.15 to the financial statements. There has been no adverse impact on the previously reported net assets or profit after tax of the Company.

In the second half of the year the Committee approved updated policies in relation to Anti-Bribery legislation, whistle-blowing and related party transactions to be rolled out to the Group's employees in all jurisdictions. A revised and enhanced Code of Business Conduct was also approved which takes into account findings from the KPMG review. A comprehensive review of the Company's Business Risk Management System is also in the process of being undertaken by the Head of Risk Management under the supervision of the Committee, and will be an area of ongoing focus during 2015. In addition, as set out on page 89 of the Corporate governance report, we have engaged PwC following a competitive tender as outsourced Internal Audit provider and as part of their scope they are undertaking a review of our key financial operating controls which will be taken into consideration for the 2015 Internal Audit Plan.

The Committee also considered in the year the valuation of intangible exploration and evaluation and development assets and made judgements as to whether impairments were necessary. Having discussed these with the external auditors, we are satisfied that the balances are appropriately stated in accordance with the Group's accounting policies and impairments have been correctly recorded.

Further details on the Committee's main activities during 2014 are provided on the next page.

The Board is currently in the process of a search for new independent Non-Executive Directors. Once that exercise has been completed in 2015 it is the intention that we will be refreshing the Audit and Risk Committee membership and I look forward to updating shareholders on this in due course.

Iain McLaren

Iain McLaren
Chairman of the Audit and Risk Committee
30 April 2015

The Committee's activities during 2014

Date of meeting	Other attendees	Matters discussed
18 March 2014	• Chairman • Group Finance Director • Company Secretary • Senior Internal Audit Manager • Head of Risk Management and Assurance • Senior finance management • Deloitte Lead Audit Partner and Director	Report from Deloitte on audit and accounting judgements relating to the 2013 Annual Report. Items of particular focus included: – assumptions made in assessing the carrying values of intangible exploration and evaluation assets and the recoverability of development assets; – assumptions relating to tax charges and related liabilities; and – related party transaction disclosures; The level of audit and non-audit fees paid to the external auditor during 2013, the outlook for 2014 and the auditor's independence. A report from Risk Management and Assurance detailing key areas of focus, including risk assessment procedures and risk reviews to be undertaken. Review of a revised related party transactions policy for the Group and communication to staff. An update report from Internal Audit focusing on upcoming activities, including a review of the Group's Anti-Bribery procedures and the training process for staff. A finance and treasury update, including resourcing requirements.
28 July 2014	• Group Finance Director • Group General Counsel • Company Secretary • Senior Internal Audit Manager • Head of Risk Management and Assurance • Senior finance management • Deloitte Lead Audit Partner and Director	Report from Deloitte on audit and accounting judgements underlying the half-year results to June 2014. These included: – the audit approach in carrying out the review of the financial information, including materiality judgements; – assumptions underlying the valuation of tangible oil and gas and intangible exploration and evaluation assets; – review of impairment testing upon transfer of development assets, recoverability of development assets; – review of deferred tax assets; and – assumptions and judgements made relating to liquidity and going concern. An update on whistle-blowing reports and Anti-Bribery Compliance reporting. A report from internal audit on recent activities, including benchmarking of the Group's Anti-Bribery policy against best practice; review of information security; and review of payment controls. An update on risk management procedures and controls.
21 August 2014	• Group Finance Director • Senior finance management • Deloitte Lead Audit Partner and Director • Willkie Farr & Gallagher LLP Partner and Solicitor	An update on the WFG investigation and consideration of any potential impact on the half-year results. A review of the going concern approach to the half-year results. An update from Deloitte on the final report to the Audit Committee on the 2014 half-year review. The following matters were discussed: – management judgements and impairment; and – the investigation into Listing Rule compliance and suspension of Directors. Consideration of the Company's 2014 half-year results.
3 December 2014	• Interim CEO • Group Finance Director • Group General Counsel • Head of Risk Management and Assurance • Senior finance management • Deloitte Lead Audit Partner and Director • PWC Partner and Manager (For internal audit)	Report from Deloitte on their plan for the 2014 audit, 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); – corporate governance updates; and – review of accounting treatments in the 2013 financial statements. An update from PwC on the internal audit plan for 2015 and the structure of the Internal Audit function. Update on risk management activities and the plan for 2015. A review of the Group's Anti-Bribery and Corruption (ABC) and related party procedures. A review of matters reported via the Group's 'whistle-blowing' process.

Internal control and risk management

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness.

It has established a continuous process for identifying, evaluating and managing the significant risks the Group faces. The Board has delegated to the Audit and Risk Committee responsibility for keeping under review the effectiveness of the Company's internal controls and risk management systems and for reporting to the Board on these areas. The Committee conducts reviews of the effectiveness 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. The Board is acutely aware that the unauthorised payments and other issues which have arisen in the past 12 months represent an override of internal controls; improving the Group's systems and controls is a top priority for the Board in 2015.

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. During 2014, the Risk Register was updated to include asset risks relating to Ebok, Okoro and Barda Rash and during the year KPMG were engaged to undertake a full review of the Register. The Group's key risks are summarised on pages 26 to 29 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

The Group has an Internal Audit function, which operates under an internal audit charter and with an agreed strategy. Internal Audit derives its authority from the Audit and Risk Committee which oversees its performance and ensures the independence of the function. In December 2014, the Committee approved a three-year plan for the evaluation of Internal Audit within the Group. In addition, the proposed internal audit programme for 2015 and a communication and resourcing programme were approved. There is close liaison between Internal Audit and the Risk Management functions to ensure that there is a coherent approach to risk within the Group. During 2014, the principal areas for internal audit focus were:

- review of the Anti-Bribery framework design and procedures and the associated training and communication processes;
- review of internal control processes to assess the adequacy and effectiveness of key process controls;
- supporting the development of the Business Risk Management System; and
- development of the Group's internal control framework.

In December 2014,the Group engaged PwC to undertake the Internal Audit function. As part of their work in 2015 PwC will be undertaking a review of the Group's current systems and procedures and ensuring that the recommendations identified in the WFG review are incorporated within the internal audit planning.

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 who have considered each of the issues below as part of their audit work. The significant issues that the Committee considered in relation to the financial statements and how these were addressed are outlined below:

Judgements specific to 2014

Going concern

As described in note 1 to the financial statements and the going concern section of the Directors' report, following the significant decline in oil prices prior to year end and their continued low level, in the absence of satisfactory completion of the Group's current refinancing plans the Group has insufficient funding to satisfy working capital requirements and forecast debt repayments as they fall due. The Group has reached an agreement with its lenders and providers of debt regarding the injection of $200m of Interim Funding to provide immediate liquidity to the Group and provide time to implement the required steps towards the completion of the wider recapitalisation. As a result the financial statements have been prepared on the basis the Company is a going concern, although the above conditions give rise to a material uncertainty in this respect, which is disclosed in the Directors' report on page 76.

The Committee reviewed and challenged management's going concern paper which was presented to the Committee on 25 March 2015, and accompanying sensitivities for a range of reasonably possible scenarios. The Committee also considered the disclosures in the Directors' report to ensure these are balanced, proportionate and clear.

2013 Restatement

As described in note 1 to the financial statements, the WFG report provided new information in relation to accounting transactions in 2013. The Company has reassessed certain accounting judgements and estimates made in the prior year and has concluded that it is appropriate to restate the Group statement of comprehensive income at 31 December 2013 in relation to one of the three transactions.

The Committee has been closely involved in this process. As well as the report by WFG, the Company has received reports into the accounting by KPMG and has also received advice from PwC in respect of the transaction with Oriental Energy in 2013 to which the restatement related. The Committee has challenged the judgements made by management in determining whether it is appropriate to restate the prior period financial statements and, having concluded it was, the Committee concluded that the restated accounting adopted by the Group is appropriate. In arriving at its conclusion, the Committee has taken into account the range of advice and interpretations received from each of the external advisors and the Group auditors.

Recurring areas of judgement

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. The Company follows 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 including in particular the impact of changes to the Group's business plan as discussed on page 13. 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

Management performs impairment tests on property, plant and equipment balances where there are indicators of impairment. Assumptions and estimates are made in the calculation of the recoverable amount of these assets. These include forecast commodity prices based on a price deck (as described in note 4.4 to the financial statements), risk adjusted discount rates, commercial reserves and the related cost profiles.

The Committee reviewed and challenged the results of the impairment tests and the assumptions used.

In respect of OML 26, where an impairment test is required each year due to associated goodwill, the Committee received and considered a paper prepared by management summarising their impairment review and associated inputs and assumptions, and the conclusion that as a result of the fall in oil price the goodwill balance has been fully written off.

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 2014, 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 impact of the letters received in 2014 from the Department of Petroleum Resources in Nigeria in respect of the royalty regime for Ebok and in January 2015 from the Nigerian Investment Promotion Commission in Nigeria in respect of Ebok's Pioneer status as described in note 5.16 to the financial statements.

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 and legal advisors, and the Group auditors.

Interpretation of licence terms including residual profit interests
The Group's licence terms are complex and are subject to interpretation and negotiation.

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 of the Group's financial statements.

External audit

The Audit and Risk Committee maintains an objective and professional relationship with the Group's auditor, Deloitte LLP (Deloitte), who were first appointed in 2005 following a full tender process.

The Committee notes the requirements of the UK Corporate Governance Code to put the external audit out to tender at least every 10 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. Given the last audit partner rotation occurred in 2009, a new audit partner will be appointed following the conclusion of the 2014 audit. 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 a policy for assessing whether to engage the external auditor to supply services other than audit services, and closely monitors the level of audit and non-audit services the external auditor provide to the Group in order to ensure that auditor objectivity and independence is safeguarded. 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 certain services including 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. Details of fees paid to external auditors are set out in note 5.2 to the financial statements.

The Committee has assessed the effectiveness of the external audit process. They did this by:

- Reviewing the 2014 external audit plan;
- Discussing the results of the audit including the auditor's views on material accounting issues and key judgements and estimates, and their audit report;
- Considering the robustness of the audit process;
- Reviewing the FRC's Audit Quality Inspection Report on Deloitte;
- Reviewing the quality of the service and people provided to undertake the audit; and
- Considering their independence and objectivity.

Following this assessment, the Audit and Risk Committee has recommended to the Board that the current auditors, Deloitte LLP, be reappointed as external auditors at the forthcoming Annual General Meeting.

Control framework and activities

The Board has put in place a management structure, which has defined lines of responsibility and clear delegation of authority. Various committees are in place and these are part 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 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 24 to 25. 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.

The plan for 2015 is to review the Group's strategy, values, organisation and process & procedures, taking into consideration the linkage between key business risks, controls and internal audit as well as the results of the WFG investigation.

Directors' remuneration report

Iain McLaren
Remuneration
Committee Chairman

Remuneration Committee

The members of the Remuneration Committee during 2014 were Mr Toby Hayward, Committee Chairman until 30 July when he stood down, Mr Iain McLaren (Chairman from 30 July), Mr Peter Bingham, Mr Patrick Obath and Mr Ennio Sganzerla. Mr Sganzerla served until 6 November when he resigned from the Board. All members are Non-Executive Directors and Mr Iain McLaren, Mr Ennio Sganzerla and Mr Patrick Obath were determined by the Board to be independent throughout the year. Mr Hayward was a Non-Executive Director and determined to be independent while a member of the committee until his appointment as interim CEO.

Member	No. of meetings
Mr Iain McLaren (Chairman)	1/1
Mr Toby Hayward*	4/4
Mr Peter Bingham	5/5
Mr Patrick Obath	5/5
Mr Ennio Sganzerla	4/5

* Chairman and member until July 2014.

Dear Shareholder

I took over the chairmanship of the Remuneration Committee on 30 July 2014 when the previous chairman, Toby Hayward, assumed his new responsibilities as Interim Chief Executive Officer. I am, therefore, presenting to you, on behalf of the Board, the Directors' remuneration report for the year ended 31 December 2014.

The year was dominated by two sets of circumstances for the Company, both of which are described in the Chairman's and Chief Executive's statement (pages 10 to 13).

Firstly, the Board investigation of the receipt of unauthorised payments by Messrs Shahenshah (CEO) and Ullah (COO) led to their suspension and subsequent dismissal on 13 October 2014, along with two other senior executives who were not Directors of the Company. The previous Senior Non-Executive Director, Toby Hayward, was appointed interim CEO on 30 July 2014 and the Company Chairman, Egbert Imomoh, also took on additional executive responsibilities as full time Executive Chairman at the same time.

Secondly, Company performance has been affected by the fall in oil prices which by the end of the year had halved from their June peak, as well as operational delays which have impacted production. These issues have resulted in a significant decline in the share price of the Company, culminating in financial performance falling well below expectations. Tremendous efforts are currently underway to put in place a financial re-structuring which will re-capitalise the business and put it on a firmer footing for future success.

In addition to describing the Company's remuneration policy (which remains unchanged from the policy approved at the AGM in June 2014) and remuneration paid to Directors for 2014, this report covers the termination arrangements for the two dismissed Executive Directors and the interim remuneration for Mr Hayward and Mr Imomoh.

The dismissed Executive Directors received no payments for loss of office and agreed to make a repayment to the Company towards losses including the costs of investigation. They received no bonus in respect of 2014. Previously deferred bonus shares and unvested awards under the PSP plan and all unexercised share options were forfeited. Awards which had already vested under the Company's Performance Share Plan in March 2014 and in previous years were available for exercise as clawback provisions were not included in these agreements. All awards made in future will include provision to cover clawback and malus. Their accrued benefits under the respective UK and US defined contribution pension plans are unaffected but involve no future liability to shareholders. Full details of the termination agreements are shown on page 97.

The Company took advice from its remuneration advisors about the level of salary and variable pay opportunity that should be offered to Mr Hayward for his additional responsibilities. Mr Hayward agreed to accept an annual salary of £567,000 and to forego any entitlement to long-term incentive awards or benefits under the approved remuneration policy. This is considerably below the level paid to Mr Shahenshah. Mr Imomoh asked to waive any additional fee for his extra responsibilities.

The Board has appointed Alan Linn as new Chief Executive. He joined the Company and Board on 30 April 2015. Details of his remuneration package are given on page 102.

The third Executive Director, the Group Finance Director Darra Comyn, continued throughout the year to receive remuneration in line with the approved remuneration policy. As part of the policy, Directors are entitled to be considered for an annual bonus in relation to the Company's performance and their own performance for the year. There is no annual bonus for 2014 based on Company KPIs and Mr Comyn has waived any bonus he may have been entitled to for achievement of personal objectives for 2014.

The Remuneration Committee and Board feel confident that the remuneration policy approved last year by 91.6% of shareholders continues to be appropriate for the Company and will support its full recovery and future growth.

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.

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:

- The annual report on remuneration for the year to 31 December 2014
- The Company's future remuneration policy
- A statement about the way in which the Company intends to implement its remuneration policy in 2015.

In accordance with the Regulations and the Companies Act 2006, our future remuneration policy was the subject of a separate shareholder resolution at the 2014 AGM. 91.6% of votes cast were in favour. The Company is not required to seek a new vote until 2017 unless the policy is changed (or the advisory vote on implementation is not passed). The Committee believes that the approved policy remains entirely appropriate for the Company's needs. Following the AGM all decisions on Directors' remuneration taken in 2014 were in compliance with the approved policy.

Whilst it is not a requirement to re-state the future remuneration policy in years where there is no vote planned, we are reproducing the policy table and notes and the policy on recruitment remuneration and service contracts (page 99). We have not included the illustrations of application of remuneration policy, which are only relevant to a vote.

The Directors' remuneration report is unaudited except where otherwise stated.

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.

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 Jane Barker, Human Resources Director, and Elekwachi Ukwu, 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 £41,000. 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.

2. Annual report on remuneration

Single total figure of remuneration for each Director

Audited

Name of Director		Fees/ basic salary £'000	Benefits in kind £'000	Allowance £'000	Annual bonus £'000	Total emoluments £'000	Pension contribution or subsidy £'000	LTI awards vesting in year [1] £'000	Single total figure of remuneration £'000
Executive									
Egbert Imomoh (Aug – Dec 14)[2]	2014	88	14	47	–	149	–	–	149
	2013	–	–	–	–	–	–	–	–
Toby Hayward (Aug – Dec 14)[3]	2014	236	2	–	–	238	–	–	238
	2013	–	–	–	–	–	–	–	–
Osman Shahenshah (Jan – Jul 14)	2014	384	27	–	–	411	88	1,118	1,617
Osman Shahenshah (suspension)[4]	2014	137	8	–	–	145	31	–	176
	2013	642	42	–	1,220	1,904	133	–	2,037
Shahid Ullah (Jan – Jul 14)	2014	244	10	–	–	254	8	751	1,013
Shahid Ullah (suspension)	2014	87	3	–	–	90			90
	2013	438	17	–	679	1,134	16	–	1,150
Darra Comyn	2014	395	18	–	–	413	61	671	1,145
	2013	385	18	–	582	985	60	279	1,324
Total	2014	1,571	82	47	–	1,700	188	2,540	4,428
	2013	1,465	77	–	2,481	4,023	209	279	4,511
Non-Executive									
Egbert Imomoh (Jan – July 14)[2]	2014	122	11	23	–	156	–	–	156
	2013	205	14	38	–	257	–	–	257
Peter Bingham	2014	59	–	–	–	59	–	–	59
	2013	62	–	–	–	62	–	–	62
Sheree Bryant	2014	53	–	–	–	53	–	–	53
	2013	9	–	–	–	9	–	–	9
John St. John	2014	55	–	–	–	55	–	–	55
	2013	55	–	–	–	55	–	–	55
Toby Hayward (Jan – July 14)[3]	2014	43	–	–	–	43	–	–	43
	2013	72	–	–	–	72	–	–	72
Ennio Sganzerla	2014	44	–	–	–	44	–	–	44
	2013	52	–	–	–	52	–	–	52
Patrick Obath	2014	53	–	–	–	53	–	–	53
	2013	52	–	–	–	52	–	–	52
Iain McLaren	2014	53	–	–	–	53	–	–	53
	2013	–	–	–	–	–	–	–	–
Total	2014	482	11	23	–	516	–	–	516
	2013	507	14	38	–	559	–	–	559

Notes:
1 PSP award which vested in March 2014 at the market value on the date of vesting.
2 Mr Imomoh's salary has been pro-rated between Executive and Non-Executive based on time. His allowances include Nigerian allowances pertaining to ambassadorial role.
3 Mr Hayward's salary has been pro-rated between Executive and Non-Executive based on time.
4 There was an overlap between Mr Shahenshah and Mr Hayward between 30 July and 13 October during which time both salaries were paid. For Single Total Figure purposes we have used Mr Shahenshah's salary to July and Mr Hayward's salary from August to give a single figure.

In addition to the Benefits in Kind (BIK) reflected in the Single Total Figure of Remuneration for Each Director table, further unauthorised BIK have come to light relating to the unauthorised private use of aircraft leased by the Group. The estimated financial impact amounts to £178,000 in 2013 and £110,000 in 2014 for Osman Shahenshah and £199,000 in 2013 and £150,000 in 2014 for Shahid Ullah. These figures have not been included in the Single Total Figure of Remuneration for Each Director table as they were outside Company policy and unauthorised. If these unauthorised BIK were to be included in the total remuneration for Osman Shahenshah and Shahid Ullah, this would result in a revised 2014 total remuneration figure of £1,903,000 for Osman Shahenshah and £1,253,000 for Shahid Ullah.

Annual company performance targets and achievements

	KPI Metrics	2014 Target	Weighting	Result	Award
Corporate KPIs					
Growth in reserves	Reserves Replacement Ratio	1.20	8.3%	Not achieved	0%
Average production for the performance year	Working interest production boepd	39,000 boepd	8.3%	32,017 boepd	0%
Improvement in operational efficiency	Normalised operating cost per barrel	$16.50 per barrel	8.3%	$18.43 per barrel	0%
Improvement in EHSS performance	Traffic Light Targets covering 20 EHSS KPIs	Over 75%	11.7%	Stretch achieved: 86%	100%
Project KPIs					
Development projects	Ebok, Okoro, Okwok, OML 26 and Barda Rash project targets	–	50.0%	Four individual development project targets achieved	36%
Exploration projects	OPL 310; OML 113; Tanga; Kenya; Ethiopia; Seychelles; Ain Sifni; and Madagascar project targets	–	13.4%	Five exploration project targets achieved	78%
			100%		

Notes:
Under the Plan, a minimum of 47% overall achievement across all KPIs equates to base performance level payout. An 83% level of achievement equates to stretch performance level payout. The Company only achieved 40.2% overall and therefore no Company element of bonus is payable.

Pension entitlements

Audited

The Executive Directors do not have any interest in any Afren Group defined benefit plan. In 2014 they participated in defined contribution plans according to the policy described in the policy table.

Directors' share and share scheme interests

The Company has a policy requiring Executive Directors to retain shares acquired through share option, performance share 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 and twice salary for other Executive Directors. 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	Committees: Nomination	Committees: Remuneration	Ordinary shares at £0.01 each: As at 01.01.2015	At 31.12.2014	At 31.12.2013
Egbert Imomoh, Executive Chairman		•†		5,404,411	5,404,411	5,404,411
Osman Shahenshah, Chief Executive[1]				N/A	N/A	5,895,319
Shahid Ullah, Chief Operating Officer[1]				N/A	N/A	4,645,722
Darra Comyn, Group Finance Director				823,605	823,605	573,598
Peter Bingham, Non-Executive Director	•		•	–	–	–
Toby Hayward, Interim Chief Executive Officer	•*		•*	205,000	205,000	205,000
Ennio Sganzerla, Non-Executive Director	•≈	•≈	•≈	N/A	N/A	24,000
John St John, Non-Executive Director				177,823	177,823	177,823
Patrick Obath, Non-Executive Director	•		•	–	–	–
Sheree Bryant, Non-Executive Director		•		–	–	–
Iain McLaren, Non-Executive Director	•†		•†	30,000	30,000	

† Chairman of Committee
* Chairman until July 2014
≈ Member until November 2014
1 Employment terminated 13 October 2014

Share Option Plans

Audited

Name of Director	As at 1 January 2014	Granted	Exercised	Lapsed	Date granted	As at 31 December 2014	Share price at grant date	Exercise price	Exercisable from	Exercisable to
Osman Shahenshah	1,150,000	–	–	1,150,000	28.06.05	–	36p	20p	28.06.05 – 01.03.07	N/A
	850,000	–	–	850,000	28.06.05	–	36p	50p	28.06.05 – 01.03.06	N/A
	550,000	–	–	550,000	28.06.05	–	36p	100p	28.06.05 – 01.03.07	N/A
	600,000	–	–	600,000	30.05.06	–	63p	63p	30.05.07 – 30.05.09	N/A
	416,666	–	–	416,666	28.03.07	–	53.5p	80p	28.03.07 – 28.03.10	N/A
	416,667	–	–	416,667	28.03.07	–	53.5p	120p	28.03.07 – 28.03.10	N/A
	416,667	–	–	416,667	28.03.07	–	53.5p	180p	28.02.07 – 28.03.10	N/A
	3,000,000	–	–	3,000,000	23.01.09	–	20.25p	23.25p	23.01.10 – 23.01.12	N/A
	5,800,000	–	–	5,800,000	30.12.09	–	84.75p	84.75p	30.12.10 – 30.12.12	N/A
Shahid Ullah	1,500,000	–	–	1,500,000	23.01.09	–	20.25p	23.25p	23.01.10 – 23.01.12	N/A
	1,500,000	–	–	1,500,000	30.12.09	–	84.75p	84.75p	30.12.10 – 30.12.12	N/A
Darra 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
Egbert 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
John 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. Resumed Executive duties on 30 July 2014.

2008 Performance Share Plan

The performance conditions applying to vesting of the 2014 performance share grant are similar to those shown in the Statement of Implementation for 2015 on page 102. Minimum vesting is 25% of maximum.

	Date of award	Date of vesting	As at 1.1.2014	Granted	Vested	Lapsed	As at 31.12.2014	Market price (£) at date of award	Market price (£) at date of vesting
Osman Shahenshah	31 Mar 2011	31 Mar 2014	788,644	–	788,644**	–	–	1.59	1.42
	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	
	16 Jun 2014	16 Jun 2017	–	860,353	–	860,353*	–	1.53***	
Darra Comyn	31 Mar 2011	31 Mar 2014	473,186	–	473,186	–	–	1.59	1.42
	29 Jun 2012	29 Jun 2015	781,250	–	–	–	781,250	1.04	
	18 Sep 2013	18 Sep 2016	534,896	–	–	–	534,896	1.43	
	16 Jun 2014	16 Jun 2017	–	516,264	–	–	516,264	1.53***	
Shahid Ullah	31 Mar 2011	31 Mar 2014	530,048	–	530,048**	–	–	1.59	1.42
	29 Jun 2012	29 Jun 2015	838,844	–	–	838,844*	–	1.04	
	18 Sep 2013	18 Sep 2016	595,655	–	–	595,655*	–	1.43	
	16 Jun 2014	16 Jun 2017	–	537,775	–	537,775*	–	1.53***	

* Lapsed on termination of employment.
** Awards vested March 2014 prior to suspension.
*** Variance due to fluctuation in market price since date of approval.

2013 Deferred Bonus Plan

The market value of awards shown in this table were included in the total value of bonus declared for the year for which the bonus was awarded and hence form part of the 'Single Total Figure of Remuneration' for 2013. No bonus will be paid to Executive Directors in respect of 2014.

	Date of award	Date of vesting	As at 1.1.2014	Granted	Vested	Lapsed	As at 13.12.2014	Market price (£) at date of award**
Osman Shahenshah	24 Jan 2014	24 Jan 2017	–	376,389	–	376,389*	–	–
Darra Comyn	24 Jan 2014	24 Jan 2017	–	179,475	–	–	179,475	1.62
Shahid Ullah	24 Jan 2014	24 Jan 2017	–	197,414	–	197,414*	–	–

* Shares relate to 2013 deferred bonus and lapsed on termination of employment.
** Variance due to fluctuation in market price since date of approval.

Payments to past Directors

Audited

Payments for loss of office

Osman Shahenshah (Chief Executive) and Shahid Ullah (COO) were dismissed on 13 October 2014. The dismissed Executive Directors received no payments for loss of office and agreed to make a repayment of US$17.1m (US$9.2m from Osman Shahenshah and US$7.9m from Shahid Ullah) in relation to payments made to them that were not authorised by the Board. The Company has agreed to return these funds to Oriental Energy Resources Limited. In addition, the Company secured a further US$3m in respect of costs to the Company including the third party costs of an independent investigation and certain legal costs. They will receive no bonus in respect to 2014. Previously deferred bonuses, unvested awards under the PSP plan and all unexercised share options were forfeited. Their accrued benefits under the respective UK and US defined contribution plans are unaffected but involve no future liability to shareholders.

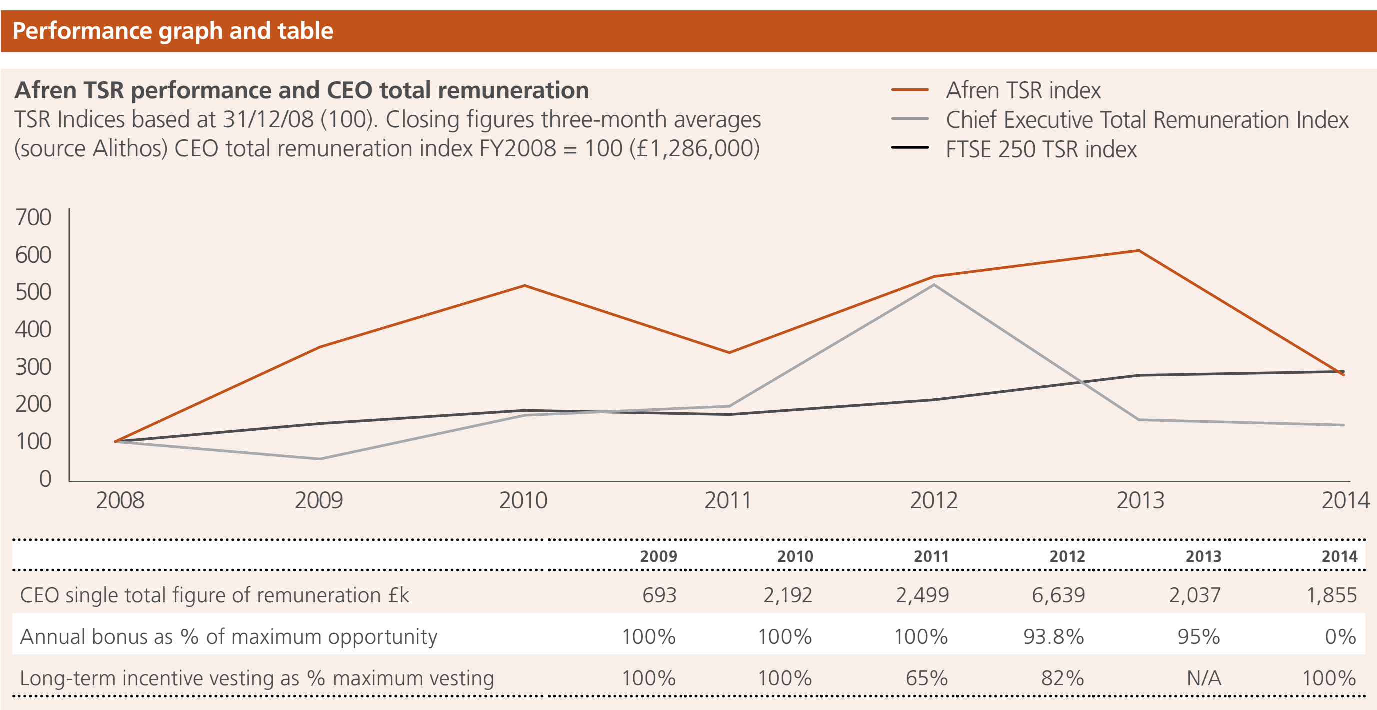
Mr Ennio Sganzerla resigned from the Board on 6 November 2014, after more than five years' service, in order to pursue other business interests. Payment of Directors' fees ceased at that date and he received no other payment.

Mr Constantine Ogunbiyi, a former Director of Afren Plc between 2008 and 2011, was made redundant with effect from 31 March 2014. He stood down as a Director of Afren Plc on 11 January 2011.

He received severance payments as follows:

Payment in lieu of notice and benefits:	£406,066
Compensation/severance payment for loss of office:	£282,980

Performance graph and table



	2009	2010	2011	2012	2013	2014
CEO single total figure of remuneration £k	693	2,192	2,499	6,639	2,037	1,855
Annual bonus as % of maximum opportunity	100%	100%	100%	93.8%	95%	0%
Long-term incentive vesting as % maximum vesting	100%	100%	65%	82%	N/A	100%

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

	2009	2010	2011	2012	2013	2014*
CEO single total figure of remuneration £'000	693	2,192	2,499	6,639	2,037	1,855

* Includes remuneration for Osman Shahenshah and Toby Hayward pro-rated based on time with no overlap.

Percentage change in the elements of pay from 2013 to 2014

	Base salary/fees	Benefits in kind	Annual bonus
Chief Executive*	-3.4%	-31.0%	-100%
Average change for staff	7.3%	7.1%	-100%

* Includes remuneration for Osman Shahenshah and Toby Hayward.

Relative importance of spend on pay

	2014	2013	Difference
Group employee remuneration	72	96	(24)
Dividends and other distributions to shareholders	0	0	0
Group capital expenditure	769	716	53
Net cost of acquisitions	0	139	(139)

Voting at the AGM 4 June 2014

The number of votes cast in respect of the resolutions to approve the Directors' remuneration report for 2013 were as follows:

	For	Against	Percentage of total votes withheld
2013 Director's Remuneration Report	91.78%	8.21%	3.3%
Director's Remuneration Policy	91.62%	8.37%	4.0%

There was extensive consultation with major shareholders before the remuneration policy was finalised in order to address concerns expressed in previous years, particularly in relation to the design and implementation of incentive plans.

3. Directors' remuneration policy

This section of the Remuneration Report describes the future policy for Directors' remuneration. This policy was approved at the 2014 AGM and is unchanged (except where there is reference to specific individuals who are no longer with the Company).

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 2015 are shown in the implementation statement on page 102. 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; 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 up to 15%, CEO up to 20%.
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 level (including deferred amounts) is 200% of 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.
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 elements 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 102. 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 95 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 remuneration policy on page 101).
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 102.
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 10 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 remuneration policy on page 101).
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 102.
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 99 to 100 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 forgone 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 becomes 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 or deferred bonus plan. 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 share 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. This policy has been strictly enforced in the recent termination of Executive Directors.

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 or trustees 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 change, where possible the Committee consults with shareholders beforehand.

Consideration of conditions elsewhere in Group

Afren has a diverse working population across the Group, operating out of six countries/regions (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

Prior to the finalisation of the remuneration report and policy in 2014, the Company consulted with major investors and investor advisory firms about both the proposed policy and the clarity of disclosure in the report. The Company was responding, partly, to shareholder dissatisfaction in previous years as well as seeking to implement effectively the requirements of the Government's new remuneration reporting regime. As a consequence of these consultations we made some changes to the policy and report, in particular improving the historical reporting of the criteria for bonus payments. We feel that the high supporting vote for the new policy demonstrates shareholder satisfaction with both the policy and the reporting of it.

4. Statement of implementation of the remuneration policy in 2015

New Chief Executive's remuneration package

Alan Linn's base salary is £530,000 per annum. He is eligible for the Executive Deferred Annual Bonus Plan and other benefits as described in the Future Policy Table. It is expected that he will be awarded equity under the Afren Plc 2008 Performance Share Plan once the share price has settled following on from the completion of the restructuring.

He has been offered a relocation package in line with normal Company policy including six months' accommodation following his move from Kuala Lumpur.

Salaries

The existing Executive Directors' salaries for the financial year ending 31 December 2015 remained the same as 2014.

Egbert Imomoh	£210,300
Toby Hayward	£567,000
Darra Comyn	£395,000

Benefits

The cost of insured benefits and benefits in kind for 2015 are estimated to be as follows:

Egbert Imomoh	£14,000
Toby Hayward	£11,000
Darra Comyn	£18,000

Benefits include medical insurance, critical illness cover, car allowances and club membership. Pensions contributions will be as stated in the policy table. Mr Imomoh and Mr Hayward do not receive pension benefits.

Annual bonus implementation

The total bonus available to be awarded (including the 50% that is deferred) is weighted 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 performance	Balanced scorecard of EHSS and CSR projects

The project elements reward performance against a series of development and exploration/appraisal projects. The weighting varies between projects. Points for each project are awarded for achievement of the work 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 2015, to be presented in 2016, the Board will consider whether it can present these targets and will report accordingly.

Annual bonus awards may be subject to claw-back in the event of material misstatement or misconduct.

2008 Performance Share Plan implementation – 2015 grants

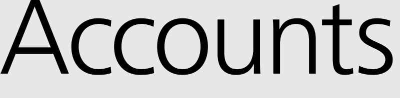
The Remuneration Committee may consider granting performance shares to Executive Directors in line with policy (see Policy Table).

In previous years the vesting measures for the PSP grants have been total shareholder return relative to the FTSE 250 and an industry peer group, underpinned by a reserve replacement measure. The Remuneration Committee believes that these measures may not be appropriate for this year's grants in view of the restructuring of the Company.

If and when grants are made (likely to be in July or later), the Committee will impose vesting conditions with market and financial measures which reflect the results needed to turn the Company around.

PSP awards will in future include provision for claw-back in the event of material misstatement or misconduct.

Iain McLaren
Chairman of the Remuneration Committee
30 April 2015



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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

Toby Hayward
Interim Chief Executive

30 April 2015

Independent auditor's 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 2014 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the 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 1.0 to 6.15. 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.

Emphasis of matter – Going concern

As required by the Listing Rules we have reviewed the directors' statement on pages 76 to 78 in respect of the Group's ability to continue as a going concern.

As described in note 1.3 to the financial statements and the going concern section of the Directors' Report, following the significant decline in oil prices prior to year end and their continued low level, the Group undertook a review of the Group's capital structure, liquidity and funding requirements which demonstrated that the Group had insufficient funding to satisfy working capital requirements and forecast debt repayments. To address this matter, the Group has put in place a Refinancing and Recapitalisation plan.

To date under the Refinancing plan, the Group has secured US$200 million of interim funding through new private placement ("PPN") notes, and agreed the deferral of payments due on certain of its loan facilities. The US$200 million is to be held in escrow to be available to the Group subject to certain constraints and conditions. On completion of the proposed Recapitalisation expected in July 2015, which is subject to various lender, shareholder and court approvals, a further US$55 million to US$105 million of net proceeds are expected to be received (after repayment of the PPN), in addition to the potential proceeds of an equity offering of up to US$75 million and the restructuring of the Group's debt.

The Directors expect that the Recapitalisation will obtain the necessary approvals and consents in order to complete in July 2015. The going concern section of the Directors' report provides more information about the Refinancing and Recapitalisation plan, and about the Group's financial position assuming the Recapitalisation completes, and if the Recapitalisation does not complete.

Whilst we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate, these conditions indicate the existence of a material uncertainty which may give rise to significant doubt over the Group's ability to continue as a going concern. We describe below how the scope of our audit has responded to this risk. Our opinion is not modified in respect of this matter.

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
Going concern Following the significant decline in the oil price prior to year end, the Group has revised downwards its forecasts for both earnings and cash flow and anticipates that in the absence of successful completion of the planned recapitalisation, described on page 77, it will breach covenants on its loan facilities and senior notes and be unable to make repayments of those facilities as they fall due. As set out in note 1.3 to the financial statements and the Directors' report on pages 76 to 78, the Directors have concluded that there is material uncertainty as to whether the Group can continue as a going concern. This matter is described further in the Emphasis of matter – Going concern section above. As a result, going concern is considered to be a significant risk.	We have challenged the key assumptions underpinning management's going concern assessment and forecast cash flows for the next 12 months by: • reviewing and challenging management's going concern paper, and the accompanying cash flow and banking covenant compliance forecasts for the going concern period. This included stress tests for a range of reasonably possible scenarios; • comparing the oil price assumptions used in forecasts to external forecasts; • agreeing the terms of the Group's committed debt facilities to supporting documentation; • reviewing and understanding management's refinancing plans and the uncertainties relating to achieving these; • evaluating whether the refinancing plans appear sufficient to address the Group's needs in the context of its forecasts; and • considering whether the disclosures relating to going concern in the financial statements are balanced, proportionate and clear.

Risk	How the scope of our audit responded to the risk
Management override of controls, including unauthorised payments, related party transaction, Directors' remuneration and the prior year restatement The risk of management override of controls was heightened during the year following the discovery of US$45 million of unauthorised payments made for the benefit of certain Directors and other selected employees, as explained in further detail on page 11. As a consequence, there is a risk that further unauthorised payments or benefits in kind to Directors have not been identified or disclosed. The Group engaged legal advisors to undertake an investigation into three transactions connected to the unauthorised payments, and to identify any further suspicious or potentially fraudulent transactions. This included assessing whether there was any evidence of undisclosed related party relationships or transactions. Following these investigations, and taking into account all information now available about these transactions, the Group has restated its prior year financial statements in relation to one of these transactions, as detailed in notes 1.6 and 5.15. Related party transactions are disclosed in note 5.11.	In response to the unauthorised payments, we have inspected all reports issued by Afren's legal advisors and held several discussions with the advisors regarding their findings. We were assisted in this work by forensic accounting experts from within Deloitte. We considered whether the Group's response to these circumstances as a whole was likely to have addressed the risk of financial statement misstatement. We assessed whether the prior year restatement made in relation to one of the transactions was appropriate and justified, taking into account the results of investigations and other advice received by the Group, and challenged whether any further restatement was required. We also considered whether the unauthorised payments made to Directors relating to this transaction and subsequent partial recovery had been appropriately considered and treated. Furthermore, we increased our level of enquiries of senior stakeholders across the business including Directors and members of senior management to identify any additional risks of fraud or indications of related party relationships or transactions that have not been identified and disclosed. We undertook direct interrogation of the Group's accounting systems to identify potentially fraudulent journal entries, including searching for transactions with known related parties or journals posted by individuals implicated in these matters.
Recoverability of intangible exploration and evaluation (E&E) assets Exploration and evaluation ("E&E") assets must be carefully assessed for indicators of impairment, as prescribed by IFRS 6 Exploration for and Evaluation of Mineral Resources. Assessment of the carrying value of E&E assets requires significant judgement, including the Group's intention and ability to proceed with a future work programme for a prospect or licence, the likelihood of licence renewal or extension, and the expected or actual success of drilling and geological analysis. In addition, the Group is facing significant liquidity challenges and as a result there is a lack of funding available for E&E activities. The Group has reassessed its portfolio in the context of the lower oil price environment and the Group's funding constraints and as a result has delayed or curtailed a number of projects. As outlined in note 4.3, the Group has impaired US$839.1 million of E&E assets during the year, and a total of US$219.6 million of E&E assets remain on the balance sheet at 31 December 2014. Furthermore, in respect of any commitments or onerous contracts that exist in respect of projects that management no longer intend to pursue, management need to consider whether a provision should be recognised at the balance sheet date or a contingency disclosed. Details of the Group's policy on E&E assets are disclosed in note 1.6 and 4.3, together with details of impairments to exploration and evaluation assets recorded by the Group in the year. Commitments and contingent liabilities related to E&E activities are disclosed in notes 3.1 and 4.8.	We evaluated management's assessment of indicators of impairment for 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. We gathered evidence such as budgets, field development plans, contracts for future drilling and geological and geophysical activities and inspected licences to verify whether the current phase of the Group's licence to explore is at, or close to, expiry. For assets written down, we have confirmed to supporting evidence the Group's intention to relinquish licences, or seek to terminate spend on these licences going forward. For assets carried forward on the basis of management's intention to continue E&E activities we have confirmed through inspection of licence terms and discussion with operational staff that either all near term licence commitments have been met, or that there is the intention and financial capacity to meet commitments prior to expiry of the licence. We have also inspected licence terms and supplier contracts for evidence of any undisclosed commitments.

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 For each reporting period the Group is required to assess whether there are any indications of impairment, such as a decrease in oil price or a downgrade of proved and probable reserves, and, if so, to 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. The Group has recognised impairment charges in the period; being US$932.6 million in respect of Barda Rash, US$273.0 million in respect of Ebok and US$115.2 million in respect of goodwill. A total of US$1,367.4 million of oil and gas assets remains on the balance sheet within Property, Plant and Equipment at 31 December 2014. Goodwill has been fully impaired. The calculation of recoverable amounts requires estimates concerning external factors such as discount rates and future oil prices, as well as assumptions related to oil and gas reserves, operating costs, capital spend, and also judgements about the impact of taxes, regulations and uncertain contractual terms applicable to each project. Further details of management's process to assess assets for impairment are outlined in note 1.6. Details of impairment reviews undertaken by the Group during the year and related assumptions are provided in notes 4.4 and 5.13.	We undertook a detailed analysis and challenge of the significant judgements and estimates used in management's impairment tests and evaluated the sensitivity analysis performed by management. Our analysis included comparison of oil price assumptions to publicly available forecasts, with a particular focus on the appropriateness of the US$90/bbl real long term price assumption and discount rate applied by management, and the comparison of future cost estimates against actual historic cost levels and budgets. We utilised Deloitte valuation specialists to independently develop expectations in respect of the specific discount rates used for each project and compared against those used by management. We inspected reports prepared by independent experts relating to the Group's estimated commercial oil and gas reserves, discussed their work and findings with them, and checked the consistency of assumptions used in impairment models to these reserves estimates. We also investigated the level of challenge applied by these independent experts on future levels of capital expenditure and operating costs on each asset. We specifically challenged whether the tax and royalty risks applicable to Ebok, explained in the "Accounting for deferred and current taxation" section below, and other uncertainties relating to the third party participants in the field, as described in note 1.6, had been appropriately taken into account.
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. As described in note 5.16, there have been significant developments in respect of Pioneer status at Ebok, under which Afren was granted a 5 year "tax holiday" from commencement of production in June 2011. Correspondence received in January 2015 from the Nigerian Investment Promotion Commission ("NIPC") purported to limit this "tax holiday" to a period of 3 years, implying that it had expired on 31 May 2014. Deferred taxes must be accounted for in accordance with tax laws enacted or substantively enacted at the balance sheet date. There is a significant judgement in respect of whether Pioneer status had expired before 31 December 2014, which materially impacts both the valuation of Afren's US$348.2 million of deferred tax assets and the valuation of Ebok PP&E of US$683.4 million. In addition, while Afren have historically submitted royalty calculations using a "tranched" methodology, this approach was challenged in July 2014 by the Nigerian Department of Petroleum Resources ("DPR"). The Group disputes this challenge, and considers the methodology used to be consistent with local Marginal Field Operator regulations. The DPR have asserted that changes should be applied to royalty submissions from July 2014. Use of a revised methodology would result in a material increase in royalty payments for 2014 of US$24.5 million (as disclosed in note 4.8 to the financial statements) as well as in future periods. 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.	We audited 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 Deloitte taxation specialists in Nigeria and the UK. We evaluated judgements taken relating to management's provisioning for tax, by reference to local tax requirements and review of correspondence with tax authorities. In respect of both Pioneer status and royalty calculations, we analysed correspondence received to date and reviewed formal legal advice received by Afren on the interpretation of applicable leglislation in respect of these matters, including discussing the advice with Afren's legal adviser. Furthermore, we assessed the appropriateness of the disclosures included in notes 5.16 and 4.8 to the financial statements in respect of Pioneer status and royalties.

The description of risks above should be read in conjunction with the significant issues considered by the Audit and Risk Committee discussed on page 90.

While we still consider depletion, depreciation and amortisation and the application of production, cost and profit sharing contractual terms to the Group's production operations to be significant risks, in the current year they are not the areas which have had the greatest impact on our audit strategy.

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.

There have been a number of unusual circumstances during the year which have resulted in significant reduction in the net assets of the Group, including substantial impairment charges driven by the decline in oil prices and the revisions to the Group's business plan in light of funding constraints.

As a result of these matters, the benchmarks we have previously used in determining materiality, being adjusted profit before tax and net assets, are no longer considered to be meaningful, stable bases. Given the reduction in financial metrics during the period, we have accordingly reduced materiality to US$17.5 million (2013: US$31.0 million).

This reduced materiality represents approximately 1% (2013: 1%) of non-current assets, approximately 2% (2013: 2%) of revenue and approximately 11% (2013:10%) of normalised profits, as defined in note 2.4 to the financial statements. In addition, we note that materiality represents approximately 1% of the loss for the year.

We agreed with the Audit and Risk Committee that we would report to them all audit differences in excess of US$350,000 (2013: 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 was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

As in the prior year, the audit scope comprised full scope audits of all key business units of the Group, including Nigeria, the 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 loss before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

Our audit work at each individual business unit was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from US$8.8 million to US$15.0 million.

Component auditors were involved in the audit of the Nigerian component 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. We included the component audit partner in our team briefing, discussed their risk assessment and reviewed documentation of the findings from their work. A member of the Group team visited the Nigerian component during the fieldwork stage of the component audit. While the Senior Statutory Auditor planned to visit Nigeria during the later audit concluding phase, due to security concerns and based on travel advice at the time, this visit did not take place. Instead, there was regular interaction and review throughout the audit through correspondence, telephone and other electronic media, including participation in local closing meetings via video conference.

At the parent entity level we also tested the consolidation process.

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.

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 branches 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. We have nothing to report arising from these matters.

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 ten 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 Statement of Directors' responsibilities, 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. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

30 April 2015

Group statement of comprehensive income

For the year ended 31 December 2014

	Notes		2014 US$m		Restated[(1)] 2013 US$m
Revenue	2.1		945.8		1,644.3
Cost of sales			(626.2)		(1,179.4)
Gross profit			319.6		464.9
Administrative expenses			(48.9)		(44.8)
Other operating losses					
– derivative financial instruments	3.3		(8.9)		(46.6)
– impairment of property, plant and equipment	4.4		(1,205.6)		–
– impairment of exploration and evaluation assets	4.3		(839.1)		(60.5)
– impairment of goodwill	5.13		(115.2)		–
Operating (loss)/profit			(1,898.1)		313.0
Finance income	3.6		2.3		3.9
Finance costs	3.6		(66.9)		(157.3)
Other gains					
– foreign currency gains			8.7		3.6
– fair value gain on financial liabilities and financial assets	3.3		0.7		3.5
Share of joint venture loss	4.7		(1.7)		(26.6)
(Loss)/profit before tax from continuing operations			(1,955.0)		140.1
Income tax credit	2.3		303.9		334.7
(Loss)/profit from continuing operations after tax			**(1,651.1)**		**474.8**
Discontinued operations					
Profit for the year from discontinued operations attributable to equity holders of Afren plc	5.14		–		38.1
(Loss)/profit for the year			**(1,651.1)**		512.9
Attributable to:					
Equity holders of Afren plc			(1,623.2)		516.4
Non-controlling interests			(27.9)		(3.5)
			(1,651.1)		512.9
Other comprehensive income					
Items that may be reclassified to profit or loss in subsequent periods:					
(Loss)/gain on revaluation of available for sale investment			(1.4)		0.4
Gain on derivative financial instruments arising during the year		98.8		–	
Reclassification adjustment for gains recycled to profit and loss	2.1	(11.3)		–	
			87.5		–
Other comprehensive income for the year			86.1		0.4
Total comprehensive (expense)/income for the year			**(1,565.0)**		**513.3**
Attributable to:					
Equity holders of Afren plc			(1,537.1)		516.8
Non-controlling interests			(27.9)		(3.5)
			(1,565.0)		513.3
(Loss)/earnings per share from continuing activities					
Basic	2.5		(147.2)c		43.8c
Diluted	2.5		(147.2)c		42.1c
(Loss)/earnings per share from all activities					
Basic	2.5		(147.2)c		47.3c
Diluted	2.5		(147.2)c		45.5c

(1) Refer to notes 1.6 and 5.15 of the Group financial statements

Group balance sheet

As at 31 December 2014

	Notes	2014 US$m	2013 US$m
Assets			
Non-current assets			
Intangible oil and gas assets	4.3	219.6	1,090.2
Property, plant and equipment	4.4	1,379.9	2,052.2
Goodwill	5.13	–	115.2
Deferred tax assets	2.3	348.2	97.5
Available for sale investments		–	1.3
Investment in joint ventures	4.7	–	1.7
		1,947.7	**3,358.1**
Current assets			
Inventories	4.6	164.7	80.9
Trade and other receivables	5.4	221.8	209.6
Prepayments and advances to Partners	5.4	64.0	99.3
Derivative financial instruments	3.3	–	0.1
Cash and cash equivalents	3.1	236.5	389.9
		687.0	779.8
Total assets		**2,634.7**	**4,137.9**
Liabilities			
Current liabilities			
Trade and other payables	5.5	(735.3)	(717.2)
Provisions	4.4	(21.0)	–
Borrowings	3.2	(268.4)	(77.3)
Current tax liabilities		(15.7)	(72.3)
Deferred consideration on acquisitions	3.1	(21.0)	(22.0)
Obligations under finance lease	3.4	(21.8)	(22.1)
Derivative over own equity	3.3	(57.5)	–
Derivative financial instruments	3.3	(4.8)	(28.2)
		(1,145.5)	**(939.1)**
Net current liabilities		**(458.5)**	**(159.3)**
Non-current liabilities			
Deferred tax liabilities	2.3	(96.0)	(146.3)
Provisions	4.4	(44.0)	(30.1)
Borrowings	3.2	(1,035.6)	(1,051.7)
Obligations under finance leases	3.4	(56.0)	(77.7)
Deferred consideration on acquisitions	3.1	–	(18.1)
Derivative over own equity	3.3	–	(52.3)
Derivative financial instruments	3.3	(8.4)	(17.1)
		(1,240.0)	**(1,393.3)**
Total liabilities		**(2,385.5)**	**(2,332.4)**
Net assets		**249.2**	**1,805.5**
Equity			
Share capital	3.5	19.2	19.1
Share premium	3.5	929.3	926.8
Merger reserve	3.5	–	179.4
Other reserves	5.9	118.0	27.5
Accumulated (loss)/profit		(800.1)	642.0
Total equity attributable to parent company		**266.4**	**1,794.8**
Non-controlling interest	5.10	(17.2)	10.7
Total equity		**249.2**	**1,805.5**

The financial statements of Afren plc, registered number 05304498, were approved by the Board of Directors and authorised for issue on 30 April 2014. They were signed on its behalf by:

Darra Comyn
Group Finance Director
30 April 2014

Group cash flow statement

For the year ended 31 December 2014

	Notes	2014 US$m	Restated[1] 2013 US$m
Operating (loss)/profit for the year from continuing operations		(1,898.1)	313.0
Operating profit for the year from discontinued operations		–	14.7
Depreciation, depletion and amortisation		370.4	408.7
Unrealised (gains)/losses on derivative financial instruments	3.3	(32.2)	4.2
Impairment charge on property, plant and equipment	4.4	1,205.6	–
Impairment charge on exploration and evaluation assets	4.3	839.1	60.5
Impairment charge on goodwill	5.13	115.2	–
Share-based payments (credit)/charge		(2.3)	25.6
Operating cash flows before movements in working capital		597.7	826.7
Decrease in trade and other operating receivables		36.4	91.7
(Decrease)/increase in trade and other operating payables		(84.4)	163.8
(Increase)/decrease in inventory of crude oil		(37.3)	14.4
Current tax paid		(53.6)	(58.4)
Sale of derivative financial instruments		79.9	–
Net cash provided by operating activities		**538.7**	**1,038.2**
Purchases of property, plant and equipment		(561.9)	(468.0)
Exploration and evaluation expenditure		(89.3)	(307.1)
Acquisition of additional licence rights and tax benefits		–	(120.0)
Cash received on disposal of discontinued operations		–	17.5
Increase in inventories – drilling spare parts and materials		(61.4)	(5.5)
Investment inflow		0.5	3.9
Net cash used in investing activities		**(712.1)**	**(879.2)**
Issue of ordinary share capital – share-based plan exercises		2.6	6.7
Purchase of own shares		(3.1)	–
Investment in subsidiary – additional shares purchased from third parties		–	(109.3)
Proceeds from borrowings – net of issue costs		245.6	450.6
Repayment of borrowings and finance leases		(102.1)	(541.3)
Deferred consideration paid		(22.0)	–
Interest and financing fees paid		(101.0)	(174.7)
Net cash provided by/(used in) financing activities		**20.0**	**(368.0)**
Net decrease in cash and cash equivalents		(153.4)	(209.0)
Cash and cash equivalents at beginning of year		389.9	598.7
Effect of foreign exchange rate changes		–	0.2
Cash and cash equivalents at end of year		**236.5**	**389.9**

(1) Refer to notes 1.6 and 5.15 of the Group financial statements

During the current year the Group has settled a portion of its liability to net profit interest holders “in kind” through the provision of oil for an amount totalling US$45 million, which is not reflected in the Group cash flow statement.

Group statement of changes in equity

For the year ended 31 December 2014

	Share capital US$m	Share premium account US$m	Merger reserve US$m	Other reserves US$m	Accumulated (loss)/profit US$m	Attributable to equity holders of parent US$m	Non-controlling Interest US$m	Total equity US$m
At 1 January 2013	18.9	920.3	179.4	6.9	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 accumulated (loss)/profit	–	–	–	(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**	**179.4**	**27.5**	**642.0**	**1,794.8**	**10.7**	**1,805.5**
Issue of share capital	0.1	2.5	–	–	–	2.6	–	2.6
Share-based payments	–	–	–	9.2	–	9.2	–	9.2
Transfer to accumulated (loss)/profit	–	–	(179.4)	(1.5)	180.9	–	–	–
Exercise and lapse of warrants designated as financial liabilities	–	–	–	(0.2)	0.2	–	–	–
Purchase of own shares	–	–	–	(3.1)	–	(3.1)	–	(3.1)
Net loss for the year	–	–	–	–	(1,623.2)	(1,623.2)	(27.9)	(1,651.1)
Other comprehensive income for the year	–	–	–	86.1	–	86.1	–	86.1
Balance at 31 December 2014	**19.2**	**929.3**	–	**118.0**	**(800.1)**	**266.4**	**(17.2)**	**249.2**

Notes to the Group financial statements

For the year ended 31 December 2014

In preparing the 2014 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. The Company's 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 and Chief Executive's statement and Operations review on pages 10 and 36. 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, including a description of a material uncertainty relating to going concern, are provided in 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. The 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 translation occurs. 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.

Going concern

Information regarding the uncertainties in the Group's going concern assumption are detailed within the Directors' report on page 76.

Carrying value of oil and gas assets

Management assesses the Group's oil and gas assets for indicators of impairment at least annually, with reference to indicators in IAS 36. 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 oil price profile and a tailored post-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, including availability of financing, towards finding commercial reserves. In the current year, these judgements have been made in light of the Group's funding position and the impact of low oil prices, as further described in our Operations review of the Directors' report. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and assets may be 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 as at 31 December 2014 of US$310.2 million of 'Other creditors and operating Partners' due under the contractual agreements through which the Group participates in its fields (31 December 2013: US$366.0 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 level of costs which will be agreed as recoverable capital expenditure, levels of allowable overhead, applicable tax rate 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.

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 as described in note 4.4.

Taxation and royalties

The application of tax legislation in jurisdictions in which the Group operates can be uncertain and subject to interpretation. In particular, in Nigeria there is uncertainty in respect of the calculation of the tax holiday for the Ebok asset, the calculation of the royalties in respect of Ebok production and in a number of other less significant areas. 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 in accordance with the tax legislation enacted in the year.

Details of the key judgements made by management relating to the assumptions used in accounting for the effects of a tax holiday for the Ebok asset in Nigeria are included in notes 2.3 and 5.16. 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 are 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.

Restatement of 2013 financial statements

During the year, an independent review was performed by Willkie Farr & Gallagher (UK) LLP (WFG) into the potential need for disclosure to the market of three prior transactions. In light of additional information that was brought to light as a result of the independent review the Company has undertaken an extensive review of the accounting for these transactions. Management has reassessed certain accounting judgements made in the prior year and has concluded that it is appropriate to restate the financial

statements at 31 December 2013 in relation to one of these transactions in order to reflect subsequent changes in judgements. No material adjustments were identified at 31 December 2012. As such, although compliance with IAS 1 would generally require the presentation of a statement of financial position at the start of the period of the restatement (1 January 2013), this has been omitted.

The review covered three transactions as discussed below.

(i) First agreement with Oriental Energy – July 2012
In July 2012, Afren agreed to advance US$100 million to Oriental Energy Resources Limited (Oriental) (the "First Oriental Agreement"). The contractual documentation was drawn up on the basis that the payment was in effect an advance purchase of Oriental's oil from Ebok. As a result of this transaction a loan of US$100.0 million to Oriental was included in Afren's balance sheet for 31 December 2012 under the line "Prepayments and advances to Partners".

Although the investigation highlighted that the disclosure around this financial instrument was insufficient, with additional disclosure required in the trade and other receivables and fair values note, in the 31 December 2012 and 2013 financial statements the review did not highlight any material change in either the Group balance sheet or the Group statement of comprehensive income as at 31 December 2012 or 2013. As at 31 December 2014 Afren has fully recovered this loan.

As such, management has not made any restatement as a result of this transaction although additional disclosure has been provided within note 5.4 via the inclusion of narrative that the US$100.0 million loan is included within the advance to Partners line, and note 5.6 by including the amortised cost of the US100.0 million loan within the financial assets section.

(ii) Second agreement with Oriental Energy – August 2013
On 23 August 2013, Afren Resources Limited (ARL) and Oriental entered into an agreement (the "Amendment Agreement") to amend the Ebok Joint Operating Agreement (the "JOA"). The material terms of this Amendment Agreement were that ARL agreed to pay Oriental US$300.0 million in return for ARL acquiring the benefits from certain additional tax allowances and increasing ARL's share of oil revenues from Ebok via the cost recovery mechanism of the JOA. The Amendment Agreement was conditional on Pioneer status (a five-year tax holiday) being confirmed for Ebok, which occurred in October 2013. The US$300.0 million was paid in two instalments. US$180.0 million was paid in August 2013 in advance of Pioneer status being confirmed and US$120.0 million was paid in November 2013. At 31 December 2013, the payments were reflected in the Group balance sheet as full payment for the incremental deferred tax asset of US$298.0 million acquired under this transaction and the residual balance of US$2.0 million as an asset within Property, plant and equipment (PPE).

In light of the WFG review, management has reassessed certain accounting judgements and concluded that it is appropriate to restate the 2013 financial statements. The US$300.0 million consideration paid has been allocated on a relative fair value basis as follows:

1) US$120.0 million of the amount paid represents the fair value of the acquisition of Oriental's 50% share of capital allowances and should remain classified within deferred tax assets in the Group balance sheet. This deferred tax asset has been subsequently remeasured at 31 December 2013 in accordance with IAS 12 Deferred Tax to US$298.0 million and taken through the income tax credit line of the income statement.

2) US$180.0 million of the amount paid represents the fair value of a purchase by ARL of Oriental's 2013 entitlement to net operating cash flows from the field. Oriental's 2013 entitlement under the JOA arose partially retrospectively as a consequence of the granting of Pioneer status. As this amount was assessed to have been fully recovered by the end of 2013, it has been allocated to cost of sales in 2013 in line with the Group's accounting policies.

Management judgement was required in the assessment of whether there were sufficient grounds to re-open the prior year judgement as to the allocation of the US$300.0 million consideration. Further judgement was required in selecting the best accounting treatment as some aspects of the accounting interpretation of this transaction by the investigating accountants was at variance with that adopted by the Company in its 2013 financial statements. Therefore the Board commissioned independent accounting advice from another major accounting firm before reaching its decision. The Directors believe the restated accounting is appropriate having taken into account all of the views and advice received and all the information available and better reflects the substance of the transaction.

The effect is to increase cost of sales by US$178.0 million, decrease profit before tax by US$178.0 million and increase income tax credit by US$178.0 million; there is no impact to net assets or profit after tax following the restatement. See note 5.15 for details.

(iii) Amendment of Production Sharing and Technical Services Agreement with Amni – December 2013
In December 2013, Amni International Petroleum Development Company Limited (Amni), Afren Energy Resources Limited (AER), Afren and Okoro Limited entered into a number of agreements to resolve a dispute regarding whether the Okoro East development would go ahead due to the differing economic benefits each was receiving from Okoro. The dispute arose as a result of a difference in tax rates in Nigeria paid by Afren and Amni. Pursuant to a resolution agreement (the "Amni Resolution Agreement") AER agreed to pay US$100.0 million (together with interest of US$9.0 million due under Amni's facility with the United Bank of Africa plc as referred to below). As part of the resolution of the dispute an amended and restated Production Sharing and Technical Services Agreement (the "Amended PSTSA") was entered into. AER agreed to pay the US$100.0 million in instalments. However, in order to access the full US$100.0 million immediately Amni entered into a loan agreement with United Bank of Africa plc (UBA) and Afren issued a bank guarantee to the value of US$70.0 million to UBA in respect of Amni's financial obligations to UBA (the "Amni Guarantee"). At 31 December 2013, US$31.6m of the agreed payment had been paid to Amni.

The review confirmed Afren received value from the Amended PSTSA and further did not highlight any material change in either the Group balance sheet or the Group statement of comprehensive income as at 31 December 2012 or 2013. As at 31 December 2014, US$65.8m of the balance is outstanding. No adjustment was required in relation to the financial guarantee provided to UBA (previously disclosed as a contingent liability).

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 after tax and (loss)/earnings per share.

2.1 Revenues

Revenue represents the sales value of the Group's share of oil liftings in the year, net of VAT, net profit interest obligations and royalties paid in kind or where the financial obligation does not fall directly to Afren. Oil revenue is recognised when goods are delivered and title has passed.

All revenues in the current and prior year were derived from the sale of oil.

A portion of the Group's oil revenue was cash flow hedged during the year. The amounts disclosed above for oil revenue include the recycling from the hedging reserve of the effective amount of cash flow hedges that were used to hedge the oil price. The amount included in revenue is US$11.3 million (2013: US$ nil). Further details can be found in note 3.3.

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: 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.

Assets in Cote 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 2013 income statement.

2014	Nigeria and other West Africa US$m	East Africa US$m	Kurdistan region of Iraq US$m	Unallocated US$m	Consolidated US$m
Sales revenue by origin	945.8	–	–	–	945.8
Operating loss before derivative financial instruments	(329.5)	(327.0)	(1,218.0)	(14.7)	(1,889.2)
Derivative financial instruments losses	1.9	–	–	(10.8)	(8.9)
Segment result	(327.6)	(327.0)	(1,218.0)	(25.5)	(1,898.1)
Finance costs					(66.9)
Other gains and losses:					
– fair value of financial assets and liabilities					0.7
– share of joint venture loss	(1.7)				(1.7)
– forex and finance income					11.0
Loss from operations before tax					**(1,955.0)**
Income tax credit					303.9
Loss for the year					**(1,651.1)**
Segment assets – non-current	1,944.5	0.7	0.5	2.0	1,947.7
Segment assets – current*	529.0	0.3	6.1	151.6	687.0
Segment liabilities	(1,365.6)	(8.2)	(45.8)	(965.9)	(2,385.5)
Capital additions – oil and gas assets	547.8	–	145.9	–	693.7
Capital additions – exploration and evaluation	83.4	32.1	27.9	–	143.4
Capital additions – other	2.1	–	–	2.8	4.9
Depletion, depreciation and amortisation	(365.4)	(0.2)	(0.6)	(4.2)	(370.4)
Impairment of property, plant and equipment	(273.0)	–	(932.6)	–	(1,205.6)
Impairment of exploration and evaluation assets	(198.9)	(360.7)	(265.2)	(14.3)	(839.1)
Impairment of goodwill	(115.2)	–	–	–	(115.2)
Share of joint venture loss	(1.7)	–	–	–	(1.7)

* The majority of the unallocated current segment assets relate to cash and cash equivalents in 2014.

2013 restated(1)	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 profit/(loss) before derivative financial instruments	446.2	(23.6)	(3.0)	(44.0)	(16.0)	359.6
Derivative financial instruments losses	(30.9)	–	–	(15.7)	–	(46.6)
Segment result	415.3	(23.6)	(3.0)	(59.7)	(16.0)	313.0
Finance costs						(157.3)
Other gains and losses:						
– fair value of financial assets and liabilities						3.5
– share of joint venture loss	(26.6)					(26.6)
– forex and finance income						7.5
Profit from continuing operations before tax						**140.1**
Income tax credit						334.7
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)
Exploration costs write-off	(36.6)	(23.9)	–	–	–	(60.5)
Share of joint venture profit	(26.6)	–	–	–	–	(26.6)

* The majority of the unallocated current segment assets relate to an amount receivable from a Partner in 2013.
(1) Refer to notes 1.6 and 5.15 of the Group financial statements.

Non-current assets in the following segments include:

Non-current assets by origin	2014 US$m	2013 US$m
Nigeria	1,944.5	1,863.6
Cote d'Ivoire	–	107.8
Ghana	–	32.5
Total Nigeria and other West Africa	**1,944.5**	**2,003.9**
Kenya*	0.7	119.0
Ethiopia	–	72.5
Madagascar	–	46.8
Seychelles	–	59.4
Tanzania	–	31.7
Total East Africa	**0.7**	**329.4**
Kurdistan region of Iraq*	0.5	1,003.9
Total Kurdistan region of Iraq	**0.5**	**1,003.9**
Unallocated	2.0	20.9
Total unallocated	**2.0**	**20.9**
Total non-current assets	**1,947.7**	**3,358.1**

* Relates to non-current assets within the regional offices.

Revenues were generated in Nigeria of US$945.8 million (2013: US$1,644.3 million), which includes US$11.3 million recycled from the hedging reserve as explained within note 2.1. All sales are to external customers. Included in revenues arising from Nigeria for the year ended 31 December 2014 are amounts of US$299.4 million, US$244.5 million, US$224.4 million and US$70.1 million (2013: US$252.0 million, US$251.8 million, US$211.3 million and US$183.3 million) relating to the Group's largest customers. As the sale of oil is made on global markets, the Group does not place reliance on the largest customers mentioned above.

(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

The income tax credit represents the sum of tax currently payable and deferred tax. The 2013 amount includes a credit in respect of the reversal of prior period 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.

	2014 US$m	Restated[1] 2013 US$m
Current tax		
UK Corporation tax	–	–
Overseas corporation tax	24.7	239.2
Effect of initial recognition of tax holiday	–	(254.3)
Adjustment in respect of prior years	(27.6)	(10.5)
	(2.9)	(25.6)
Deferred tax		
Deferred tax	(301.0)	61.6
Effect of initial recognition of tax holiday	–	(370.7)
	(301.0)	(309.1)
Total income tax credit	**(303.9)**	**(334.7)**

(1) Refer to notes 1.6 and 5.15 of the Group financial statements.

The income tax credit is different from the expected income tax expense for the following reasons:

	2014 US$m	Restated[1] 2013 US$m
(Loss)/profit for the year	(1,955.0)	140.1
Tax at the UK Corporation tax rate of 21.5% (2013: 23.25%)	(420.3)	32.6
Tax effect of items which are not deductible for tax	130.5	32.7
Items not subject to tax	(4.0)	(4.3)
Effect of tax rates in foreign jurisdictions	92.6	(195.0)
Adjustments in respect of prior periods	(27.1)	(9.4)
Change in temporary differences deductible after the end of the tax holiday	(81.4)	–
Loss not recognised	5.8	31.8
Effect of initial recognition of tax holiday	–	(223.1)
Total income tax credit	**(303.9)**	(334.7)

(1) Refer to notes 1.6 and 5.15 of the Group financial statements.

During 2014, the Group continued to apply the benefits of a tax holiday in respect of its Ebok asset in Nigeria. Afren Resources Limited, the subsidiary which holds Afren's interest in the Ebok asset, received a certificate in 2013 awarding a five-year tax holiday which is effective from 1 June 2011 until May 2016. As a result, no income tax is payable in respect of the 2011–2016 period.

The adjustment in respect of prior years relates to the release of a provision following the conclusion of a tax audit within Afren Energy Resources Limited.

On 26 January 2015, Afren Resources Limited received a letter from the Nigerian Investment Promotion Commission informing that the initial tax holiday period had been reduced from five to three years. If enforced, the tax holiday would have effectively ceased on 31 May 2014, although two further annual periods of extension can be applied for in order to restore the full five-year term. Afren intends to contest the reduction and apply for the two annual extensions as necessary. If it is the case that neither of these actions are successful, the income tax credit would decrease by US$87.1 million (a sum of additional current income tax and a reduction in the deferred tax credit) from US$303.9 million to US$216.8 million, with a corresponding US$3.6 million increase in current income tax payable from US$15.7 million to US$19.3 million as at 31 December 2014, and a decrease in deferred tax asset from US$348.2 million to US$264.7 million as at 31 December 2014.

Notes to the Group financial statements continued

For the year ended 31 December 2014

(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	2014 US$m	Restated[1] 2013 US$m
Property, plant and equipment	328.7	88.3
Decommissioning provision	17.6	9.2
Other temporary differences	1.9	–
Deferred tax assets	**348.2**	**97.5**

Liabilities	2014 US$m	2013 US$m
Property, plant and equipment	(118.8)	(138.9)
Intangible oil and gas assets	–	(39.8)
Decommissioning provision	5.9	2.3
Trade and other receivables	(38.9)	–
Inventory	(10.1)	(7.3)
Tax losses	68.7	24.0
Other temporary differences	(2.8)	13.4
Deferred tax liabilities	(96.0)	**(146.3)**
Net deferred tax assets/(liabilities)	252.2	**(48.8)**

(1) Restated to provide meaningful comparatives to 2014 balances.

Analysis of movement during the year – 2014	At 1 January 2014 US$m	Credit/(charge) for the year US$m	At 31 December 2014 US$m
Assets			
Property, plant and equipment	88.3	240.4	328.7
Decommissioning provision	9.2	8.4	17.6
Other temporary differences	–	1.9	1.9
	97.5	**250.7**	**348.2**
Liabilities			
Property, plant and equipment	(138.9)	20.1	(118.8)
Intangible oil and gas assets	(39.8)	39.8	–
Decommissioning provision	2.3	3.6	5.9
Trade and other receivables	–	(38.9)	(38.9)
Inventory	(7.3)	(2.8)	(10.1)
Tax losses	24.0	44.7	68.7
Other temporary differences	13.4	(16.2)	(2.8)
Deferred tax liability	**(146.3)**	**50.3**	**(96.0)**
Net deferred tax (liability)/ asset	**(48.8)**	**301.0**	**252.2**

Analysis of movement during the year – 2013 Restated[1]	At 1 January 2013 US$m	Credit/(charge) for the year US$m	Effect of tax holiday 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)	(69.5)	379.0	22.2	(138.9)
Intangible oil and gas assets	(39.8)	–	–	–	(39.8)
Decommissioning provision	14.7	(1.7)	(10.7)	–	2.3
Inventory	(4.0)	(3.3)	–	–	(7.3)
Tax losses	6.7	17.3	–	–	24.0
Other temporary differences	15.4	(4.4)	2.4	–	13.4
Deferred tax liability	**(477.6)**	**(61.6)**	**370.7**	**22.2**	**(146.3)**
Net deferred tax liability	**(477.6)**	**(61.6)**	**370.7**	**119.7**	**(48.8)**

(1) Refer to notes 1.6 and 5.15 of the Group financial statements. Table also restated to provide meaningful comparatives to 2014 balances.

(ii) Unrecognised deferred tax assets

At the balance sheet date, the Group also had tax losses (primarily arising in the UK) of US$533.7 million (2013: US$297.5 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 Group had temporary differences of US$31.3 million (2013: US$23.3 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.

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 (loss)/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	2014 US$m	Restated[1] 2013 US$m
(Loss)/profit before tax from continuing operations		(1,955.0)	140.1
Unrealised (gains)/losses on derivative financial instruments	3.3	(32.2)	4.2
Finance costs on settlement of borrowings		–	54.6
Share-based payment (credit)/charge		(2.3)	25.6
Foreign exchange gains		(8.7)	(3.6)
Fair value gains on financial liabilities and financial assets	3.3	(0.7)	(3.5)
Share of joint venture losses	4.7	1.7	26.6
Impairment of property, plant and equipment	4.4	1,205.6	–
Impairment of exploration and evaluation assets	4.3	839.1	60.5
Impairment of goodwill	5.13	115.2	–
Normalised profit before tax		**162.7**	**304.5**

(1) Refer to notes 1.6 and 5.15 of the Group financial statements.

2.5 (Loss)/earnings per ordinary share

(Loss)/earnings per share (EPS) is the amount of post-tax loss or 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 loss for the year attributable to equity shareholders of US$1,623.2 million (2013: US$478.3 million profit attributable to equity shareholders) divided by 1,102.8 million (2013: 1,090.8 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. Potentially dilutive securities have been excluded from the current year's computation as they would serve to decrease the loss per share.

	2014	2013
From continuing and discontinued operations		
Basic	(147.2)c	47.3c
Diluted	(147.2)c	45.5c
From continuing operations		
Basic	(147.2)c	43.8c
Diluted	(147.2)c	42.1c

The (loss)/profit and weighted average number of ordinary shares used in the calculation of the earnings per share are as follows:

	2014	2013
(Loss)/profit for the year used in the calculation of the basic and diluted earnings per share from continuing and discontinued operations attributable to equity holders of Afren plc (US$m)	(1,623.2)	516.4
Result for the year from discontinued operations (US$m)	–	38.1
(Loss)/profit used in the calculation of the basic and diluted earnings per share from continuing operations (US$m)	(1,623.2)	478.3

The weighted average number of ordinary shares for the purposes of diluted (loss)/earnings per share reconciles to the weighted average number of ordinary shares used in the calculation of basic (loss)/earnings per share as follows:

	2014	2013
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,102,780,685	1,090,802,823
Effect of dilutive potential ordinary shares:		
Share-based payments scheme	–	45,264,971
Warrants	–	59,855
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	**1,102,780,685**	**1,136,127,649**

The number of potentially dilutive securities which have been excluded from the current year's computation includes 9,600,082 relating to the share-based payments scheme and 36,535 relating to warrants.

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 – further details in note 3.5) and how much is borrowed from financial institutions (debt – further details in notes 3.1 and 3.2) in order to finance the Group's business strategy, both now and in the future and to maximise shareholder value.

The Group is not subject to any externally imposed capital requirements.

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 maturity of the Group's borrowings and other debt facilities is considered a key performance metric. An indicator of the maturity of the capital structure, future commitments and financial flexibility is relevant to the Group. 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.

Important additional information relating to the Group's funding and liquidity position is included in the Directors' report on page 77.

3.1 Net debt and cash flow commitments

Key cash flow activity in the year

The Group invested US$651.2 million in exploration and evaluation activities and in developing its oil and gas assets, the majority funded from operating cash flow.

During 2014, US$90.0 million was drawn down on the Ebok facility, US$60.0 million on the Okwok facility and US$100.0 million on the OML 26 bank facility which replaced a US$80.0 million 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, net of cash and cash equivalents.

		1 Jan 2014 US$m	Net cash flows	Non-cash movements	31 Dec 2014 US$m	Coupon	Repayment due*
Ebok facility	(a)	204.2	90.0	2.6	296.8	LIBOR+4.25%	From 2015
Senior Secured Loan Notes 2016 (2016 Notes)	(b)	248.8	–	2.2	251.0	11.5%	2016
Senior Secured Loan Notes 2019 (2019 Notes)	(c)	245.0	–	0.9	245.9	10.25%	2019
Senior Secured Loan Notes 2020 (2020 Notes)	(d)	353.7	–	0.1	353.8	6.625%	2020
OML 26 facility	(e)	77.3	20.0	1.5	98.8	LIBOR+6.5%	From 2015
Okwok facility	(f)	–	60.0	(2.3)	57.7	LIBOR+9.75%	2015
Total borrowings (excluding finance lease liabilities)		**1,129.0**	**170.0**	**5.0**	**1,304.0**		
Less: cash and cash equivalents	(g)	(389.9)	153.4	–	(236.5)		
Net debt		**739.1**	**323.4**	**5.0**	**1,067.5**		
Finance lease liabilities		**99.8**			**77.8**		

* Refer to note 5.16 for details of refinancing arrangements

(a) Ebok facility

In March 2013, Afren signed a 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 facility is used to fund ongoing capital expenditure and general corporate requirements, including Group loans.

(b) 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$246.6 million of the 2016 Notes, funded by the issue of 2020 Senior Secured Loan Notes.

(c) 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.

(d) 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.

(e) OML 26 facility
On 27 February 2014, Afren signed a new US$100.0 million term loan facility for OML 26 which is secured against receivables and cash flows from OML 26. This replaced the OML 26 loan facility of US$80.0 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 interest at LIBOR plus 6.5%. The new facility will be used to fund ongoing capital expenditure, operational expenditure and general corporate requirements with respect to OML 26.

(f) Okwok facility
In October 2014, Afren signed a US$60.0 million Okwok facility which is secured against Okwok field reserves. The facility has a one year term and bears interest at LIBOR plus 9.75%. The new facility will be used to fund ongoing capital and operational expenditure as well as general corporate requirements with respect to Okwok.

(g) Cash and cash equivalents
The cash flow statement on page 112 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 2014 includes US$52.9 million (2013: US$128.4 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. As announced on 13 March 2015 Afren plc has reached an agreement with its lenders in respect of a financial and capital restructuring. Further details can be found in note 5.16 to the final statements and the going concern section of the Directors' report.

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.

2014	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	63.3	469.7	156.2	–	–	689.2
Deferred consideration on acquisitions	nil	–	–	21.0	–	–	21.0
Interest bearing							
Finance lease liability	6%	2.2	4.3	19.3	60.1	–	85.9
Variable and fixed interest rate borrowings	7.7%	11.4	67.2	300.9	898.6	386.3	1,664.4
Total		**76.9**	**541.2**	**497.4**	**958.7**	**386.3**	**2,460.5**

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	510.9	94.7	–	–	694.4
Deferred consideration on acquisitions	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**	**637.7**	**195.2**	**828.3**	**673.5**	**2,427.8**

The amounts reported in the balance sheet relating to borrowings (excluding interest) mature as follows:

	2014 US$m	2013 US$m
Due within one year	268.4	77.3
Due within two to five years	676.5	445.5
More than five years	359.1	606.2
	1,304.0	**1,129.0**

Following the net interim funding agreement entered into on 30 April 2015 (see note 5.16), the above profile will have changed.

Capital commitments

The Group has committed to the following capital expenditure, but as the related assets have not been received as at the balance sheet date, no liability is recognised in the financial statements.

	2014 US$m	2013 US$m
Property, plant and equipment: oil and gas assets	120.8	42.2
Intangible exploration and evaluation assets	208.2	431.8
	329.0	**474.0**

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.

	2014		2013	
	Current US$m	Non-current US$m	Current US$m	Non-current US$m
Loan notes	–	863.4	–	863.4
Bank borrowings	278.2	181.9	80.0	210.1
	278.2	**1,045.3**	**80.0**	**1,073.5**
Unamortised cost of issue as at 31 December	(9.8)	(9.7)	(2.7)	(21.8)
Amount included in borrowings	**268.4**	**1,035.6**	**77.3**	**1,051.7**

Loan notes	2014 US$m	2013 US$m
Balance as at 1 January	847.5	779.1
Proceeds on new issue	–	360.0
Extinguishment of loan notes	–	(296.6)
Movement in unamortised costs of issue	3.3	5.0
Balance as at 31 December	**850.8**	**847.5**

3.3 Derivative financial instruments

A derivative is a financial instrument used to manage risk. Its value changes over time in response to a change to 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.

During the year, the Group used 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
During the year, the Group received a minimum amount if the market price of crude oil fell. These instruments were classified as cash flow hedges, with the portion of the gains and losses on the instruments that are determined to be an effective hedge taken to equity and subsequently recycled as the hedged transaction occurs and the ineffective portion, as well as any change in time value, recognised directly in the income statement for each period. During the year, a loss of US$7.0 million (2013: US$30.8 million) was reflected directly in the income statement in relation to these instruments and a further gain of US$98.8 million was taken to equity in the year, of which US$11.3 million was recycled in relation to hedged sales in 2014 with the balance of US$87.5 million to be recycled in future years. The Group had no open oil price derivative contracts as at 31 December 2014.

(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$1.8 million (2013: US$15.7 million) in respect of these contracts.

(c) Foreign exchange rate contracts
To manage its exposure to changes in the US 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 (2013: US$0.1 million) in respect of these contracts.

(d) Options contracts for FHN shares
The put/call options are classed as options over own equity. Further details are provided in note 5.9(b). Amounts included in the balance sheet and statement of comprehensive income in relation to the derivative financial instruments are as follows:

	2014		2013	
	Current US$m	Non-current US$m	Current US$m	Non-current US$m
Financial assets	–	–	0.1	–
Financial liabilities	(62.3)	(8.4)	(28.2)	(17.1)

	2014 US$m	2013 US$m
Charge to the income statement:		
Realised derivative financial instrument loss	(41.1)	(42.4)
Unrealised derivative financial instrument gain/(loss)	32.2	(4.2)
	(8.9)	(46.6)
Fair value gain on financial assets and financial liabilities	0.7	3.5

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 lessor 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 2014, the effective interest rate was 6% (2013: 6%).

The amounts reported in the balance sheet relating to finance leases mature as follows:

Obligations under finance leases	2014 US$m	2013 US$m
Including interest		
Amounts payable under finance leases:		
Within one year	25.8	27.9
In the second to fifth years inclusive	60.2	85.9
Less: future finance charges	(8.2)	(14.0)
Present value of lease obligations	**77.8**	**99.8**
Excluding interest		
Amounts payable under finance leases:		
Within one year	21.8	22.1
In the second to fifth years inclusive	56.0	77.7
Present value of lease obligations	**77.8**	**99.8**

No amounts were due after five years as at 31 December 2014 and 31 December 2013.

At 31 December 2014, all assets held under finance leases are included within property, plant and equipment with a net book value of US$101.2 million (2013: US$117.9 million).

Operating lease commitments

	2014 US$m	2013 US$m
Lease payments under operating leases recognised in the income statement for the year	61.3	79.4

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:

	2014				2013			
	< 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	6.8	3.4	–	10.2	15.8	22.8	–	38.6
Okoro terminal, security boats, field transport rentals	2.0	1.2	–	3.2	5.6	–	–	5.6
Ebok rig and field rentals	172.0	82.1	–	254.1	135.3	100.5	–	235.8
Office property	10.9	32.0	4.7	47.6	5.5	13.3	5.3	24.1
	191.7	**118.7**	**4.7**	**315.1**	**162.2**	**136.6**	**5.3**	**304.1**

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 2014 are presented in the Group statement of changes in equity.

	2014 US$m	2013 US$m
Authorised		
1,200 million ordinary shares of 1p each (equivalent to approx US$1.59 cents) (2013: 1,200 million)	**19.2**	**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 2014	1,097,911,906	19.1	926.8	179.4
Issued during the year for cash	9,649,618	0.1	2.5	–
Transfer to accumulated loss	–	–	–	(179.4)
As at 31 December 2014	**1,107,561,524**	**19.2**	**929.3**	**–**

(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. Following the impairment of underlying assets, during the current year, the merger reserve was transferred to accumulated losses.

3.6 Finance costs

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	2014 US$m	2013 US$m
Finance costs:			
Bank interest payable	(b)	17.8	18.8
Borrowing costs amortisation and facility fees	(a)	12.8	28.2
Interest on finance lease	(b)	5.3	6.5
Interest on loan notes	(b)	79.8	89.1
Cost of extinguishment of loan notes	(c)	–	49.1
Corporate facility interest payable	(b)	–	1.3
Unwinding of discount on decommissioning and deferred consideration		17.4	6.7
		133.1	**199.7**
Less: capitalised interest	(b)	(66.2)	(42.4)
		66.9	**157.3**

		2014 US$m	2013 US$m
Finance income:			
Gain on redemption of convertible loan notes		–	0.3
Bank interest received		2.3	3.0
Interest income on loan receivables		–	0.6
		2.3	**3.9**

(a) Borrowing costs
During 2014, borrowing costs were capitalised to the Barda Rash field in the Kurdistan region of Iraq, prior to any impairment loss being recognised, as well as the Okoro, Okwok and OML 113 developments in Nigeria using a weighted average rate of approximately 9.5%. During 2013, borrowing costs were capitalised to the Barda Rash field in the Kurdistan region of Iraq using a weighted average of approximately 12.0%.

Total expenses incurred in relation to the bond issue amounted to US$nil in the current year (2013: US$6.4 million). These are being amortised over the life of the Notes using the effective interest method.

(b) Interest costs
Interest amounting to US$102.9million (2013: US$115.7 million) (before capitalisation of some of the interest to oil and gas assets under development), has been charged to the income statement for the year to 31 December 2014.

Interest on loans incurred on any qualifying capital expenditure relating to an asset under construction (e.g. during pre-production phase) is capitalised and forms part of the capital allowance pool for taxation purposes. Interest on loans incurred after an asset is fully constructed (e.g. on commencement of production) is expensed immediately. The Group does not compute or pay taxes in respect of Barda Rash in the Kurdistan region of Iraq.

(c) Cost of extinguishment of loan notes
During 2013, the cost of extinguishment of loan notes included 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 36 to 55 and on page 156.

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 within 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 2013 and 31 December 2014 are detailed in the table on page 157 of this Annual Report and Accounts. These commercial reserves are stated on a working interest basis, excluding any amounts provided to Partners to settle net profit interest obligations, 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 in the estimation of the recoverable amount of oil and gas assets (both intangible and property, plant and equipment); 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 2013		851.3
Additions	(a)	299.4
Amounts written off	(c)	(60.5)
At 1 January 2014		**1,090.2**
Additions	(a)	143.4
Transfer to property, plant and equipment: oil and gas assets	(b)	(174.9)
Amounts written off	(c)	(839.1)
At 31 December 2014		**219.6**

(a) Additions

Additions during 2014 included the drilling of Ameena-2 on OML 115 offshore Nigeria, drilling Simrit-4 on the Ain Sifni licence in the Kurdistan region of Iraq and drilling, testing and seismic surveys on Ogo-1 well on OPL 310 offshore Nigeria.

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.

(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 the current year, relate to Okwok and OML 113 in Nigeria. As part of this assessment, management performed an impairment test upon these assets, on transfer from intangible exploration and evaluation assets. This test compared the carrying value of the assets at the date of transfer with their recoverable amount based on the expected discounted cash flows from each prospect. For the discounted cash flow 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 oil price profile and a post-tax discount rate of 10% which, taking into account other assumptions used in the calculation, management consider to be reflective of the risks specific to those projects.

Based on this assessment, no impairments were recognised in the income statement, on either asset. No impairment assessment was performed in 2013 as there were no similar triggering events as defined in IFRS 6.

(c) Exploration costs written-off

If prospects are deemed to be impaired ('unsuccessful efforts') on making the above determination as to whether commercial reserves exist or as a result of other factors such as a lack of planned future expenditure, the associated costs are charged to the income statement.

	2014 US$m	2013 US$m
Exploration costs written off	839.1	60.5

Amounts written off in 2014 include the write down of exploration and evaluation assets in the Kurdistan region of Iraq (US$265.2 million) following receipt of an updated third party reserve report and Ghana (US$39.0 million) following an economic evaluation. In addition, following a review of licence requirements in conjunction with the constraints affecting funding availability, full impairments have been recorded against assets in Cote d'Ivoire (US$115.4 million), Kenya (US$129.5 million), Tanzania (US$36.3 million), Madagascar (US$51.8 million), Seychelles (US$61.0 million), Ethiopia (US$82.1 million), Congo Brazzaville (US$1.6 million) and South Africa (US$14.3 million). A partial impairment was also recognised against OML 115 in Nigeria (US$42.9 million) relating to unsuccessful well costs incurred on a specific prospect.

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 share of costs of drilling Kola 1 and Kola 2 wells on the La Noumbi licence in Congo Brazzaville. Kola 1 and Kola 2 were drilled in 2013 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 oil and gas 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 comprise the Group's investment in leasehold improvements, fixtures and equipment, and computer hardware and software. It 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 2013		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 1 January 2014		**798.1**	**2,381.2**	**–**	**3,179.3**	**35.7**	**3,215.0**
Additions	(a)	244.2	449.5	–	693.7	4.9	698.6
Transfer from intangible exploration and evaluation assets	(4.3a)	174.9	–	–	174.9	–	174.9
Effect of changes to decommissioning estimates	(b)	21.3	8.9	–	30.2	–	30.2
At 31 December 2014		**1,238.5**	**2,839.6**	**–**	**4,078.1**	**40.6**	**4,118.7**
Depreciation, depletion and amortisation							
At 1 January 2013	(c)	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 1 January 2014		**6.0**	**1,135.6**	**–**	**1,141.6**	**21.2**	**1,162.8**
Charge for the year		–	363.5	–	363.5	6.9	370.4
Impairment loss	(d)	932.6	273.0	–	1,205.6	–	1,205.6
At 31 December 2014		**938.6**	**1,772.1**	**–**	**2,710.7**	**28.1**	**2,738.8**
Carrying amount							
At 31 December 2013		792.1	1,245.6	–	2,037.7	14.5	2,052.2
At 31 December 2014		**299.9**	**1,067.5**	**–**	**1,367.4**	**12.5**	**1,379.9**

During the year, US$66.3 million (2013: US$42.4 million) of finance costs were included in the cost of qualifying assets

(a) Additions

Additions during the year included capital expenditure in respect of the Ebok field of US$345.6 million, Okoro development of US$89.9 million, OML 26 of US$30.1 million, Okwok of US$67.8 million, OML 113 of US$14.4 million and the Barda Rash field of US$145.9 million.

Additions during 2013 included capital expenditure in respect of the Ebok field of US$274.1 million, Okoro development of US$104.1 million, OML 26 of US$7.9 million and the Barda Rash field of US$224.1 million.

(b) Provisions

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, OML 26 and Okwok fields that are expected to be incurred up to 2033. A provision relating to Barda Rash has also been recognised in the current year, following the write off of the asset in the year. No provision had been recognised in previous years as it had been expected that the asset would be returned to the government or another contractor prior to any decommissioning liabilities being incurred. Management have since reassessed the likelihood of the Group being responsible for decommissioning liabilities and as a result have recognised a US$21.0 million provision during the period.

Following the disposal of the Group's interest in CI-11, the related provision was released in 2013. The table below details the movements in the provision.

	2014		2013	
	Current US$m	Non-current US$m	Current US$m	Non-current US$m
At 1 January	–	30.1	–	39.4
Addition during the year	–	2.0	–	1.6
Unwinding of discount	–	2.7	–	2.2
Disposal of subsidiary	–	–	–	(10.7)
Effects of changes to decommissioning estimates	21.0	9.2	–	(2.4)
At 31 December	**21.0**	**44.0**	**–**	**30.1**

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 Group's share of the estimated future 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, and external reports where relevant.

Additions during 2014 relate to provisions for abandonment of additional wells drilled at the Ebok, Okoro and OML 26 fields, as well as facilities at Okwok. Management believes the estimates continue to form a reasonable basis for the expected future costs of decommissioning.

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) 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 on working interest basis to the estimated quantities of commercial reserves, generally on a field by field basis. Production used for the calculation of depreciation, depletion and amortisation includes any amounts provided to Partners to settle residual net profit interest liabilities, on which no revenue is generated. 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 2013.

Included in the depletion, depreciation and amortisation charge during the year is US$16.7 million (2013: US$28.8 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

(d) Impairment

Impairment
Non-current assets are assessed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication of impairment exists, the Group makes an estimate of the asset's recoverable amount. Individual assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash inflows that are largely independent of the cash inflows of other groups of assets. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing fair value less costs of disposal, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money. Fair value less costs to sell is identified as the price that would be received to sell the asset in an orderly transaction between market participants.

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.

The impairment of property, plant and equipment relates to Barda Rash in the Kurdistan region of Iraq (US$932.6 million) and Ebok in Nigeria (US$273.0 million).

An updated reserves report has been received which, on the basis of extended well testing and greater knowledge surrounding well performance compared to the previous report received in 2011, indicated Barda Rash only has contingent resources. As these contingent resources are considered to require more capital to develop than aligns with the Group's priorities, it is not expected that the Company will undertake the development previously planned. Given the current market environment, there are significant uncertainties around any estimated sale value and the asset has been impaired in full.

Following the sharp decline in forecast oil prices, an impairment test has been performed in respect of Ebok, which has resulted in a reduction in the estimated recoverable value of the asset to US$683.4 million and the recognition of a US$273.0 million impairment charge.

The recoverable value of Ebok at 31 December 2014 has been determined on a fair value less costs of disposal basis using a discounted cash flow method which incorporates cash flows to 2025.

In calculating discounted cash flows, management has made the following key assumptions:

- Production volumes: Estimates are based on detailed independent forecasts for the field and take into account the development plan agreed by management as part of the long-term planning process;
- Discount rate: A 10% real post-tax discount rate has been used which, taking into account other assumptions used in the calculation, management considers to be reflective of the risks specific to the Ebok asset.
- Crude oil price: Management uses a real long-term price assumption of US$90/bbl for calculation of future cash flows.

In addition, in light of the ongoing communication relating to the applicable royalties regime, as disclosed in note 1.6, and the limitation of Pioneer certificate, as disclosed in note 5.16, the Group has reflected in the fair value less costs to sell assessment the estimated probabilities of unfavourable outcome of both disputes. As a result of the impairment of Ebok, there has been an associated increase in the deferred tax asset which has been assessed for recoverability as described in note 2.3(b).

The fair value estimate which includes future capital spend and other input assumptions not derived from an observable market is considered a Level 3 fair value measurement, see note 5.6. No previous measurement was undertaken as there were no previous impairment indicators.

4.5 Capital commitments
Capital commitments in respect of property, plant and equipment and intangible exploration and evaluation assets are outlined in note 3.1.

4.6 Inventories

Oil inventories are stated at the lower of cost and net realisable value.

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.

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 investing 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.

The table details the carrying value of inventories as at 31 December:

	2014 US$m	2013 US$m
Oil inventory	61.8	30.0
Spare parts and materials	102.9	50.9
	164.7	**80.9**

Oil inventory is mainly comprised of Ebok, US$28.1 million (549,960 bbls valued at $51.04/bbl) and Okoro, US$33.7 million (594,245 bbls valued at $56.74/bbl).

Oil inventories are stated net of a provision of US$12.1 million (2013: US$ nil) to write down inventory to net realisable value.

Spare parts and materials are stated net of a provision of US$3.1 million (2013: US$1.6 million) to write down the inventory to net realisable value. The increase in inventory relates largely to materials to be consumed in future development drilling activities.

4.7 Interests in other entities

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 accounts for its share for joint operations on a line by line basis.

(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

During 2014, the Group recognised a loss from its share in joint ventures of US$1.7 million (2013: US$26.6 million). The loss comprises the write-off of the Group's interest in joint ventures of US$1.7 million (2013: US$8.4 million) and impairment of amounts receivable from the joint venture of US$ nil (2013: US$18.2 million).

4.8 Contingent liabilities

Contingent liabilities are possible obligations that arise from past events and whose existence will only be confirmed by the occurrence of one or more future events that are beyond the control of the Group. Furthermore, present obligations may constitute contingent liabilities if it is possible that an outflow of resources will be required to settle the obligation, if, however, a sufficiently reliable estimate of the amount of the obligation cannot be made.

		As at 31 December	
		2014 US$m	2013 US$m
Standby letter of credit in respect of contractual agreements of the Okoro FPSO, Ebok MOPU/FSO, Kenya L17/L18	(i)	22.0	12.0
Bank guarantee in relation to Partner	(ii)	70.0	70.0
Performance bond issued by a bank in respect of exploration activities	(iii)	12.0	38.1
Revision to fiscal terms on marginal fields in Nigeria	(iv)	25.4	–
Lion Petroleum arbitration case against EAX	(v)	10.0	–
Earl Act option	(vi)	45.7	–
Guarantee in respect of FHN hedges		–	11.0
FHN letter of credit in respect of OML 26		–	10.0
		185.1	**141.1**

Notes:

(i) Standby letter of credit in respect of Okoro FPSO of US$6.0 million expires in July 2015, Ebok MOPU/FSO of US$6.0 million expires in August 2015 and Kenya L17/L18 activities of US$10.0 million expire in October 2015.

(ii) Bank guarantee in relation to a loan facility held by a Partner, expiring in December 2015.

(iii) Parent company guarantee due to expire within the year relating to minimum licence spend commitments.

(iv) During 2014, the Group received a letter from the Department of Petroleum Resources (DPR) in Nigeria stating that, as from 4 July 2014, marginal fields would be subject to revised fiscal terms. The impact of this for the Group in 2014 is estimated to be US$25.4 million although the overall economic impact is estimated to be lower at US$20.5 million due to Partner recoveries. The Directors intend to appeal this revision and believe, on the basis of legal advice received, that the outcome will be in the Group's favour.

(v) Arbitration proceedings by Lion Petroleum in respect of Block 1, Kenya. See note 5.16 for more details.

(vi) As described in note 5.9(b) Afren was notified that Earl Act expected the put and call option over FHN shares to also cover an additional tranche of 13,780,008 FHN shares currently held by an affiliate of Earl Act, which would have amounted to an additional US$45.7 million in excess of the liability recorded for the put and call option. As described in note 5.16 post period end Afren has reached an agreement to purchase these shares at a price of US$2.80 per share and the resulting consideration of US$38.6 million will be payable in 10 equal instalments commencing 30 June 2017.

As announced on 13 October 2014, as a result of an independent investigation by WFG, the Company notified the UKLA of two breaches of its Listing Rules obligations in respect of two transactions which occurred in 2012 and 2013. In addition, as announced on 20 March 2015, Afren has notified the Serious Fraud Office of preliminary concerns regarding certain matters of potential non-compliance with laws and regulations. Regulatory bodies have the power to levy fines and penalties for non-compliance with laws and regulations. However, to date, no fines or penalties, nor any other potential censure, have been communicated to the Company in relation to these matters, and the Directors conclude it is impossible to quantify any potential exposure in respect of such matters.

The Directors have undertaken an assessment of existing guarantees and commitments which relate to the Group's exploration and evaluation licences, and in particular those that have been impaired, and are satisfied that the risk of any further liability is remote. This assessment included additional guarantees and commitments which are not listed above.

Certain other contingent liabilities arising subsequent to the balance sheet date are disclosed in note 5.16.

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

In the current year, the Group has applied a number of amendments to IFRSs and a new interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for accounting periods that end 31 December 2014:

Amendments to IAS 32 on offsetting financial assets and liabilities

As the Group does not have any financial assets and financial liabilities that qualify for offset, the adoption of the amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

Amendments to IAS 36 on recoverable amount disclosures for non-financial assets

The application of these amendments has had no material impact on the disclosures in the Group's consolidated financial statements.

Amendments to IAS 39 on the novation of derivatives and continuation of hedge accounting

As the Group does not have any derivatives that are subject to novation, the adoption of these amendments has had no impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

At the date of authorisation of these financial statements, the following standards, amendments and interpretations which have not been applied in these financial statements were in issue but are not yet effective and have yet to be adopted by the EU:

IFRS 9 Financial Instruments

IFRS 15 Revenue from Contracts with Customers

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods, except that IFRS 9 will impact both the measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 until a detailed review has been completed.

5.2 Audit and non-audit fees

	2014 US$m	2013 US$m
An analysis of auditors' remuneration is as follows:		
– Fees payable to the Company's auditor for the audit of the Company's financial statements	0.9	0.5
– 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	0.6	0.5
Total audit fees	**1.5**	**1.0**
– Audit-related assurance services	0.4	0.3
– Taxation compliance services	–	–
– Other taxation advisory services	0.1	–
– Corporate finance services	–	0.9
Total non-audit fees	**0.5**	**1.2**

Audit-related assurance services in 2014 and 2013 include the auditors' reviews of the Group's interim and quarterly reporting.

Fees paid to Deloitte for audit and other services provided 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 2013, 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 Financial risk management

Financial risk management objectives

The Group monitors and manages the financial risks relating to its operations through internal risk reports which analyse exposure by type and magnitude of risks. These risks include market risk, credit risk, liquidity risk and cash flow risk.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Board of Directors agrees and reviews policies for managing each of these risks.

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 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 the number of counterparties and, other than transactions with major oil companies with high credit ratings 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 credit risk on advances to Partners is limited as the amounts due can be recouped through operating the assets of the arrangement.

The Group's total maximum exposure to credit risk as at 31 December 2014 was US$495.6 million (2013: US$545.8 million), made up of cash and bank balances and trade and other receivables (excluding prepayments).

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built a liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements.

The Group closely monitors and manages its liquidity risk. Cash forecasts are regularly produced and sensitivities run for different scenarios including, but not limited to, changes in commodity prices, different production rates from the Group's portfolio of producing fields and delays in development projects.

Important additional information relating to the Group's funding and liquidity status is included in the Directors' report on page 76.

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 a receivable is not recoverable, it is impaired with a corresponding charge to the income statement.

Trade and other receivables includes underlift amounts – refer to note 4.6 Inventories for further details.

Prepayments and advances to Partners are generally interest-free. These amounts are recognised initially at the present value of all future cash receipts, discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating.

No trade or other receivable items bear interest.

	2014 US$m	2013 US$m
Trade and other receivables – current		
Trade and other debtors*	190.7	141.6
Prepayments and accrued income	31.1	68.0
	221.8	209.6
Prepayments and advances to Partners	64.0	99.3
	285.8	**308.9**

* The amount shown is net of a provision for doubtful debts of US$20.6 million (2013: US$12.2 million).

There were no material receivables which were past due but not impaired at either balance sheet date.

At 31 December 2013 advances to Partners represented the amortised cost of a US$100.0 million loan to Oriental in relation to the Ebok field which Afren recovered in full during 2014. The balance as at 31 December 2014 relates to a further Partner advance.

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.

Where settlement of net profit interest liabilities occurs via the delivery of barrels of oil, rather than cash, this is accounted for as a reduction to the outstanding creditors' balance and a corresponding credit to cost of sales.

	2014 US$m	2013 US$m
Trade creditors	24.7	51.7
Other creditors and operating Partners	329.6	366.0
Accruals	381.0	299.5
	735.3	**717.2**

Accruals include interest payable of US$2.4 million (2013: US$2.6 million) relating to the bank borrowings and US$23.5 million (2013: US$22.4 million) of coupon interest relating to the loan notes, which are both described in note 3.6.

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 inputs for the asset or liability that are not based on observable market data.

				Carrying amount		Fair value	
	Carried at	Level	Notes	2014 US$m	Restated[1] 2013 US$m	2014 US$m	Restated[1] 2013 US$m
Financial assets							
Advances to Partners	Amortised cost	2	(i)	64.0	99.3	64.0	99.3
Available for sale investments	Fair value	1		–	1.3	–	1.3
Derivative financial instruments	Fair value	2		–	0.1	–	0.1
				64.0	**100.7**	**64.0**	**100.7**
Financial liabilities							
Derivative financial instruments	Fair value	2		13.1	45.3	13.1	45.3
Derivative over own equity	Amortised cost	3	(ii)	57.5	52.3	46.7	10.0
Borrowings – Ebok RBL	Amortised cost	2	(iii)	296.8	204.1	293.5	229.3
Borrowings – FHN	Amortised cost	2	(iii)	98.8	77.3	96.4	80.0
Borrowings – Okwok	Amortised cost	2	(iii)	57.7	–	61.2	–
Loan notes	Amortised cost	1		850.7	847.6	577.3	936.1
				1,374.6	**1,226.6**	**1,088.2**	**1,300.7**

(1) Table restated to include advances to Partners

Notes:
(i) Advances to Partners: The balance at 31/12/13 represented advances paid to Oriental relating to the Ebok field in 2012 which Afren recovered in full during 2014. The fair value was calculated based on the expected timing of repayments and using a discount rate of 2%. The balance at 31/12/14 relates to a further Partner advance. As this is expected to be recovered in less than 12 months no discounting has been included in the calculation of the fair value.
(ii) FHN options: The valuation of these options requires assumptions regarding FHN's share price which is not based on observable market data. These options were therefore valued using a Black-Scholes model for which changing certain inputs to reflect reasonable possible alternative assumptions does not change fair value significantly.
(iii) Bank borrowings: Fair values have been determined by reference to LIBOR forward curves and by discounting future cash outflows at 10%.

There have been no transfers between levels in the period.

The FHN options are classified at Level 3. As such, their valuation requires assumptions regarding FHN's share price which are 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.

Inputs	2014	2013	
Strike price (US$)	3.32	3.32	As per option agreement
Stock price (US$)	0.65	3.14	Most relevant share price of FHN at reporting date
Time (days)	375	735	Days to expiry of option exercise period
Volatility (%)	25.0	25.0	Estimate for an unquoted oil and gas company
Risk free interest rate (%)	0.1	0.1	10 year US gilt rate

The movement in fair value of Level 3 instruments, measured on a recurring basis, were:

	Put US$m	Call US$m	Total US$m
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 1 January 2014	**(10.0)**	**–**	**(10.0)**
Change in fair value	(36.7)	–	(36.7)
At 31 December 2014	**(46.7)**	**–**	**(46.7)**

5.7 Sensitivity analysis

Interest rate risk

The sensitivity analysis has been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date where the Group is exposed to a variable interest rate. If interest rates had been 1% higher and all other variables held constant, the Group's interest payable for the year ended 31 December 2014 would increase by US$3.1 million (2013: US$2.3 million), a portion of which would be capitalised to assets.

Oil price risk

The Group's exposure to the risk of changes in oil price relates primarily to the Group's derivative financial instruments. In 2013, the terms of the derivative financial instruments were such that the Group received a minimum amount if the market fell, but received a set discount from the market price if the oil price was 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) 2014 US$m	Positive/(adverse) 2013 US$m
Increase in oil price by 10%	–	2.9
Decrease in oil price by 10%	–	(6.2)

As per note 3.3, there were no open hedge positions at the end of 2014.

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 2014 or 2013.

5.8 Staff costs

	2014	2013
The average monthly number of employees (including Executive Directors) was as follows:		
Administration	30	36
Professional	285	258
	315	**294**

Their aggregate remuneration comprised:

		2014 US$m	2013 US$m
Wages and salaries		56.5	59.0
Share-based payments	(a)	9.2	25.2
Social security costs		(1.7)	8.5
Pension costs	(b)	4.0	3.5
		68.0	**96.2**

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$9.9 million (2013: US$16.7 million).

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 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 two schemes:

		2014 US$m	2013 US$m
Equity-settled share option scheme	(i)	0.6	12.6
Long Term Incentive Plan: Afren Performance Share Plan (equity-settled share award scheme)	(ii)	8.6	12.6
		9.2	**25.2**

(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 10 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:

	2014		2013	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the year	49,403,834	0.85	55,209,834	0.82
Granted during the year	505,000	1.48	2,040,000	1.41
Exercised during the year	(1,986,000)	0.80	(6,416,000)	0.63
Forfeited during the year	(20,585,667)	0.71	(1,430,000)	1.38
	27,337,167	**0.96**	**49,403,834**	**0.85**
Exercisable at end of the year	23,642,167	0.91	43,066,334	0.78

The weighted average remaining contractual life of the options outstanding at 31 December 2014 was 4.6 years (2013: 5.3 years).

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2014 was 80p (2013: 148p).

In 2014, options were granted on 1 January, 1 April and 1 July. The aggregate of the estimated fair values of the options granted on those dates was US$0.4 million.

In 2013, options were granted on 3, 8, 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.

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:

	2014	2013
Weighted average share price (pence)	147.9	141.9
Weighted average exercise price (pence)	147.9	141.9
Weighted average target price before eligibility to exercise (barrier) (pence)	207.0	198.5
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 was in line with the prior year up until when the 2014 options were granted in June 2014.

The Group recognised total expenses related to equity-settled share-based payment transactions in the form of options in 2014 of US$0.6 million (2013: US$1.0 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 2014 award was as follows: Anadarko Petroleum Corporation, Apache Corporation, Cairn Energy, Canadian Natural Resources, DNO, Dragon Oil, Enquest, Genel Energy, Gulfsands Petroleum, Hess Corporation, JKX Oil & Gas, Lundin Petroleum, Marathon Oil Corporation, Maurel et Prom, Niko Resources, Noble Energy, PA Resources, Pioneer Natural Resources, Premier Oil, Salamander Energy, Seplat, 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, 25% 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 relates 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:

	2014		2013	
	Number of share options	Weighted average exercise price £	Number of share options	Weighted average exercise price £
Outstanding at beginning of the year	33,904,155	0.01	27,704,588	0.01
Granted during the year	11,934,281	0.01	13,512,561	0.01
Exercised during the year	(7,306,401)	0.01	(4,188,209)	0.01
Forfeited during the year	(9,365,503)	0.01	(3,124,785)	0.01
Outstanding at end of the year	**29,166,532**	**0.01**	**33,904,155**	**0.01**
Exercisable at end of the year	–	**0.01**	–	**0.01**

The awards outstanding at the end of 31 December 2014 have a weighted average remaining contractual life of 1.5 years (2013: 1.7 years) and an exercise price of £0.01 (2013: £0.01).

The aggregate of the fair value of the options granted during the year ended 31 December 2014 was US$4.6 million (2013: US$13.1 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:

	2014	2013
Weighted average share price (pence)	140.7	123.6
Weighted average exercise price (pence)	0.0	0.0
Expected volatility	40%	40%
Expected life (years)	3.0	3.0
Risk-free rate	–	–
Expected dividends	–	–

Following the review of the volatility of Afren shares, as described in note 5.8 (a) (i), the volatility assumption has remained the same and 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 2014 of US$8.6 million (2013: US$12.6 million).

(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. As at 31 December 2014, pension costs amounting to US$0.3 million (2013: US$0.1 million) were not yet paid over to the scheme administrator.

5.9 Other reserves

	Share-based payment reserve US$m	Put option over own equity US$m	Convertible loan notes US$m	Hedging reserve US$m	Other reserves US$m	Total US$m
Group						
At 1 January 2013	48.2	(43.5)	1.9	–	0.3	6.9
Share-based payments for services	20.7	–	–	–	–	20.7
Transfer to accumulated (loss)/profit	(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)**	**–**	**–**	**0.7**	**27.5**
Share-based payments for services	9.2	–	–	–	–	9.2
Transfer to accumulated (loss)/profit	(1.5)	–	–	–	–	(1.5)
Exercise and lapse of warrants designated as financial liabilities	(0.2)	–	–	–	–	(0.2)
Purchase of own shares	(3.1)	–	–	–	–	(3.1)
Gain on derivative financial instruments	–	–	–	86.8	–	86.8
Other movements	–	–	–	–	(0.7)	(0.7)
At 31 December 2014	**81.0**	**(49.8)**	**–**	**86.8**	**–**	**118.0**

(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 2013, one option expired and one was exercised as part of Afren's increase in equity ownership of FHN.

In 2013, Afren entered into a put and call agreement with Earl Act Global Investments (Earl Act) in respect of 18,219,992 million FHN shares, representing approximately 12.5% of FHN 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 'Financial Instruments: Recognition and Measurement', the options are accounted for as options over own equity, whereby a liability for the present value of the obligation is recognised within other financial liabilities, with a corresponding charge in other equity.

Afren received notification that Earl Act expected the put and call option to also cover an additional tranche of 13,780,008 FHN shares currently held by an affiliate of Earl Act, which at the option price of US$3.32 would amount to an additional US$45.7 million. These shares are those previously held by current and previous members of the Afren plc Board and senior management, and were disposed of during 2013. The Directors are of the opinion that at the time of their disposal and at 31 December 2014, there was no arrangement between Afren, Earl Act, the affiliate of Earl Act or the current and previous members of the Afren plc Board as to any obligation to acquire such shares at a future date. As described in note 5.16, on 31 March 2015 Afren reached an agreement with Earl Act to restructure the put and call option.

(c) Convertible loan note
In July 2013, the Group redeemed the convertible loan note in full.

(d) Hedging reserve
In December 2014, the Group closed out its commodity deferred put options.

5.10 Non-controlling interests

	Total US$m
Non-controlling interests	
At 1 January 2013	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**
Share-based payments for services	–
Issue of share capital	–
Share of result for the year	(27.9)
At 31 December 2014	**(17.2)**

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 2014, 22% (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.

Trading transactions

During the year, Group companies entered into the following transactions with related parties:

	Sale of goods/services		Purchase of goods/services		Amounts owed to related parties	
	Year ended 2014 US$m	Year ended 2013 US$m	Year ended 2014 US$m	Year ended 2013 US$m	Year ended 2014 US$m	Year ended 2013 US$m
St. John Advisors Ltd	–	–	0.2	0.3	–	–
STJ Advisors LLP	–	–	–	0.2	–	–
Other related parties	–	–	0.3	0.3	–	–

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 received a monthly retainer of £15,000 under a contract which started from 27 June 2008. The contract was terminated in May 2014.

Other related parties include two individuals who served on Afren's Board of Directors during the year who each had a close family member employed by the Group. These individuals were employed at market rates and received compensation totalling US$0.1 million and US$0.1 million (2013: US$0.2 million and US$ nil) under the terms of their contracts of employment. In addition, a close family member of a member of key management personnel was employed by the Group during the year at market rates and received compensation totalling US$0.1 million (2013: US$0.1 million) under the terms of their contract of employment.

On 13 October 2014, the Company announced the results of an independent review undertaken by Willkie, Farr and Gallagher into disclosure around previous transactions and unauthorised payments. Within this announcement it was explained that evidence had emerged to suggest that, in relation to a US$100.0 million settlement paid by the Group to Amni International Petroleum Development Company Limited (Amni) in December 2013, Osman Shahenshah and Shahid Ullah (both of whom were Directors of Afren plc at the time of the payment) intended to obtain a personal benefit from the transaction. The personal benefit was considered most likely to take the form of the acquisition of equity in the company which was incorporated to acquire Amni as part of a management buy-out. Both Osman Shahenshah and Shahid Ullah denied that they obtained any benefit from this transaction and no conclusive evidence has emerged that would indicate they had ownership of any Amni shares. Amni is therefore not considered to be a related party and has not been disclosed as such.

Tzell Travel Group (Tzell) has been utilised by Afren for some of its travel needs, an employee of which is a close family member of Osman Shahenshah. The Company does not believe Tzell should be considered a related party. Afren uses several travel agents as there is a significant travel element to its operations. Transactions totalling US$0.1 million (2013: US$0.4 million) were entered into with Tzell during the year, upon which commission of approximately US$40 per transaction was paid by Afren to Tzell, the balance being direct costs for air fares and hotel accommodation. As at 31 December 2014, no amounts were outstanding (2013: US$nil). No further transactions are expected with Tzell.

Details are provided in note 5.9(b) of an additional tranche of FHN shares disposed of by current and former members of the Afren plc Board and senior management in 2013 and a put option and call option over FHN shares between Afren and Earl Act. As a result, for the reasons described in note 5.9(b) Afren believes there was no related party transaction to be disclosed in respect of this additional tranche of FHN shares.

5.12 Remuneration of key management personnel

The remuneration of the Directors and Associate 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 and benefits of individual Directors, transactions with Directors and Directors' interests is provided in the audited part of the Directors' remuneration report.

	2014 US$m	2013 US$m
Short-term employee benefits	4.8	8.0
Other long-term benefits	0.4	0.2
Post-employment benefits	0.1	0.1
Share-based payments	5.2	1.6
	10.5	**9.9**

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.

	US$m
Cost	
At 1 January 2013, 31 December 2013 and 31 December 2014	**115.2**
Accumulated impairment	
At 1 January 2013 and 31 December 2013	–
Impairment loss	115.2
At 31 December 2014	**115.2**
Carrying amount	
At 31 December 2013	115.2
At 31 December 2014	–

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).

Following a change in production profile, combined with a sharp decline in forecast oil price, an impairment test has been performed which has resulted in the carrying value of goodwill being impaired in full.

The recoverable amount of the CGU as at 31 December 2014 of US$189.1 million has been determined on a fair value less costs of disposal basis, using a discounted cash flow method which incorporates cash flows to 2050.

In calculating discounted cash flows, management has made the following key assumptions:

- Production volumes: Estimates are based on detailed independent forecasts for the field and take into account the development plan agreed by management as part of the long-term planning process;
- Discount rate: A 10% real post-tax discount rate has been used which, taking into account other assumptions used in the calculation, management considers to be reflective of the risks.
- Crude oil price: Management uses a real long-term price assumption of US$90/bbl for calculation of future cash flows.

The fair value estimate, which includes future capital spend and other input assumptions not derived from an observable market, is considered a Level 3 fair value measurement, see note 5.6 for explanation.

5.14 Discontinued operations

On 16 May 2013, the Group entered into a sale agreement to dispose of Afren Cote 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 profit on disposal of US$25.3 million was recognised in the prior year.

The results of the discontinued operations, which have been included in the consolidated statement of comprehensive income, were as follows:

	Year ended 31 December 2014 US$m	Year ended 31 December 2013 US$m
Revenue	–	21.8
Expenses	–	(7.1)
Operating profit from discontinued operations	–	14.7
Taxation	–	(1.9)
Profit on disposal of subsidiary	–	25.3
Profit after tax from discontinued operations	–	38.1

An analysis of the cash flows from discontinued operations is presented below:

	Year ended 31 December 2014 US$m	Year ended 31 December 2013 US$m
Cash flow from operating activities		4.2
Cash flow from investing activities	–	–
Cash flow from financing activities	–	–
	–	4.2

An analysis of the net proceeds on disposal of the entities is presented below:

	Year ended 31 December 2014 US$m	Year ended 31 December 2013 US$m
Consideration received	–	21.0
Cash in subsidiary at date of disposal	–	(3.5)
Net proceeds on disposal of subsidiary	–	17.5

5.15 Correction of prior period error

As discussed in note 1, the financial performance and position of the Group has been restated for the year ended 31 December 2013. There has been no change to reported net assets or profit after tax.

Adjustments to the consolidated income statement

	Year ended 31 December 2013 as previously stated US$m	Effect of adjustment US$m	31 December 2013 as restated US$m
Cost of sales	(1,001.4)	(178.0)	(1,179.4)
Profit before tax from continuing operations	318.1	(178.0)	140.1
Income tax credit	156.7	178.0	334.7
Profit for the year	512.9	–	512.9

Adjustments to the consolidated cash flow statement

	Year ended 31 December 2013 as previously stated US$m	Effect of adjustment US$m	31 December 2013 as restated US$m
Operating profit for the year from continuing operations	491.0	(178.0)	313.0
Purchases of property, plant and equipment	(466.0)	(2.0)	(468.0)
Acquisition of additional licence rights and tax benefits	(300.0)	180.0	(120.0)

The 2013 income tax credit, as restated, now includes a gain of US$178.0 million on the deferred tax asset of US$298.0 million arising from Ebok capital allowances acquired in a prior year transaction with a field Partner, which was previously assumed to have been paid for in full.

This reflects a change in judgement as to how the consideration of US$300.0 million paid in the transaction should be split between tax and oil entitlement benefits acquired, with the corresponding effect being cost of sales.

Further detail is provided in note 1.6.

5.16 Post balance sheet events – Company and Group

On 12 January 2015, Afren plc announced an update in relation to Barda Rash, a field in the Kurdistan region of Iraq in which it owns a 60% working interest via a wholly owned subsidiary. The announcement stated that an updated Competent Person's Report was expected to show a material reduction to previously published estimates of reserves and resources which would essentially eliminate gross proven and probable reserves of 190 mmbbls. This has been fully reflected within the financial statements for the year ended 31 December 2014. A divestment of these assets is expected to complete within the next 12 months.

On 26 January 2015, Afren Resources Limited, an indirect wholly owned subsidiary of Afren plc, received a letter from the Nigerian Investment Promotion Commission informing that the initial tax holiday in relation to the Ebok field had been reduced from five to three years. If enforced, the tax holiday would have effectively ceased on 31 May 2014 although two further annual periods of extension can be applied for. Afren intends to contest the reduction and apply for the two-year extension as necessary. If it is the case that neither of these actions is successful, the income tax credit would decrease by US$87.1 million (a sum of additional current income tax and a reduction in deferred tax) from US$303.9 million to US$216.8 million with a corresponding US$3.6 million increase in current income tax payable from US$15.7 million to US$19.3 million as at 31 December 2014, and a decrease in deferred tax asset from US$348.2 million to US$264.7 million as at 31 December 2014.

On 20 February 2015, the Central Bank of Nigeria (CBN) released a circular TED/FEM/FPC/GEN/01/006 restricting access to funds in Export Proceeds Domiciliary Accounts. In compliance with the directive, Afren's operational practices including cash management, vendor payments, and fulfilment of other statutory/financial obligations have been adversely affected. Several trade and industry groups are actively engaging the CBN and it is anticipated that a resolution may be achieved in the upcoming months.

On 13 March 2015, Afren plc announced an agreement in principle to address its short and longer-term funding needs and recapitalise its capital structure. More details are provided in note 1 to the financial statements and the going concern section of the Directors' report.

Since the announcement of the review of the Group's capital structure and funding requirements, Afren has received a number of claims for breaches of contract for non-payment of amounts due for services provided and/or the termination of services contracts. These claims have arisen in part due to the liquidity constraints facing the Group, as well as actions taken to reduce costs in line with the revised focus on the Group's core producing assets. Such claims include:

- Notices of claim for US$10.25 million and US$93.89 million by West African Ventures against Afren Exploration and Production Nigeria Alpha Limited and Afren Energy Resources Limited, respectively, for termination and cancellation fees, costs, losses and expenses allegedly due following the termination of oil services contracts with WAV relating to Okwok and Okoro;
- An alleged default notice and purported termination notice served by Amni in respect of the PSTSA arising in respect of the termination of the WAV contract for Okoro. The PSTSA is the primary legal agreement through which the Group derives its entitlement benefits and reserves of the Okoro field;
- Arbitration proceedings by Lion Petroleum for US$10.0 million in damages in respect of alleged breaches of the Joint Operating Agreement signed between East African Exploration (Kenya) Limited and Lion Petroleum in respect of Block 1, Kenya.

The Company disputes and/or has rejected such claims and is in discussions with the relevant claimants regarding potential settlements and/or withdrawal of such claims. A contingent liability has been disclosed in note 4.8 in respect of the Lion Petroleum claim, no other provisions or contingent liabilities have been recorded or disclosed in the 2014 financial statements.

On 15 April 2015 the Group signed an agreement with Earl-Act Global Investments Limited (EAG) and CSL Trustees Limited (CSL), an affiliate of EAG, to acquire the 22% of shares in First Hydrocarbon Nigeria Company Limited (FHN) that the Group does not currently own. Afren has amended the terms of the put/call option with EAG announced on 5 July 2013 in respect of 18,299,993 shares in FHN to be acquired at US$3.32 per share and has also agreed to purchase the 13,780,008 FHN shares owned by CSL at US$2.80 per share. In each case such shares will now be acquired and the purchase price will be payable in equal quarterly instalments from 30 June 2017 to 30 September 2019 (together with annual interest of LIBOR + 6.5% payable in cash and 2.5% payable in kind payable in respect of the purchase price).

The Group has also successfully re-scheduled the payment terms in respect of 11,322,111 shares in FHN acquired from Capital Alliance Energy Nigeria Limited (as previously announced on 5 July 2013) such that the outstanding purchase price of US$22.3 million will now be payable in instalments between July and December 2015 (rather than in full in July 2015).

On 30 April 2015, Afren Resources Limited (ARL) and its Partner on the Ebok field, Oriental, signed a settlement agreement in respect of Ebok and Okwok. As part of these arrangements, Afren has agreed to transfer to Oriental amounts recovered (excluding those which compensate for legal fees Afren has incurred) from former Directors and officers of the Company in relation to the unauthorised payments issue. A liability for these amounts has been recorded in the 2014 financial statements. Afren has also agreed with our Partner, Oriental, that they will fund their share of Capex in Ebok. Going forward this will result in a lower share of production following the end of all cost recovery. In addition Afren has agreed with Oriental that in order to retain its participation in the Okwok licence it will decide by the end of June 2015 on the further development plan and commit to the funding of the field, following completion of the recent development well and a review of the optimum development plan. The carrying value of Okwok at 31 December 2014 is US$200.2 million. Similarly the Group has agreed that in order to retain its participation in the OML 115 licence, it will decide by the end of 2015 to commit to a development plan. The carrying value of OML115 at 31 December 2014 is US$82.4 million.

The Okwok licence expired in March 2015, however, the partners expect that the licence will be renewed on the basis that they have made sufficient progress in the development of the asset. In respect of the Ebok licence, the Group is entitled to an extension for the lifespan of the field, which is in progress following expiry of the current term in March 2015.

On 30 April 2015, following the satisfaction of the conditions precedent, Afren and certain holders of its Existing Notes entered into a note purchase agreement in respect of the issue of the PPNs to provide $200 million in net interim funding. As announced on 13 March 2015, Afren has also agreed in principle the terms of a financial and capital restructuring which is expected to be completed by the end of July 2015 providing a further US$55 million to US$105 million. In relation to the interim funding, Afren will receive US$200m from the issue of US$212 million Private Placement Notes (PPNs) at a discount of 5.5%. The PPNs will have an annual interest rate of 15% (payable in kind) and will mature no later than April 2016. The proposed restructuring plan includes the issuance of high yield notes, a debt-for-equity swap, an open offer of new shares to all shareholders and an amendment to the Ebok loan facility. If the Company's shareholders approve the restructuring plan, on completion US$206.6 million of the PPNs will be redeemed in cash at par plus accrued interest and US$5 million of the PPNs will be converted into ordinary shares representing 5% of the fully diluted share capital of the Company post recapitalisation. If the Company's shareholders reject the restructuring proposals, the PPNs will be repaid at par plus accrued interest on the completion of an alternative restructuring plan or the maturity date.

Company balance sheet

For the year ended 31 December 2014

	Notes	2014 US$m	2013 US$m
Assets			
Non-current assets			
Property, plant and equipment		4.9	4.3
Investments in subsidiaries	6.2	–	1,031.8
Investment in trust	6.3	130.1	130.1
Trade and other receivables	6.6	783.2	1,161.1
Available for sale investments		–	1.3
Investment in joint ventures		–	1.6
		918.2	**2,330.2**
Current assets			
Trade and other receivables	6.6	32.3	4.6
Prepayments and advances to Partners		–	99.3
Derivative financial instruments		–	0.1
Cash and cash equivalents	6.7	96.0	16.1
		128.3	120.1
Total assets		**1,046.5**	**2,450.3**
Liabilities			
Current liabilities			
Trade and other payables	6.8	(37.5)	(91.4)
Derivative financial instruments	6.4	(51.4)	(28.0)
		(88.9)	(119.4)
Net current assets		**39.4**	**0.7**
Non-current liabilities			
Borrowings	6.5	(850.7)	(847.5)
Trade and other payables	6.8	(200.9)	(41.5)
Derivative financial instruments	6.4	(8.4)	(10.0)
		(1,060.0)	(899.0)
Total liabilities		(1,148.9)	(1,018.4)
Net (liabilities)/assets		**(102.4)**	**1,431.9**
Equity			
Share capital	6.9	19.2	19.1
Share premium	6.9	929.3	926.8
Merger reserve	6.9	–	179.4
Other reserves	6.11	53.9	50.9
Accumulated (loss)/profit		(1,104.8)	255.7
Total equity		**(102.4)**	**1,431.9**

The financial statements of Afren plc, registered number 05304498, were approved by the Board of Directors and authorised for issue on 30 April 2015. They were signed on its behalf by:

Darra Comyn
Group Finance Director

30 April 2015

Company cash flow statement

For the year ended 31 December 2014

	2014 US$m	2013 US$m
Operating loss for the year	(7.0)	(42.7)
Depreciation	2.3	1.5
Unrealised (gain)/loss on derivative financial instruments	(14.8)	14.8
Share-based payments (credit)/charge	(3.4)	3.6
Operating cash flows before movements in working capital	(22.9)	(22.8)
Decrease/(increase) in trade and other operating receivables	70.9	(14.9)
(Decrease)/increase in trade and other operating payables	(30.6)	85.5
Net cash provided by operating activities	**17.4**	**47.8**
Purchases of property, plant and equipment	(2.7)	(2.7)
Net loan repayments from Group companies	338.7	99.3
Proceeds on disposal of subsidiary	–	7.6
Investment in subsidiaries	(194.6)	(179.0)
Investment revenue	0.2	0.8
Net cash provided by/(used in) investing activities	**141.6**	**(74.0)**
Issue of ordinary share capital – warrants, options, share awards and LTIP exercises	2.6	6.7
Investment in trust	–	(99.0)
Purchase of own shares	(3.1)	–
Net proceeds from borrowings	–	304.6
Repayment of borrowings and finance leases	–	(346.6)
Interest and financing fees paid	(78.8)	(101.1)
Net cash used in financing activities	**(79.3)**	**(235.4)**
Net increase/(decrease) in cash and cash equivalents	79.7	(261.6)
Cash and cash equivalents at beginning of year	16.1	278.5
Effect of foreign exchange rate changes	0.2	(0.8)
Cash and cash equivalents at end of year	**96.0**	**16.1**

Company statement of changes in equity

For the year ended 31 December 2014

	Share capital US$m	Share premium account US$m	Merger reserve US$m	Other reserves US$m	Accumulated (loss)/ profit US$m	Total equity US$m
Company						
At 1 January 2013	18.9	920.3	179.4	38.3	(129.0)	1,027.9
Issue of share capital	0.2	6.5	–	–	–	6.7
Share-based payments	–	–	–	13.6	–	13.6
Transfer to accumulated (loss)/profit	–	–	–	(1.5)	1.5	–
Net profit for the year	–	–	–	–	383.2	383.2
Other comprehensive income for the year	–	–	–	0.5	–	0.5
Balance at 31 December 2013	**19.1**	**926.8**	**179.4**	**50.9**	**255.7**	**1,431.9**
Issue of share capital	0.1	2.5	–	–	–	2.6
Share-based payments	–	–	–	9.2	–	9.2
Transfer to accumulated (loss)/profit	–	–	(179.4)	(1.5)	180.9	–
Exercise of warrants designated as financial liabilities	–	–	–	(0.2)	0.2	–
Purchase of own shares	–	–	–	(3.1)	–	(3.1)
Net loss for the year	–	–	–	–	(1,541.6)	(1,541.6)
Other comprehensive expense for the year	–	–	–	(1.4)	–	(1.4)
Balance at 31 December 2014	**19.2**	**929.3**	**–**	**53.9**	**(1,104.8)**	**(102.4)**

Notes to the Company financial statements

For the year ended 31 December 2014

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.

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.

	US$m
Cost	
At 1 January 2013	883.0
Additions	179.0
At 31 December 2013	**1,062.0**
Additions	194.6
At 31 December 2014	**1,256.6**
Provision for impairment	
At 1 January 2013	–
Write-off of investment in subsidiary	30.2
At 31 December 2013	**30.2**
Write-off of investment in subsidiary	1,226.4
At 31 December 2014	**1,256.6**
Carrying Amount	
At 31 December 2013	1,031.8
At 31 December 2014	**–**

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	UK	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 Investment 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 & Production Nigeria Alpha Limited	Oil and gas exploration, development and production	100	Nigeria	Nigeria
Afren Exploration & Production Nigeria Beta Limited	Oil and gas exploration, development and production	100	Nigeria	Nigeria
Afren CI One Corporation	Oil and gas exploration, development and production	100	Côte d'Ivoire	Cayman Islands
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 Investments 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 interest in FHN is held in trust for the benefit of Afren and its Nigerian employees 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 uses 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
Put (sell) and call (buy) options for FHN shares	(d)	Options to buy and sell FHN shares	No

		2014		2013	
Derivative financial instruments	Level	Current US$m	Non-current US$m	Current US$m	Non-current US$m
Available for sale investments	1	–	–	–	1.3
Financial assets	2	–	–	0.1	–
Financial liabilities	2	(51.4)	(8.4)	(28.0)	(10.0)
		(51.4)	**(8.4)**	**(27.9)**	**(8.7)**

See note 5.6 of the Group financial statements for further explanation of grouping of financial instruments between levels. In relation to FHN options, amounts taken to profit and loss include movements in fair values and amounts arising 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.

6.6 Trade and other receivables

	2014 US$m	2013 US$m
Trade and other receivables – non-current		
Due from subsidiary undertakings*	783.2	1,161.1
	783.2	**1,161.1**
Trade and other receivables – current		
Trade and other debtors	32.3	4.4
Due from joint ventures	–	0.2
	32.3	**4.6**

* The amount is shown net of a provision for doubtful debt of US$298.0 million (2013: US$33.8 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 149 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

	2014 US$m	2013 US$m
Trade and other payables – non-current		
Due to subsidiary undertakings	200.9	41.5
	200.9	**41.5**
Trade and other payables – current		
Trade and other creditors	**5.8**	**45.3**
Accruals	**31.7**	**46.1**
	37.5	**91.4**

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:

	2014 US$m	2013 US$m
Equity-settled share option scheme	0.2	0.3
Long Term Incentive Plan: Afren Performance Share Plan (equity-settled share award scheme)	3.2	6.5
	3.4	**6.8**

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 2013	39.3	(1.0)	38.3
Share-based payments for services	13.6	–	13.6
Transfer to accumulated (losses)/profit	(1.5)	–	(1.5)
Other movements	–	0.5	0.5
At 31 December 2013	**51.4**	**(0.5)**	**50.9**
Share-based payments for services	9.2	–	9.2
Transfer to accumulated (losses)/profit	(1.5)	–	(1.5)
Exercise of warrants	(0.2)	–	(0.2)
Investment in own shares	(3.1)	–	(3.1)
Other movements	–	(1.4)	(1.4)
At 31 December 2014	**55.8**	**(1.9)**	**53.9**

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:

	2014 US$m	2013 US$m
Within one year	2.2	2.3
In the second to fifth years	5.0	7.4
	7.2	**9.7**

No amounts are due after five years as at 31 December 2014 or 31 December 2013. Operating lease expenses for the current and prior year were not material.

6.13 Contingent liabilities

The Company has the following contingent liabilities:

	2014 US$m	2013 US$m
Guarantee in respect of FHN hedges	–	11.0
Bank guarantee in relation to Partner	70.0	70.0
Parent company guarantee for exploration activities	11.0	–
Partner's share of payments recovered from former Directors	19.4	–
	100.4	**81.0**

6.14 Unrecognised deferred tax assets

At the balance sheet date the Company had tax losses (primarily arising in the UK) of US$143.8 million (2013: US$175.7 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$24.1 million (2013: US$16.1 million) in respect of share-based payments, property, plant and equipment and pensions from 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 and joint ventures were as follows:

2014	Subsidiaries US$m	Joint ventures US$m
Net loan repayments	(537.3)	(0.2)
Investments	(999.9)	–

2013	Subsidiaries US$m	Joint ventures US$m
Net loan advances/(repayments)	494.4	(19.2)
Investments	286.3	–

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.

Licences (not audited)

Country	Date acquired	Effective working interest (%)	Operator	Partner	Work programme
Nigeria, other West and South Africa					
Nigeria					
Ebok[6]	Q1 2008	100%/50%[1]	Afren	Oriental	Appraisal and Development, Production
Okoro[6]	Q2 2006	50%	Afren	Amni	Appraisal and Development, Production
OML 26	Q3 2010	45%[2]	NPDC	FHN	Appraisal and Development, Production
Okwok[6]	Q3 2009	70%/56%[3]	Afren	Oriental/Addax	Appraisal and Development, Production
OML 113	Q3 2013	16.875%[7]	Yinka Folawiyo	FHN	Appraisal and Development
OML 115[6]	Q1 2010	100%/50%[1]	Afren	Oriental	Exploration
OPL 310	Q4 2008	40%[4]	Afren	Optimum	Exploration
Côte d'Ivoire					
Block CI-523	Q3 2013	20%	Taleveras	PETROCI	Exploration
Block CI-525	Q3 2013	51.75%[5]	Afren	PETROCI/Taleveras	Exploration
Ghana					
Keta Block	Q4 2007	35%	Eni	GNPC	Exploration
Congo (Brazzaville)					
La Noumbi	Q2 2006	14%	Maurel et Prom	Eni	Exploration
South Africa					
Block 2B	Q1 2011	25%[8]	Thombo	Thombo	Exploration

(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 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					
Block 8	Q3 2010	30%	New Age	Africa Oil	Exploration
Kenya					
Block L17 & L18	Q3 2010	100%	Afren	–	Exploration
Block 1	Q3 2010	80%	Afren	Lion Petroleum	Exploration
Tanzania					
Tanga Block	Q1 2011	74%	Afren	Petrodel	Exploration
Seychelles					
Blocks A & B	Q3 2010	75%	Afren	Avana Petroleum	Exploration
Madagascar					
Block 1101	Q3 2010	90%	Afren	Oyster Madagascar Limited	Exploration

Country	Date acquired	Effective working interest (%)	Operator	Partner	Work programme
Kurdistan region of Iraq					
Barda Rash	Q3 2011	60%	Afren	KRG	Appraisal and Development, Production
Ain Sifni	Q3 2011	20%	Hunt Oil Middle East	Hunt Oil Middle East	Appraisal and Development

Oil and gas reserves (not audited)

	Nigeria			Côte d'Ivoire			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
Group Proved and Probable Reserves												
At 31 December 2013	172.1	–	172.1	–	–	–	113.9	–	113.9	286.0	–	286.0
Revisions of previous estimates	(3.4)	–	(3.4)	–	–	–	(113.8)	–	(113.8)	(117.2)	–	(117.2)
Discoveries and extensions	4.4	–	4.4	–	–	–	–	–	–	4.4	–	4.4
Acquisitions	–	–	–	–	–	–	–	–	–	–	–	–
Divestments	–	–	–	–	–	–	–	–	–	–	–	–
Production	(11.7)	–	(11.7)	–	–	–	(0.1)	–	(0.1)	(11.8)	–	(11.8)
At 31 December 2014	**161.4**	**–**	**161.4**	**–**	**–**	**–**	**0.0**	**–**	**0.0**	**161.4**	**–**	**161.4**

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%), excluding any amounts provided to Partners to settle net profit interest obligations, on which no revenue is generated).
- 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.
- 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 2014 was: 2015: US$50/bbl, 2016: US$60/bbl, 2017: US$70/bbl, 2018: US$80/bbl, 2019+: US$90/bbl flat.
- The oil price used by AGR TRACS for their independent reserve and resource assessments at 31 July 2014 was US$80/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 161.4 mmboe at 31 December 2014.

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

Advisors and Company Secretary

Company Secretary and Registered Office
Elekwachi Ukwu
Afren plc
Kinnaird House
1 Pall Mall East
London SW1Y 5AU

Joint Broker
Bank of America Merrill Lynch
2 King Edward Street
London EC1A 1HQ
www.ml.com

Joint Broker
Morgan Stanley
20 Bank Street
London E14 4AD
www.morganstanley.com

Auditor
Deloitte LLP
Chartered Accountants
and Registered Auditors
2 New Street Square
London EC4A 3BZ
www.deloitte.com

Financial PR Advisors
Bell Pottinger
Holborn Gate
330 High Holborn
London
WC1V 7QD
www.bell-pottinger.co.uk

Registrars
Computershare Investor Services PLC
PO Box 82, The Pavilions
Bridgwater Road
Bristol BS99 7NH
www-uk.computershare.com

Legal Advisors
White & Case LLP
5 Old Broad Street
London EC2N 1DW
www.whitecase.com

Notes

Afren plc

Kinnaird House
1 Pall Mall East
London SW1Y 5AU
England

T: +44 (0)20 7864 3700
F: +44 (0)20 7864 3701
E: info@afren.com

Afren Nigeria

1st Floor, The Octagon
13A, A.J. Marinho Drive
Victoria Island Annexe
Lagos
Nigeria

T: +234 (0) 1279 6000

Afren Resources USA Inc

10001 Woodloch Forest Drive
Suite 600
The Woodlands
Texas 77380
USA

T: +1 281 297 2500
F: +1 281 297 2999

Afren East African Exploration (Kenya) Limited

Delta Corner, Tower B, 8th Floor
Waiyaki Way, Westlands
PO Box 61 – 00623
Nairobi
Kenya

Afren MENA Ltd

Erbil Branch
Building C2
Second Floor
Empire Business Complex
Erbil
Kurdistan region of Iraq

T: +964 (0) 6626 41462

Go online for more:
www.afren.com